

1995-96 SESSION
COMMITTEE HEARING
RECORDS

Committee Name:

Joint Committee on
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

➤ Appointments ... Appt

➤ **

➤ Clearinghouse Rules ... CRule

➤ **

➤ Committee Hearings ... CH

➤ **

➤ Committee Reports ... CR

➤ **

➤ Executive Sessions ... ES

➤ **

➤ Hearing Records ... HR

➤ **

➤ Miscellaneous ... Misc

➤ 95hrJC-Fi_Misc_pt101

➤ Record of Comm. Proceedings ... RCP

➤ **



Legislative Fiscal Bureau

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

June 16, 1995

TO: Senator Joe Leean, Senate Chair
Representative Ben Brancel, Assembly Chair
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: 1994-95 Supplements to Agencies for Salary and Fringe Benefit Costs

Under s. 20.928(2m), the Department of Administration is required to submit, to the Joint Committee on Finance, proposed salary and fringe benefit supplements for state agency budgets.

The Department's request identifies \$86.4 million GPR that it proposes to distribute to agencies for that purpose.

This proposed supplement is \$14.3 million GPR less than previous projections of the amount necessary to meet 1994-95 pay plan and fringe benefit costs. The impact of this on the general fund is that the closing balance for 1994-95 will be \$14.3 million above previous estimates.

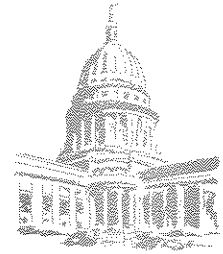
The Joint Finance Committee's projected 1994-95 general fund balance in its recommended 1995-97 budget is \$324.9 million. This becomes the opening balance for the 1995-97 biennium. The addition of the \$14.3 million will increase that estimate to \$339.2 million.

BL/dls

cc: Members
Joint Committee on Finance

Joe Leean

STATE SENATOR
14th District



January 21, 1993

MEMO TO: Republican Senators
FROM: Senator Joe Leean
Re: General Fund Condition Statement

The Legislative Fiscal Bureau today submitted their January General Fund Condition Statement showing a significant growth in 92-93 revenues and a subsequent increase in 93-95 revenue estimates. Bob Lang's memo also lists estimated expenditure increases.

In brief, the Lang memo re-estimates the closing gross balance on June 30, 1993 to be \$99 million. By comparison, last July we were offered an estimate in the \$41 million range and in November the DOR predicted a \$63 million balance.

This is generally good news indicating the continued strength of Wisconsin's economy. For more details, ask the LRB for their January 21, 1993 memo or feel free to contact my office.

###



The State of Wisconsin

Robert Wm Lang
Director

LEGISLATIVE FISCAL BUREAU

January 21, 1993

Senator Gary R. George, Senate Chair
Representative Barbara J. Linton, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator George and Representative Linton:

Each January, this office prepares general fund expenditure and revenue projections for the Legislature as it begins to consider the state's budget and other legislation.

In odd-numbered years, this report typically includes estimated tax collections and expenditures for the current fiscal year and revenue projections for each year of the next biennium. This information is provided in this document.

1992-93 General Fund Condition Statement

Based upon our analysis of economic forecasts, tax collections and expenditures, to date, we project that the gross balance in the state's general fund will be \$99 million on June 30, 1993. After consideration of the required statutory balance (\$70 million), the net balance will be \$29 million. A summary of this information is shown in Table 1.

TABLE 1

Estimated 1992-93 General Fund Condition Statement

Revenues

Opening Balance, July 1, 1992	\$73,680,900
Taxes	6,810,300,000
Departmental Revenues	<u>159,331,300</u>
Total Available	\$7,043,312,200

Appropriations

Gross Appropriations	\$6,963,387,700
Compensation Reserves	67,635,500
Less Lapses and Sum Sufficient Reestimates	<u>-87,098,200</u>
Net Appropriations/Reserves	\$6,943,925,000

Balance

Gross Balance	\$99,387,200
Less Required Statutory Balance	<u>-69,633,900</u>
Net Balance, June 30, 1993	\$29,753,300

On November 20, 1992, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified agency budget requests and revenue projections for 1992-93 and the 1993-95 biennium. That report contained a 1992-93 condition statement that showed a gross balance of \$63 million and a net balance of -\$7 million.

As Table 1 indicates, we project that the balances for 1992-93 will be \$36 million more than the figures included in the November 20 document. Table 2 compares this estimate with the November 20 report and shows the sources of the \$36 million difference.

TABLE 2

**Estimated 1992-93 General Fund Condition Statement
Comparison of November 20 Report and Current Estimate
(In Millions)**

	<u>November 20 Report</u>	<u>Current Estimate</u>	<u>Difference</u>
<u>Revenues</u>			
Opening Balance, July 1, 1992	\$74	\$74	\$0
Taxes	6,773	6,810	37
Departmental Revenues	<u>149</u>	<u>159</u>	<u>10</u>
Total Available	\$6,996	\$7,043	\$47
<u>Appropriations</u>			
Gross Appropriations	\$6,963	\$6,963	\$0
Compensation Reserves	68	68	0
Less Lapses and Sum Sufficient Reestimates	<u>-98</u>	<u>-87</u>	<u>11</u>
Net Appropriations/Reserves	\$6,933	\$6,944	\$11
<u>Balance</u>			
Gross Balance	\$63	\$99	\$36
Less Required Statutory Balance	<u>-70</u>	<u>-70</u>	<u>0</u>
Net Balance, June 30, 1993	-\$7	\$29	\$36

The paragraphs that follow explain the differences reflected in Table 2. Prior to addressing these differences, however, it is important to note the nature of the November 20 document. The DOA report is required, by statute, to be submitted at that time to inform the Governor of the magnitude of agency budget requests and a projection of tax collections. Given its timing early in the 1992-93 fiscal year, sufficient data is not available to reestimate departmental revenues and expenditures for the current fiscal year. Thus, these numbers were not reestimated by DOA in their report. This is consistent with previous November 20 reports. Also, because of the timing of our estimate, we have

additional tax collection data; thus, a difference in tax estimates between the reports is not uncommon.

1. **Taxes.** In the November 20 report, the Department of Revenue estimated that general fund tax collections for 1992-93 would be \$48 million above projections made at the close of the last legislative session. Much of that increase was attributed to strength in sales and corporate income taxes. Based upon current collections, we believe that the November 20 estimate should be increased by an additional \$37 million due to continued strength of those and other taxes. A detailed description and analysis of 1992-93 tax collections and projections is contained in the next section of this report.

2. **Departmental Revenues.** This category shows an increase of \$10 million. Although a number of adjustments have been made to individual items included as departmental revenues, the primary reason for the increase is an anticipated receipt of additional federal funds for foster care reimbursement for 1991 and 1992.

