



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

July 28, 2004

TO: Senator Michael Ellis
Room 118 South, State Capitol

FROM: Bob Lang, Director

SUBJECT: Condition of the State's General Fund

You asked that I prepare information on the condition of the state's general fund. In addition to displaying the current status of the fund for this biennium, you asked that I provide some information on the structural condition of the fund and discuss commitments that have been made in the current and past biennia which affect budgets in succeeding years.

2003-05 General Fund Condition Statement

Following is a general fund condition statement that reflects the 2003-05 biennium. The condition statement and all appropriations for the 2003-05 biennium were approved by the Joint Committee on Finance on June 30, 2004, under s. 20.005(1), for publication in the 2003-04 statutes. The figures in the statement include this office's February 10, 2004, revenue and expenditure estimates and all bills enacted in this legislative session (thru 2003 Act 327). It should be noted that the figures shown throughout this memorandum are in millions.

The condition statement assumes receipt of tribal gaming revenues under the provisions of the compacts agreed to by the Governor and the tribes during the time of 2003-05 budget deliberations.

In addition, the condition statement does not reflect the projected shortfall of \$222 million in the medical assistance (MA) program for the 2003-05 biennium. The 2003-05 budget assumed receipt of additional federal funds to meet the MA budgeted levels. It is unlikely that the state will receive additional federal dollars and, therefore, the shortfall will most likely need to be addressed by the Governor and Legislature. How the shortfall is addressed could affect the condition statement shown in Table 1.

TABLE 1
2003-05 General Fund Condition Statement

	<u>2003-04</u>	<u>2004-05</u>
Revenues		
Opening Balance, July 1	- 283 -\$282	\$133
Estimated Taxes	10,670	11,189
Departmental Revenues		
Tribal Gaming Revenues	80	81
Other	<u>329</u>	<u>329</u>
Total Available	\$10,797	\$11,732
Appropriations, Transfers and Reserves		
Gross Appropriations	\$10,673	\$11,768
Transfer to:		
Medical Assistance Trust Fund	124	0
Compensation Reserves	109	163
Less Estimated Lapses	<u>-242</u>	<u>-215</u>
Total Expenditures	\$10,664	\$11,716
Balances		
Gross Balance	\$133	\$16
Less Required Statutory Balance	<u>-35</u>	<u>-40</u>
Net Balance, June 30	\$98	-\$24

As shown in Table 1, it is estimated that the gross closing balance at the end of the 2003-05 biennium (June 30, 2005) will be \$16 million. In addition, the statutes set \$40 million in 2004-05 as a balance requirement. Thus, if the general fund were to meet the statutory balance, the general fund would need to be enhanced by \$24 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 biennia.

Table 2, which is taken from Table 1, focuses only on fiscal year 2004-05.

TABLE 2

2004-05 General Fund Condition Statement

Opening Balance	\$133
Revenues (Taxes and Departmental Revenues)	<u>11,599</u>
Total Available	\$11,732
Net Appropriations	\$11,716
Gross Balance	\$16

As Tables 1 and 2 indicate, the gross balance is estimated at \$16 million.

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

2004-05 Fiscal Year

Revenues	\$11,599
Net Appropriations	<u>11,716</u>
Difference	-\$117

Table 3 indicates that net appropriations exceed revenues by \$117 million. Thus, the structure of the general fund for 2004-05 shows an imbalance of \$117 million. The -\$117 becomes \$16 million when the \$133 opening balance (the amount carried forward from the previous fiscal year) is considered. However, Table 3 focuses only on the revenues and net appropriations of the 12-month period (July, 2004, thru June, 2005).

2005-07 General Fund Commitments

Table 4 shows estimated 2005-07 general fund commitments. This table reflects estimated increases or decreases of various items for each year of the 2005-07 biennium as a change to base year (2004-05) revenues and net appropriations.

