



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #170

### **Threshold for Budget Adjustment Bill (Budget Management and Compensation Reserves)**

[LFB 2009-11 Budget Summary: Page 116, #5]

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#### **CURRENT LAW**

Under current law, the Secretary of the Department of Administration (DOA) can use the state's allotment process to withhold payments from appropriations to state agencies, except appropriations for general school aids, supplemental appropriations under the Joint Committee on Finance, and appropriations for shared revenue and tax relief. Under this provision, the DOA Secretary can force lapses by preventing the expenditure of appropriated moneys, so that they are retained by the general fund, or by whichever program revenue account or segregated fund that the appropriation is drawn from.

However, under current law, once the Secretary of DOA determines that a shortfall is projected to be greater than 0.5%, then the Secretary cannot use the allotment process to reduce spending. Instead, the Secretary is required to immediately notify the Governor, the presiding officer of each house of the Legislature and the Joint Committee on Finance of the revenue shortfall. Following this notification, the Governor is required to submit a bill containing his or her recommendations for correcting the imbalance between projected revenues and authorized expenditures.

#### **GOVERNOR**

Increase the current threshold above which the Governor is required to submit a budget adjustment bill from a shortfall of 0.5% of GPR appropriations to a shortfall of 2.0% of GPR appropriations.

## DISCUSSION POINTS

1. The current 0.5% threshold was established in Chapter 30, Laws of 1981. At that time, GPR expenditures totaled \$4.2 billion and the 0.5% threshold represented approximately \$21 million.

2. Using the current law thresholds, 0.5% of estimated GPR expenditures would be \$67.1 million in 2009-10 and \$69.7 million in 2010-11, and these are the deficit amounts that would trigger the requirement for a budget adjustment bill. Under the proposed 2.0% amount, the thresholds would be \$268.4 million in 2009-10 and \$278.8 million in 2010-11. The following table shows the proposed change.

<b>Change in Proposed Threshold (In Millions)</b>		
	<u>2009-10</u>	<u>2010-11</u>
Proposed 2.0%	\$268.4	\$278.8
Current 0.5%	<u>67.1</u>	<u>69.7</u>
Change in Threshold	\$201.3	\$209.1

3. Under this proposal, the issue is whether the Legislature wishes to delegate authority to the Secretary of Administration to make an additional \$201.3 million in spending reductions in 2009-10 or \$209.1 million in 2010-11 without legislative oversight, if there is a shortfall in revenues. Staff from the administration indicate that this proposal would improve the management of state government finances. The current 0.5% threshold is viewed as restrictive and the proposed increase would provide additional flexibility to the Secretary of DOA if revenues decline. The Secretary could more quickly address smaller fluctuations in revenues while involving the Legislature if larger adjustments affecting broader policy would be required.

4. The Legislature spends months in considering the Governor's budget recommendations and establishing the state's biennial budget. The appropriation of state money is an essential function of the Legislature, and many policies are driven by the allocation of GPR funding. It could be argued that modifying current law so that the DOA Secretary could unilaterally reduce spending by over \$200 million without legislative action would weaken the Legislature's role in setting spending priorities for the state.

## ALTERNATIVES

1. Approve the Governor's recommendation to increase the current 0.5% threshold for the introduction of a budget adjustment bill to 2%.

2. Delete provision, which would retain the current 0.5% threshold.

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