3. **Lapses and Sum Sufficient Reestimates.** At the conclusion of the 1991-92 legislative session, it was estimated that \$98 million of appropriated funds would lapse to the general fund at the close of 1992-93. The estimate of lapses, which also reflects the effects of expenditures from GPR sum sufficient appropriations, has now been reduced by \$11 million to \$87 million. This revision is due to a number of expenditure reestimates including an increase in the earned income tax credit of approximately \$5 million and an additional \$6 million for the homestead and farmland preservation tax credit programs.

Two additional points should be noted about the 1992-93 condition statement. First, the state's portion of the federal supplemental security income (SSI) program is budgeted at \$110 million for 1992-93. However, it is estimated that some \$135 million will be necessary to meet the state's obligation for this fiscal year. The Department of Health and Social Services indicates in its 1993-95 budget request that it intends to reimburse the federal government for the difference in 1993-94. Thus, although a state liability for 1992-93, this estimated \$25 million will be paid in the next fiscal year.

Second, preliminary estimates suggest that the medical assistance appropriation for 1992-93 is underfunded by some \$15 million. If these two commitments (SSI and MA) were funded in the current fiscal year, the June 30, 1993, balances would be \$40 million less than shown in Tables 1 and 2.

General Fund Tax Revenues

The following sections provide information regarding general fund tax revenues for 1992-93 and the 1993-95 biennium, beginning with a review of the economy in 1992. This is followed by a discussion of the national economic forecast for 1993 through 1995 and detailed general fund tax revenue projections for the current fiscal year and the next biennium.

Review of the Economy in 1992

Our estimates last January assumed that the recession had ended in the second quarter of 1991 and that the national economy would continue to expand slowly through 1992 and accelerate somewhat in 1993. Following a decline of 0.7% in 1991, real gross domestic product (GDP) was projected to grow by 1.6% in 1992 and 3.6% in 1993. With inflation of approximately 3% to 3.5% in each year, nominal (current dollar) GDP was expected to increase by 4.6% in 1992 and 6.9% in 1993.

Perceived strengths in the economy included low inflation and the aggressive easing of monetary policy by the Federal Reserve. In addition, many forecasters anticipated passage of a targeted, temporary federal fiscal package. In response to these factors, housing and consumer expenditures were projected to experience gains, leading to improved prospects for employment, production and business investment. These positive considerations were tempered by a number of structural risks to the recovery, including high levels of consumer and business debt, decreased availability of credit (especially for small businesses), overbuilding of commercial real estate and low productivity growth.

Despite the absence of significant federal fiscal stimulus, overall economic growth in 1992 appears to have been very close to these projections. Real GDP increased by an estimated 2.0%, or 0.4% more than anticipated. With lower than expected inflation, nominal GDP grew at an estimated 4.7%, or 0.1% more than forecast.

However, the recovery has not been consistent. Real GDP growth averaged 1.2% during the final three quarters of 1991 before increasing to 2.9% in the first quarter of 1992. With sagging consumer confidence, the economy faltered during the second quarter of 1992, with 1.5% growth. This was followed by a strong 3.4% increase in real GDP during the third quarter. Fourth quarter growth is expected to decline to 3.1%. In general, California and the Northeastern and Mid-Atlantic states continued to lag behind the rest of the nation.

National Economic Forecast

Economists generally believe that the current expansion will continue through 1993, although at a slower pace than predicted last January. With increasing consumer confidence and the expected adoption of a fiscal stimulus package by the federal government, accelerated growth is forecast in 1994, followed by a more moderate increase in 1995. Real GDP is projected to grow by 2.8% in 1993, 3.1% in 1994 and 2.4% in 1995. After accounting for inflation, nominal GDP is expected to increase by 5.2%, 5.7% and 5.1%, respectively.

It is anticipated that the Clinton Administration and Congress will enact a modest fiscal stimulus package, focused primarily on infrastructure and education. However, the effects of this legislation are not expected to be felt until late 1993 or 1994. A limited investment tax credit, retroactive to late 1992 or early 1993, is also considered probable. This could provide an immediate stimulus. These positive factors are expected to be partially offset by an increase in the top income tax rate and cuts in defense spending. The tax increases could be used to fund a limited health-care reform proposal, as well as expenditures for education and infrastructure.

In the near-term, the Federal Reserve is expected show restraint. With national unemployment still exceeding 7%, it is likely that several months of significant growth will be tolerated before monetary policy is tightened. Any future tightening will depend, in part, on the federal economic program. The prime rate is expected to rise from 6% currently to 7.5% by the second half of 1994 and then to decrease in 1995.

Employment and personal income are forecast to experience slow but steady growth in each year. In addition, the personal saving rate fell to 4.5% in the third quarter of 1992 and is projected to remain below 5% over the forecast period. As a result of these factors, consumers are expected to play a supporting rather than leading role in the expansion, increasing expenditures in line with incomes. Consumer confidence rose by more than 10% after the November election. Also, following strong increases in personal consumption in the third quarter, early data suggests that Christmas sales were significantly higher than last year. However, it is unclear whether this surge in confidence and spending was justified by underlying economic conditions. The forecast assumes a slight erosion of confidence in 1993, followed by an increase in 1994.

With lower real mortgage rates and prices, residential construction and housing starts are expected to increase each year. However, because of demographic constraints, the levels that were achieved in the late 1970s and mid-1980s are not expected to recur.

Business investment, particularly in office equipment and computers, has also been a recent source of strength. With the expected passage of an investment tax credit, continued growth in nonresidential investment is anticipated, despite caution on the part of businesses. Such expenditures will generally be focused on improving existing facilities rather than opening new plants.

Our projections are based on the January, 1993, forecast of the U.S. economy by Data Resources, Inc., and assume a continued modest expansion during the next three years. Higher growth is anticipated in 1994, followed by a deceleration in 1995. Table 3 shows the projected values for several national economic indicators which underlie our general fund tax revenue estimates for 1992-93 and the 1993-95 biennium.

TABLE 3

**Summary of National Economic Indicators
Data Resources, Inc.
January, 1993
(\$ In Billions)**

<u>Indicator</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Nominal Gross Domestic Product	\$5,945.5	\$6,252.1	\$6,607.7	\$6,942.3
Percent Change	4.7%	5.2%	5.7%	5.1%
Real Gross Domestic Product	\$4,918.0	\$5,054.3	\$5,208.4	\$5,332.2
Percent Change	2.0%	2.8%	3.1%	2.4%
Consumer Price Index	3.1%	2.9%	3.1%	3.3%
Personal Income	\$5,055.9	\$5,325.8	\$5,649.2	\$5,977.9
Percent Change	4.7%	5.3%	6.1%	5.8%
Personal Consumption Expenditures	\$4,095.7	\$4,318.8	\$4,559.9	\$4,811.9
Percent Change	5.4%	5.4%	5.6%	5.5%
Corporate Profits Before Tax	\$371.6	\$413.1	\$461.4	\$461.7
Percent Change	11.0%	11.2%	11.7%	0.1%
Unemployment Rate	7.4%	7.1%	6.5%	6.1%

Although the expansion is expected to continue for the next several years, a number of factors still exist which may impede growth. These include decreased military spending, which will pose problems for California and the New England states, and continued weakness in nonresidential construction due to the oversupply of office space built during the 1980s. In addition, trade is likely to be a drag on the U.S. economy due to stagnating markets overseas, particularly in Europe and Japan. Finally, banks continue to experience a shortage of capital and are reluctant to lend. Compared to inflation, long-term borrowing rates remain high, especially for small businesses which often do not have direct access to capital markets.