TABLE 4

2005-07 General Fund Commitments

	<u>2005-06</u>	<u>2006-07</u>
Revenues (Taxes and Departmental Revenues)		
2004-05 Base Revenues	\$11,599	\$11,599
Modifications to Base		
Single Sales Apportionment	-\$5	-\$20
Manufacturer's Sales Tax Exemption	-6	-14
Venture Tax Credit	-6	-6
Estate Tax	-1	-1
Agency IT Lapses	-16	-16
Transfer from Transportation Fund	-75	-75
Tribal Gaming Revenues	-13	5
Financial Institutions Transfer	-20	-20
PR/SEG Lapses and Transfers	-50	-50
5 th Week Vacation	<u>-1</u>	<u>-1</u>
Subtotal -- Modifications	-\$193	-\$198
Total	\$11,406	\$11,401
Net Appropriations		
2004-05 Adjusted Base	\$11,716	\$11,716
Modifications to Base		
State Operations Reduction	-100	-100
Shared Revenue -- Transportation Fund	170	170
Shared Revenue -- Public Benefits	20	20
Lawton/WHEG UW	4	8
Courts, Governor, Legislature	7	7
Debt Service	40	45
Debt Restructuring	24	24
Transportation Debt Service	69	69
Pension Obligations	26	27
Sick Leave Obligations	20	27
Agency IT Lapses	4	4
Stewardship Debt	10	10
MA Trust Fund	33	33
MA/Community Aids Adjustment	3	17
Corrections -- Prison Openings	<u>2</u>	<u>2</u>
Subtotal -- Modifications	\$332	\$363
Total	\$12,048	\$12,079

Table 5 places the figures from Table 4 into condition statement format for the 2005-07 biennium. It is important to note that the amounts shown in Tables 4 and 5 represent current commitments, and caseload and population estimates of the 2003-05 budget. No assumptions are made about growth in these areas or for such items as state employee compensation. Also, the figures in Table 5 are displayed for the purpose of examining base revenues and appropriations, adjusted for 2005-07 commitments. The table does not reflect any potential revenue growth or other appropriation changes.

TABLE 5

2005-07 General Fund Condition Statement

	<u>2005-06</u>	<u>2006-07</u>
Opening Balance	\$16	\$75
Revenues	<u>11,406</u>	<u>11,401</u>
Total Available	\$11,422	\$11,476
Net Appropriations	\$12,048	\$12,079
Required Statutory Balance*	<u>75</u>	<u>242</u>
Total	\$12,123	\$12,321
Amount Needed	\$701	\$845

*For 2005-06, the statutes set the required statutory balance at \$75 million. Beginning in 2006-07, the statutory balance is to equal 2% of appropriations.

Table 5 shows that, for 2005-06, the general fund would need to generate \$701 million in order to meet current commitments, maintain the required statutory balance, and balance the budget for that year. In 2006-07, \$845 million (over the \$701 million in 2005-06) 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.

It is important to reiterate that the numbers shown in Table 1 (which serve as the base for all other tables in this memorandum) assume receipt of tribal gaming revenues under the provisions of the compacts agreed to by the Governor and the tribes during the time of 2003-05 budget deliberations. In addition, because it is unknown how the \$222 million shortfall in the MA program will be addressed, Table 1 includes appropriation levels for the MA program contained in the 2003-05 biennial budget act. The figures shown in Table 5 (and the other tables of this

memorandum) could change, depending on the resolution of tribal gaming revenues and the MA shortfall.

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 of this memorandum, the amounts are calculated by comparing base year revenue and expenditure amounts, adjusted for fiscal commitments that have been made that will affect the next biennium.

The following table lists the estimated general fund amounts necessary to produce a balanced budget for 2005-07 and the four preceding biennia.

TABLE 6
General Fund Amounts Necessary for a Balanced Budget

	In Millions	
	<u>1st Year</u>	<u>2nd Year</u>
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

Table 6 indicates that, at the end of legislative sessions over the past several biennia, it has been estimated that the budget for the next biennium needs to generate significant revenues (or appropriation reductions) in order to produce a balanced budget. There are three primary reasons for this.

First, in most instances, the budget of the base year of the previous biennium has been in structural imbalance. For example, for 2005-07, the first \$117 million of revenue growth will be needed in each year of the biennium to address the structural imbalance of the 2004-05 fiscal year (see Table 3).

Second, in order to balance budgets, Legislatures have often relied upon one-time funding mechanisms that are not available in future biennia. A number of items on Table 4, for example, are one-time items that occurred in the 2003-05 budget.

Third, Legislatures have made commitments to fund initiatives in future biennia for which no funding is provided in the base year. For example, in this session, legislation was enacted that will phase-in single sales apportionment for the corporate income tax. As shown in Table 4, it is

estimated that this initiative will reduce general fund tax collections by \$25 million in 2005-07 (\$5 million in 2005-06 and \$20 million in 2006-07).

I hope that this responds to your inquiry. If you have questions regarding this memorandum, please feel free to contact me.

BL/sas