General Fund Tax Projections

Our forecast of general fund tax collections for fiscal year 1992-93 and for the 1993-95 biennium is consistent with the January, 1993, Data Resources forecast of national economic growth. Revenue estimates for all sources of state general fund tax collections for 1992-93 and for the 1993-95 biennium are shown in Table 4.

<u>Source of Tax Revenue</u>	<u>1991-93 Biennium</u>		<u>1993-95 Biennium</u>	
	<u>1991-92</u> <u>Actual</u>	<u>1992-93</u> <u>Estimated</u>	<u>1993-94</u> <u>Estimated</u>	<u>1994-95</u> <u>Estimated</u>
Individual Income	\$3,142.2	\$3,365.0	\$3,575.0	\$3,830.0
General Sales & Use	2,127.3	2,280.0	2,410.0	2,565.0
Corporate Income & Franchise	437.7	485.0	515.0	535.0
Public Utility	261.6	281.5	264.8	268.3
Excise				
Cigarettes	147.8	169.3	166.9	165.2
Liquor and Wine	30.3	30.5	30.5	30.5
Beer	9.3	8.9	8.8	8.7
Tobacco Products	5.7	5.5	5.7	5.9
Insurance Company	82.8	88.0	92.0	96.0
Inheritance, Estate and Gift				
Inheritance and Estate	55.9	56.6	39.0	39.0
Gift	1.7	0.5	0.2	0.1
Pari-Mutuel	8.7	7.4	7.9	7.8
Miscellaneous Taxes	<u>28.4</u>	<u>32.1</u>	<u>33.2</u>	<u>34.4</u>
TOTAL	\$6,339.6	\$6,810.3	\$7,149.0	\$7,585.9
Increase Over Prior Year		\$470.7	\$338.7	\$436.9
Percent Increase		7.4%	5.0%	6.1%

January 21, 1993

Page 9

The estimates shown in Table 4 are somewhat higher than the November 20 projections by the Department of Revenue. As noted above, they are approximately \$37 million higher in 1992-93. For the 1993-95 biennium, the estimates are higher by \$13 million in 1993-94 and by \$40 million in 1994-95.

A brief summary of the projected growth and impact of national economic conditions on the major general fund tax sources follows.

Individual Income Tax. Individual income tax receipts are estimated to total \$3,365 million in 1992-93, an increase of 7.1% over 1991-92 collections of \$3,142.2 million. Through December, total individual income tax collections were \$1,401.6 million, an increase of 10.1% over the same period last year. Showing particular strength were declaration payments, which increased by 18.8%. However, this strong growth may have resulted, in part, from taxpayers moving income forward into 1992 in order to avoid expected federal tax increases in 1993. Withholding payments have also been strong, with 8.9% growth through December. It is anticipated that withholding and declaration payments will moderate in the next six months.

Individual income tax collections are projected to be \$3,575 million in 1993-94 and \$3,830 million in 1994-95. These figures represent increases of 6.2% and 7.1%, respectively. National personal income is forecast to increase by 5.3% in 1993, 6.1% in 1994 and 5.8% in 1995. Because Wisconsin continues to experience lower unemployment than other areas of the country, individual income tax revenues are projected to grow at a faster pace than national personal income.

General Sales and Use Tax. Sales and use tax revenues were \$2,127.3 million in 1991-92 and are projected to total \$2,280 million in 1992-93, \$2,410 million in 1993-94 and \$2,565 million in 1994-95. These estimates represent growth rates of 7.2% in the current fiscal year, 5.7% in 1993-94 and 6.4% in 1994-95.

At the end of December, sales tax collections were \$946.2 million, which is 7.6% greater than at the end of December, 1991. Based on projected increases in consumer expenditures, after adjusting for exempt goods and services, it is estimated that revenues will grow at approximately 6.9% over the remainder of 1992-93.

For the 1993-95 biennium, the DRI forecast projects that nominal personal consumption expenditures will show steady growth, with increases of 5.4% in 1993, 5.6% in 1994 and 5.5% in 1995.

Corporate Income and Franchise Tax. Corporate income and franchise tax collections of \$437.7 million in 1991-92 represented a slight decrease of \$3.2 million from

January 21, 1993

Page 10

1990-91 collections. However, corporate income and franchise tax revenues are projected to increase in each of the next three fiscal years, reflecting strong collections in this fiscal year and forecasts of economic growth through 1995. Specifically, it is estimated that corporate income and franchise tax revenues will be \$485 million in 1992-93, \$515 million in 1993-94 and \$535 million in 1994-95. These amounts represent increases of 10.8% for 1992-93, 6.2% for 1993-94 and 3.9% for 1994-95.

The estimate for 1992-93 is primarily based on monthly corporate income and franchise tax collections that have been processed through December, 1992. Both monthly declaration payments and net collections are substantially higher than those processed during this period in the previous fiscal year. In addition, economic forecasts project continued growth in corporate profits, industrial production and consumer spending, indicating that the pattern of higher corporate income and franchise tax collections in 1992-93 should continue.

The estimated annual increases in collections for 1993-94 and 1994-95 reflect economic forecasts of moderate growth in the economy through 1995. Industrial production, including production in the manufacturing sector, and business investment, particularly purchases of business equipment, are expected to exhibit modest growth during this period. Consumer confidence has improved and related purchases of business products should contribute to business profits. Moreover, cost-cutting activities have increased the profitability of many businesses. Wage and salary growth is below the pre-recession pace and the corporate debt burden has dropped. Both of these factors lower production and operational costs and improve profits. Although the positive effects of such factors are expected to moderate, economic forecasts project annual increases in corporate profits through 1995.

Public Utility Taxes. Public utility tax revenues are projected to increase 7.6% from \$261.6 million in 1991-92 to \$281.5 million in 1992-93. Utility taxes are estimated to decrease 5.9% to \$264.8 million in 1993-94 and then to increase 1.3% to \$268.3 million in 1994-95. The substantial increase in 1992-93 collections reflects the projected one-time increase in telecommunications gross revenues taxes due to the statutory change in the timing of installment payments and a settlement for taxes due from a utility company. The estimates for the subsequent fiscal years reflect the somewhat offsetting effects of the phase-down of gross revenues taxes on telecommunications companies and the projected moderate growth in gross revenues taxes on light, heat and power companies.

Excise Taxes. Excise taxes are estimated to total \$214.2 million in 1992-93, \$211.9 million in 1993-94 and \$210.3 million in 1994-95. The 1992-93 figure reflects continued

January 21, 1993

Page 11

strength in cigarette tax revenues. Based on year-to-date collections, it appears that cigarette purchases have continued near prior year levels, in spite of an \$.08 tax increase that took effect last May.

The tobacco products tax is projected to decline from \$5.7 million in 1991-92 to \$5.5 million in 1992-93. This decrease reflects an accrual change which resulted in additional one-time revenues of \$500,000 last year. Because it is imposed as a percentage of the manufacturer's price, the tobacco products tax is expected to increase at approximately the same rate as inflation during the next biennium. The excise taxes on cigarettes, liquor and beer are imposed on units of product. The 1993-95 estimates reflect flat or declining demand for these items.

Insurance Premiums Tax. Insurance premiums taxes increased almost 8% from \$76.7 million in 1990-91 to \$82.8 million in 1991-92. Premiums taxes are projected to increase to \$88 million in 1992-93, \$92 million in 1993-94 and \$96 million in 1994-95. These estimated amounts represent annual increases of 6.3% for 1992-93, 4.5% for 1993-94 and 4.3% for 1994-95. These estimates are based on year-to-date monthly insurance premiums tax collections that are 7.6% higher than those processed during the same period of 1991-92. In addition, the improved economy and favorable demographic characteristics are expected to generate demand for insurance company products over the next few years.

Inheritance, Estate and Gift Taxes. On January 1, 1992, the state inheritance and gift taxes were completely repealed. For deaths occurring after that date, Wisconsin imposes an estate tax equal to the state death tax credit provided under federal law, often referred to as the "gap" or "pick-up" tax.

Estate tax revenues are estimated to be \$56.6 million in 1992-93 and \$39.0 million in each year of the next biennium. Through December, estate tax revenues were \$37.1 million, a 3% increase over the same period last year. However, this amount includes significant one-time collections due to a change in the timing of payments when the state shifted from the inheritance tax to the estate tax. As of October 1992, this factor will no longer affect revenues. Estimated receipts for the remainder of 1992-93 and the 1993-95 biennium are based on information relating to gap tax collections in other states. The state is expected to receive a small amount of residual revenue from the gift tax.

Pari-Mutuel Tax. Prior to 1991-92, the pari-mutuel tax was deposited in the segregated racing fund; beginning in 1991-92, the tax accrues to the general fund. Collections in 1991-92 totalled \$8.7 million. The pari-mutuel tax is estimated to generate \$7.4 million in 1992-93, \$7.9 million in 1993-94 and \$7.8 million in 1994-95. The

January 21, 1993

Page 12

projected increase in 1993-94 reflects the first full fiscal year that the higher tax rates established in 1991 Wisconsin Act 39 will be in effect.

Miscellaneous Taxes. Miscellaneous taxes are estimated to increase from \$28.4 million in 1991-92 to \$32.1 million in 1992-93, \$33.2 million in 1993-94 and \$34.4 million in 1994-95. These represent annual increases of 13.0%, 3.4% and 3.6% respectively. The primary source of the increased revenues is real estate transfer fee revenues which are projected to grow in response to housing demand attributable to relatively low mortgage interest rates and improved consumer confidence. Current monthly real estate transfer fee collections for fiscal year 1992-93 are substantially higher than those for the same time period of 1991-92.

We will continue to monitor national economic forecasts and tax collections data and keep you informed of any further modifications which may be required.

Sincerely,

A handwritten signature in cursive script that reads "Bob".

Robert Wm. Lang
Director

RWL/all

cc: Members, Wisconsin Legislature

November 30, 1992

MEMO TO: REPUBLICAN SENATORS
FROM: SENATOR JOE LEEAN
RE: GENERAL FUND APPROPRIATIONS

Enclosed is a memo from Bob Lang, Director, Legislative Fiscal Bureau, which may be of interest to you.

I asked Bob Lang to itemize statutory spending commitments already made for the next biennium and their effect on our budgetary considerations.

I also asked him to consider the revenue growth needed to balance the budget considering these statutory commitments and a historical "cost to continue" expenditures on existing programs.

As you can see from the 8%+ revenue growth needed to accomplish this, program cuts or new taxes will be necessary even without new initiatives

We will be faced with hard nosed spending decisions. Tim Weeden and I will be asking for your input in the coming weeks.

JL:ns

September 22, 1992

Nov. 13, 1992

TO: Senator Joseph Leean
Room 139 South, State Capitol

FROM: Bob Lang, Director
Legislative Fiscal Bureau

SUBJECT: 1993-95 General Fund Appropriations

This memorandum has been prepared in response to your request for information on the potential level of general fund appropriations for the 1993-95 biennium. Specifically, you asked that we identify spending changes that will occur due to existing statutory requirements, assume growth in major state aid programs and make some recognition of inflationary growth for other state programs.

Prior to reviewing the details of our numbers and assumptions, it is important that I indicate what is not contained within this exercise. Unless required by current statute or commitment, amounts for new programs, expanded programs or the enhancement of existing programs have not been included. Nor have we built in any provisions for the reduction or elimination of existing programs (unless required by statute). Also, we make no assumptions regarding enactment of the federal budget in the years ahead.

1993-95 Appropriations

Base Year. The beginning point of our work was the establishment of 1992-93 funding levels. This is the base year for the 1993-95 biennium and the year to which fiscal comparisons will be made. The Legislature appropriated \$7,004.4 million for 1992-93 expenditures and compensation reserves. This figure is used as the initial appropriation for both 1993-94 and 1994-95.

Once the aggregate base year amount was determined, we then examined each agency/program to determine what adjustments (both increases and decreases) were necessary under the criteria of your request. These modifications are identified in the sections which follow.

Statutory Adjustments. The first aspect of our work consisted of examining those adjustments which are necessary to comply with existing statutory

requirements. Included are those programs where the determination of future appropriation levels is specified by statute, and those where caseload and utilization changes will alter the amount necessary to fund the current statutory requirements. Changes in benefit, eligibility or program criteria were not considered during this phase of our review.

Essentially, we asked ourselves, "If the Legislature convenes in January, 1993, for the sole purpose of funding current statutory commitments or obligations, how much will the base amount need to be adjusted for 1993-95?" The components of that adjustment are listed below.

1. Shared Revenue. For 1992-93, the shared revenue appropriation is \$886.0 million. Current law specifies that the shared revenue distribution will increase to \$903.7 million in 1993-94 and thereafter. Therefore, the shared revenue appropriation will increase by \$17.7 million in 1993-94 and 1994-95 over the 1992-93 level. Any increase in 1994-95 over the \$903.7 million level will require a statutory change.

2. Homestead Tax Credit. The homestead tax credit is funded from a sum sufficient GPR appropriation. The credit is determined by a formula which is based on a claimant's household income and property taxes or rent equivalent. Currently, participation in the homestead program is limited to households with an annual household income of less than \$19,154. The first \$1,450 of the property tax bill is considered in determining the amount of the credit for homeowners. For renters, 25% of rent, or 20% if heat is included, up to a maximum of \$1,450 annually, is considered. Households with incomes below \$8,000 receive the maximum relief (a credit equal to 80% of the eligible property tax or rent equivalent). Expenditures for the homestead tax credit are estimated to be \$100.0 million GPR in 1992-93. Under the current formula, expenditures for the credit are estimated to be \$98.2 million GPR in 1993-94 and \$95.4 million GPR in 1994-95. Therefore, expenditures would be below the 1992-93 level by \$1.8 million in 1993-94 and \$4.6 million in 1994-95.

3. Farmland Preservation Tax Credit. Farmland preservation tax credit payments are made from a sum sufficient, general fund appropriation. The amount of credit is determined by a formula based on the household income of the farmland owner, the amount of property tax and the type of land use provisions protecting the farmland. Claimants may receive a credit on up to \$6,000 of property taxes, and the maximum potential credit is \$4,200. Claimants receive the credit determined under the formula or a minimum guaranteed credit equal to 10% of eligible property taxes, whichever is greater. Expenditures for the farmland preservation tax credit are estimated to be \$29.2 million GPR in 1992-93. Under the current formula, expenditures for the farmland preservation credit are estimated to be \$30.2 million GPR in 1993-94 and \$31.2 million GPR in 1994-

95. Therefore, expenditures would be greater than the 1992-93 level by \$1.0 million in 1993-94 and \$2.0 million in 1994-95.

4. Earned Income Tax Credit. The earned income tax credit is paid from a sum sufficient GPR appropriation. For taxpayers with one qualifying child, the state credit is equal to 5% of the federal basic earned income tax credit. Taxpayers with two qualifying children receive a tax credit equal to 25% of the federal credit; those with three or more qualifying children receive a 75% credit. For 1992-93, the credit is estimated to cost \$29.1 million. This cost will increase due to scheduled increases in the federal credit that phase in through 1994, federal indexing of the credit amount and continued growth in taxpayer usage of the credit. Based on these factors, it is estimated that the state earned income tax credit would cost \$33.6 million in 1993-94 and \$46.9 million in 1994-95. Based on these estimates, expenditures would increase from the 1992-93 level by \$4.5 million in 1993-94 and by \$17.8 million in 1994-95.

5. Medical Assistance. Medical assistance is a means-tested entitlement program with state and federal funding, which provides medical care for certain low-income aged, blind, disabled, members of families with dependent children and certain other pregnant women and children who meet selected nonfinancial and financial criteria. For 1992-93, \$817.3 million is budgeted for the state share of the medical assistance program. To maintain the current program, it is estimated that the program will require increases of \$9.2 million in 1993-94 and \$15.0 million in 1994-95 over 1992-93 base level funding. The increases reflect amounts necessary to continue eligibility and service expansions provided by state legislation in this biennium and federal requirements. These expansions include continuation of the federally-required phase-in of children in poverty, prenatal care coordination and additional waiver placements in the community integration and community options programs. Rate increases for physician-established patient visits and certain pediatric services also contribute to the program growth. The final component of the increase is related to projected decreases in the federal financial participation rate, from 60.41% in 1992-93 to 60.08% in 1993-94 and 59.81% in 1994-95, which increase the state share of medical assistance program costs.

6. Aid to Families with Dependent Children (AFDC). The AFDC program provides cash payments to support needy children deprived of a parent due to divorce, separation, or where no marriage has existed and to children in two-parent families who are needy because of the unemployment the primary wage earner. For 1992-93, the state's portion of the AFDC program is budgeted at \$160.3 million. For the next biennium, it is estimated that the program will require \$5.3 million GPR annually over the 1992-93 base level funding to maintain the current program. This estimate assumes current benefit levels and includes

some increase in caseload and a decrease in the federal financial participation rate (which increases the state's share of costs).

7. Supplemental Security Income (SSI). The supplemental security income program is a federal program for low-income aged, blind and disabled persons, which is supplemented with state funding. For 1992-93, Acts 39 and 269 budgeted \$109.8 million GPR for the state SSI supplement. For the next biennium, it is estimated that the appropriation will increase by \$6.5 million in 1993-94 and \$11.1 million in 1994-95 over the 1992-93 base level funding. This estimate is based on caseload growth in primarily the disabled category. In addition, the state will be liable for one-time retroactive benefit payments of approximately \$15 million related to the Zebly Supreme Court decision which expanded eligibility for certain disabled children. For this exercise, it is assumed that the state will make this payment in 1993-94.

8. Community Aids. Community aids, which provide funds to counties for social services for low-income persons and juvenile offenders and for persons with needs related to mental illness, alcohol, drug abuse or developmental disabilities, are allocated to counties on a calendar year basis. For calendar year 1993, Act 269 provided a 1% increase for certain community aids programs over calendar year 1992 amounts. Partial funding for the first six months of 1993 is included in Act 269 for the 1992-93 fiscal year. To fully fund the remaining six months of 1993 and the ongoing base level costs of this program in the 1993-95 biennium, the appropriation would need to increase by an additional \$3,635,600 GPR annually in each year of the next biennium. This estimate assumes that the total 1992-93 base level funding of \$209,970,600 GPR and \$97,250,000 FED will continue to be available for community aids programs in each year of the next biennium.

9. Community Options Program (COP). The community options program provides state and federal funds for assessments, planning and services for low-income persons who need long-term care to obtain services necessary to remain at home or in the community, in place of institutional care. For 1992-93, Act 269 appropriated \$54,069,000 GPR for the community options program and the COP-waiver program (an additional \$17,727,000 FED is budgeted under medical assistance). Increases were provided in Acts 39 and 269 to expand the program to serve additional clients. Because caseload increases are phased in under these programs, the full cost of increases provided in the 1991-93 biennium will not be reflected until the 1993-95 biennium. Increases in state funding for the COP and COP-waiver programs to fully fund the expansion provided under current law are estimated to total \$4,949,900 GPR in 1993-94 and \$5,050,500 GPR in 1994-95.

10. Early Intervention Services for Infants and Toddlers with Disabilities (Birth to Three). Birth to Three is a program through which federal funds, along

with state monies, are used to develop and implement a program of early intervention services for disabled infants and toddlers age birth to three and their families. For 1992-93, Act 269 appropriated \$447,100 GPR and \$5,221,500 FED for services to infants and toddlers with disabilities under the Birth to Three and medical assistance programs. Federal funding in 1992-93 assumes that the state will receive two years of federal funding for the Birth to Three program in a single state fiscal year for services beginning on October 1, 1992. However, Wisconsin is eligible for such "double funding" in 1992-93 only. Federal allocations in 1993-94 will revert to single-year amounts, currently estimated to be \$3,164,100 FED annually. As a result, an additional \$3,427,600 GPR in program funds in each year of the 1993-95 biennium is estimated to be needed to maintain the current level of program activity on an ongoing basis in the next biennium.

11. Youth Aids. The youth aids program provides funding to counties for the cost of juvenile delinquency-related program. Acts 39 and 269 increase calendar year 1993 funding for the youth aids program over the 1992 funding level. Additional funding is budgeted to support: (a) a 1% increase in funding for community programs from the 1992 budgeted level; (b) increases in juvenile correctional charges that will be assessed to counties, beginning in 1993; and (c) increases in supplemental funding, beginning in 1993, provided to certain counties with high crime.

The first six months of these program increases are budgeted in the 1992-93 appropriation. However, an additional \$449,900 GPR in both 1993-94 and 1994-95 will be required over the 1992-93 base funding level (\$75,923,200 GPR and \$2,449,200 FED) to fully fund the increase provided under current law in the 1993-95 biennium.

12. Repayment of Veterans Trust Fund Loan. 1991 Act 269 included a provision providing for a loan of \$4,225,500 from the Veterans Trust Fund to the general fund in this biennium, with the requirement that this loan be repaid, without interest, by June 30, 1994. Due to this repayment provision, there will be a one-time required new GPR appropriation of \$4,225,500 in 1993-94.

13. Debt Service Payments. The retirement of debt (principal and interest payments on state-issued bonds) represents an area of generally increasing GPR expenditures. This reflects the continued use of general obligation bonding authority to finance a number of state programs. Total new general obligation bonding authority approved by the Legislature was \$988.1 million in 1989-91 and \$1,604.2 million in 1991-93, which includes \$718 million of bonding authority for the refunding of tax-supported general obligation bonds, \$150 million for the refunding of veterans' mortgage loan bonds and \$50 million for refunding self-amortizing bonds. Because bonding authority is not issued all at one time,

increased debt service payments for a given amount of bonding authority will occur in future years until all that existing authority is issued. Based on existing debt service payments and assumptions that additional existing bonding authority will be issued in the same general amount and pattern as in the previous two years, GPR debt service payments are estimated to increase from the 1992-93 net level of \$217.2 million to \$260.6 million in 1993-94 and to \$268.8 million in 1994-95.

14. Full Funding of 1992-93 Pay Increases. In this biennium, a number of collective bargaining agreements and the nonrepresented pay plans contained significant pay increases for 1992-93 which are effective only for a portion of the fiscal year (including for only one month in the case of nonrepresented classified employees). The actual costs for 1992-93 will be funded from compensation reserve amounts included in the 1991-93 budget. However, the difference between the amount of funding required in 1992-93 and the full annualized cost of these increases will be an additional funding requirement in 1993-94 and 1994-95. The total GPR impact of this requirement is estimated at \$9.3 million in both 1993-94 and 1994-95.

15. Great Lakes Remedial Action Funding. In Act 39, Great Lakes remedial action funding was established at \$2,419,500 GPR annually, beginning in 1992-93. Act 269 reduced funding in 1992-93 on a one-time basis to \$1,000,000 GPR, a reduction of \$1,419,500. Because the reduction is one-time, base level funding for the 1993-95 biennium would be \$2,419,500 GPR annually, an increase of \$1,419,500 GPR in each year over the 1992-93 appropriated amount.

16. General Fund Supplement to the Environmental Fund. Act 269 provided a one-time reduction in the 1992-93 GPR supplement to the environmental fund of \$469,400 GPR (a decrease from \$550,000 GPR to \$80,600 GPR). Because the reduction is one-time, base level funding for the 1993-95 biennium would be \$550,000 GPR annually, an increase of \$469,400 GPR in each year over the 1992-93 appropriated amount.

17. Adult Corrections. Approximately \$39.2 million GPR is estimated to be needed in the 1993-95 biennium for operating new prisons and for increased correctional populations. Of this amount, \$5.9 million in 1993-94 and \$13.5 million in 1994-95 would be required for the operating costs of a 2,011-bed prison expansion plan adopted by the Building Commission (however, a 380-bed expansion at Dodge Correctional Institution is not expected to open until the 1995-97 biennium). Further, costs to provide food, supplies and medical care for moderately increased prison populations and supervision of increased probation and parole populations would require \$4.8 million in 1993-94 and \$9.0 million in 1994-95. Approximately \$3.0 million would be required in each year of the 1993-95 biennium for the full funding of the intensive sanctions program.

18. Additional Judges. Act 269 authorizes ten additional Circuit Court branches (judges) on August 1, 1994. As a result, it is estimated that expenditures for the Court's sum sufficient appropriation will increase by \$1.4 million in 1994-95.

19. Public Defender. An increase in the hourly reimbursement rates for private bar attorneys contracted by the Public Defender (effective December 1, 1992) and a reduction in the statutory caseload standard of trial staff attorneys (effective January 1, 1993) will increase base expenditures of the Public Defender in the 1993-95 biennium by \$5.0 million annually.

20. District Attorneys. In 1992-93, counties will make payments to the state of \$1.8 million as part of a transition process as the state assumes all compensation costs of district attorneys beginning January 1, 1993. These are the final county payments to be made under the transition. Base funding for district attorneys will increase by \$1.8 million in each year to reflect the discontinuation of county payments.

21. County Assessment Aid. Act 269 delays the 1993 county assessment aid payment from June to July. This shifts the estimated payment of \$850,000 from 1992-93 to 1993-94. Since the payment date change is not permanent, two payments will be made in 1993-94 and one payment will be made in 1994-95 and thereafter. These payments will exceed the 1992-93 funding level (zero) by \$1,700,000 in 1993-94 and by \$850,000 in 1994-95.

22. Academic Excellence Higher Education Scholarship Program. Act 269 provides this program with \$1,711,600 GPR for 1992-93. This funding is sufficient to cover three freshman classes. In 1993-94, when the fourth and final freshman class becomes eligible for the program, it is expected that program costs will increase by approximately \$600,000 for 1993-94, depending on UW tuition increases. The academic excellence scholarship program is scheduled to sunset at the end of that academic year, and if not renewed, the statutory obligations are to fund scholarships for students already in the program for a maximum of four years.

Table I presents a summary of the increases to the base year which have been described in the preceding section of this memorandum.

TABLE I

Statutory Appropriations Adjustments
 to the 1992-93 Base Year
 (In Millions)

	<u>1993-94</u>	<u>1994-95*</u>
Shared Revenue	\$17.7	\$17.7
Homestead Tax Credit	-1.8	-4.6
Farmland Preservation Tax Credit	1.0	2.0
Earned Income Tax Credit	4.5	17.8
Medical Assistance	9.2	15.0
AFDC	5.3	5.3
SSI	21.5	11.1
Community Aids	3.6	3.6
Community Options	4.9	5.1
Birth to Three	3.4	3.4
Youth Aids	0.4	0.4
Veterans Trust Fund Loan	4.2	0.0
Debt Service Payments	43.4	51.6
Full Funding of Pay Increases	9.3	9.3
Great Lakes Remedial Action	1.4	1.4
Supplement to Environmental Fund	0.5	0.5
Adult Corrections	13.7	25.5
Additional Judges	0.0	1.4
Public Defender	5.0	5.0
District Attorneys	1.8	1.8
County Assessment Aid	1.7	0.9
Academic Excellence Scholarships	<u>0.6</u>	<u>0.0</u>
TOTAL	\$151.3	\$174.2

*The amounts in this column reflect changes to the base year appropriations rather than changes to 1993-94. For example, the \$25.5 million for adult corrections in 1994-95 is comprised of \$13.7 million necessary to maintain the first year's increase and \$11.8 million which is the 1994-95 growth over 1993-94.

Inflationary and Other Adjustments. In addition to the statutory adjustments which have been identified in the previous section of this memorandum, you asked that we make some estimate of other increases that will likely occur because of some inflationary adjustment or because, historically, some increase has been provided for certain programs.

Prior to highlighting the components of this section, it should be noted that we examined forecasts of the consumer price index (CPI). The August, 1992, forecast of Data Resources, Inc., projects an increase of approximately 3.5% for each of the next two fiscal years.

1. Elementary and Secondary School Aids. Current law does not require that state aid for K-12 education represent a certain percentage of school district costs. Nor do the statutes provide that state aid automatically grow by a certain percentage each year. Therefore, for purposes of this exercise, it is assumed that school aids (general and categorical) will increase by inflation (3.5%) plus an additional 2% to reflect projected growth in pupil enrollment. This assumed rate of growth (5.5% annually) is slightly greater than the increases provided in the 1991-93 biennium (5.1% in 1991-92 and 4.8% in 1992-93), but less than the average annual increase provided during the last three biennia (7.0%).

In 1992-93, \$2,020.7 million is appropriated from the general fund for general and categorical school aids (an additional \$25.2 million is provided through other fund sources). Assuming an annual growth rate of 5.5%, the state would have to increase school aids by a total of \$339.4 million GPR in the next biennium (\$111.1 million in 1993-94 and \$228.3 million in 1994-95).

2. Fuel and Utilities. The cost of fuel and utilities for state institutions and state-owned office buildings are primarily funded through a number of separate sum certain appropriations, a majority of which are GPR funded. For 1992-93, these GPR appropriations total \$51.1 million. Using current fuel and utilities price increase forecasts from Data Resources, Inc., these amounts will increase to \$52.1 million in 1993-94 and to \$53.3 million in 1994-95.

3. Pay Increases. In Act 39, GPR compensation reserves of \$26.5 million for 1991-92 and \$70.6 million for 1992-93 were provided for pay increases for collective bargaining agreements and nonrepresented classified and unclassified employes (including UW faculty and academic staff). The estimated 1992-93 base level of GPR compensation costs (wages and salary-direct fringes benefits) for all state employes is \$1,012.6 million. Using this base, a 1% increase in compensation for state employes in each year of the next biennium would require about \$30.5 million. (A 1% increase in 1993-94 would cost approximately \$10.1

million; in the second year, more than twice that amount would be required to continue to fund the first year's increase and to also provide for another 1% increase in the 1992-93 fiscal year.) For the purposes of this exercise, we have included GPR funds for average compensation increases of 4% per year, which is the amount that agencies are directed to include in their next budget requests for non-GPR programs for 1993-95 pay increases. This would require GPR compensation reserves funding of \$40.5 million in 1993-94 and \$82.6 million in 1994-95. Funding of these percentage increases would not include any amounts for other special purpose wage adjustments such as the cost of implementing pay changes due to personnel surveys of various position classifications or funds for such items as faculty "catch-up" pay.

4. General Relief. General relief is a public assistance program which requires that counties provide reasonable and necessary assistance to eligible persons in need of food, housing, clothing, fuel, light, water and medical care. Statutory reimbursement to counties for a portion of their expenditures varies from 37.5% for nonmedical expenditures to up to 70% for certain medical expenditures. Reimbursement to counties is prorated if the total costs eligible for reimbursement exceeds available funding.

Based on the significant growth in expenditures in the past year, increases in general relief benefit expenditures by counties, especially for medical care, are expected to increase total costs eligible for state reimbursement in the 1993-95 biennium. For CY 1991 expenses, available funding totalled \$26.7 million but total costs eligible for reimbursement exceeded \$29.5 million. Thus, reimbursement to counties was prorated at nearly 89% of total costs eligible for reimbursement. In order to reimburse counties at this same level of proration, it is estimated that an additional \$2.8 million in 1993-94 and \$5.1 million in 1994-95 would be needed over the 1992-93 base level funding of \$26.7 million.

5. Medical Assistance. The medical assistance program was adjusted for increases due to caseload growth, utilization and nursing home inflation. Provider rate increases were not included in this exercise. Based on estimates of these factors, an additional \$43.4 million in 1993-94 and \$90.0 million in 1994-95 would be required for this program. These amounts are in addition to those included in Table I.

6. Aid Increases. There are a number of aid programs for which the Legislature has historically provided annual appropriation increases. You asked that we calculate some inflationary increase for these programs. Although the historic percentage adjustments vary, for the purpose of this exercise we have applied an annual 3.5% increase (the DRI projection of the CPI) for shared revenues, VTAE aids, and a number of social service programs (community options,

community aids, youth aids and income administration aids). The following table summarizes these aid increases, in millions.

	<u>1993-94</u>	<u>1994-95</u>
Shared Revenue	---	\$31.6
VTAE Aids	\$3.7	7.6
Social Service Aids	8.2	21.3

Because of the calendar year payment of the social service aids, the increase identified for the second year is considerably greater than the first year's increase. Also, because the 1993-94 payment for shared revenue is already known and included in the first section of this memorandum, the 3.5% increase was applied only to the 1994-95 appropriation.

7. Other Adjustments. At this point, base appropriations of \$6,208.4 million have been addressed or considered in one or both sections of this memorandum. The remaining appropriations equal \$796.0 million (approximately 11.4% of the total \$7,004.4 million base). In order to recognize some adjustments to the programs represented by these appropriations, a 2% annual inflation factor was applied to the \$796.0 million. This lower percentage was selected to recognize some growth, but less than that historically afforded to the major aid programs. This 2% calculation produces increases over the base of \$15.9 million in 1991-92 and \$32.2 million in 1992-93.

Table II provides a summary of the increases attributed to inflationary and other adjustments.

TABLE II
 Inflationary and Other Appropriations Adjustments
 to the 1992-93 Base Year
 (In Millions)

	<u>1993-94</u>	<u>1994-95</u>
Elementary and Secondary School Aids	\$111.1	\$228.3
Fuel and Utilities	1.0	2.2
Pay Plan	40.5	82.6
General Relief	2.8	5.1
Medical Assistance	43.4	90.0
Shared Revenue	----	31.6
VTAE Aids	3.7	7.6
Social Service Aids	8.2	21.3
Other Adjustments	<u>15.9</u>	<u>32.2</u>
TOTAL	\$226.6	\$500.9

In total, base appropriations under the assumptions of this memorandum are increased by \$377.9 million for 1993-94 and by an additional \$297.2 million in 1994-95. This is equivalent to annual percentage increases of 5.4% and 4.0%, respectively, for the two years of the upcoming biennium. In terms of a comparison to the base year, the first year increase is again the \$377.9 million or 5.4%. The second year is increased \$675.1 million (\$377.9 million to maintain the level of the first year and \$297.2 million for the 1994-95 increase). This is a 9.6% increase over the base year. The total biennial increase over the biennial base (1992-93 doubled) is \$1,053.0 million or 7.5%. This information is shown in Table III.

TABLE III
 Appropriation Summary
 (In Millions)

	<u>1993-94</u>	<u>1994-95</u>	<u>Total</u>
1992-93 Base Year	\$7,004.4	\$7,004.4	\$14,008.8
Statutory Adjustments	151.3	174.2	325.5
Inflationary/Other Adjustments	<u>226.6</u>	<u>500.9</u>	<u>727.5</u>
Total	\$7,382.3	\$7,679.5	\$15,061.8
Increase Over Prior Year			
Amount	\$377.9	\$297.2	---
Percent	5.4%	4.0%	---
Increase Over Base Year			
Amount	\$377.9	\$675.1	---
Percent	5.4%	9.6%	---
Increase over (Base) x (2)			
Amount	---	---	\$1,053.0
Percent	---	---	7.5%

Finally, because not all appropriations are historically expended to the full amount authorized by law, we needed to make some estimate of the amounts that might lapse to the general fund at the close of each fiscal year. Based upon the ratio of lapses to gross appropriations in previous biennia, the lapse amounts were set at \$53.2 million in 1993-94 and at \$55.3 million in 1994-95.

Prior to addressing 1993-95 revenues, I would like to briefly comment on the assumptions and dollar amounts that were used in establishing the appropriations. First, I want to reiterate a point that was expressed at the beginning of this memorandum. We have assumed no program initiatives or enhancement of existing programs beyond those statutory requirements or inflationary adjustments that have been identified. Similarly, we have not assumed any program reductions or deletions. Both can, and undoubtedly will, occur when the Legislature establishes the 1993-95 budget.

Second, the figures that are presented in this memorandum should not be viewed as this office's estimate of what the appropriation level for specific programs will or should be. Rather we attempted to respond to your request for some level of expenditures which, in aggregate, may reasonably require consideration. To arrive at such numbers it was necessary to examine the state's budget in a program-specific manner.

Third, a number of factors can contribute to altering our assumptions and figures. Over the next several months we will monitor 1992-93 expenditures, review caseloads and develop updated criteria and data sources for the Legislature's budget deliberations. We may well find that the information of September, 1992, is not applicable to February, 1993.

Finally, the outcome of any budget ultimately rests with the Legislature. With very few exceptions, one Legislature cannot bind the next to any array of programs or appropriations. As with all legislative sessions, changes will be made in 1993-95 that will affect many of the numbers contained within this memorandum.

1993-95 Revenues

Once we established the appropriation levels for 1993-95, we turned to the question of revenues. Specifically, we asked what rate of growth (particularly in the area of tax collections) would be necessary in order to produce a balanced budget in the next biennium, assuming the expenditure levels that we had determined.

Current revenues for any biennial period stem from tax collections and departmental revenues. Departmental revenues are essentially interest earnings and certain receipts from sales, fees or licenses that are collected by various state agencies and deposited into the general fund. For 1992-93, it is estimated that departmental revenues will total \$148.7 million. This amount was reduced to \$111.0 million to reflect one-time revenues received in 1992-93. For each year in the next biennium, we increased that amount by 3.5% to arrive at \$114.9 million for 1993-94 and at \$118.9 million for 1994-95.

We then addressed the matter of 1993-95 tax collections necessary to fund the expenditures. We began with the 1992-93 estimated tax receipts of \$6,725.4 million. This figure was then adjusted to establish a permanent tax base for that year. Specifically, the \$6,725.4 million was decreased by \$12.3 million to account for various tax law changes such as the utility tax payment date change, the inheritance and gift tax phase-out and the income tax deduction for self-employed health insurance. Thus, the permanent tax base for 1992-93 was estimated to be \$6,713.1 million.

With the continued increase of the state's self-employed health insurance deduction in 1994-95, the permanent tax base is estimated to be \$6,713.1 million in 1993-94 and \$6,710.7 million in 1994-95, for a total of \$13,419.6 million in the 1993-95 biennium.

To generate revenues necessary to meet appropriations and leave a \$10.0 million net balance in each year, net tax collections (after the adjustment for law changes) would have to be \$7,257.0 million in 1993-94 and \$7,508.3 million in 1994-95. This represents growth over the prior year of 7.9% in 1993-94 and 3.5% in 1994-95. Compared to base revenue amounts in the 1993-95 biennium, these numbers are higher by 8.1% in 1993-94 and by 11.9% in 1994-95.

The percent increase in taxes in 1993-94 is greater than the percent increase in expenditures in that year, in part, because the previous year's ongoing expenditures exceeded revenues.

The final table, Table IV, combines the revenue and appropriation data of this memorandum with the amount (\$41.0 million) currently estimated to be carried forward from 1992-93.

TABLE IV

Estimated 1993-95 General Fund Condition Statement
(In Millions)

	<u>1993-94</u>	<u>1994-95</u>
<u>Revenues</u>		
Opening Balance, July 1	\$41.0	\$83.8
Taxes	7,257.0	7,508.3
Departmental Revenues	<u>114.9</u>	<u>118.9</u>
Total Available	\$7,412.9	\$7,711.0
<u>Appropriations</u>		
Gross Appropriations	\$7,382.3	\$7,679.5
Less Lapses	<u>- 53.2</u>	<u>- 55.3</u>
Net Appropriations	\$7,329.1	\$7,624.2
<u>Balances</u>		
Gross Balance	\$83.8	\$86.8
Required Statutory Balance	<u>- 73.8</u>	<u>- 76.8</u>
Net Balance, June 30	\$10.0	\$10.0

I hope that you will find this material useful and responsive to your request.

BL/all