

**1999 Oc9 DRAFTING REQUEST**

**Assembly Amendment (AA-AB1)**

Received: **11/02/1999**

Received By: **champra**

Wanted: **Today**

Identical to LRB:

For: **Judith Klusman (608) 266-7500**

By/Representing: **Ginger**

This file may be shown to any legislator: **NO**

Drafter: **champra**

May Contact:

Alt. Drafters:

Subject: **State Finance - miscellaneous**

Extra Copies: **MES,JK**

**Pre Topic:**

No specific pre topic given

**Topic:**

Transfer to budget stabilization fund

**Instructions:**

Reduce rebate amounts by an amount equal to \$22.1million

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jackcted</u>	<u>Required</u>
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FE Sent For:

<END>

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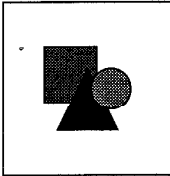
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/1	champra	cmr /	MRC 11/2	MRC/KJF 11/2			
FE Sent For:		11/2					

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## **Legislative Fiscal Bureau**

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

November 2, 1999

**TO:** Representative Judith Klusman  
Room 119 West, State Capitol

**FROM:** Bob Lang, Director

**SUBJECT:** Borrowing Versus Paying Cash for State Projects and Programs and Retirement Bill  
Impact on the State Budget

As you requested, this memorandum provides information of the amount of general obligation bonding authorized in the current biennium as well as the amounts authorized in recent biennia. In addition, this memorandum provides information on the potential fiscal impact associated with reducing the amount of funds the state would borrow by \$700 million. Finally, you asked for information on what impact there might be on the state budget if the retirement bill would not be implemented due to a court decision.

### **General Obligation Debt Comparison**

In 1999 Act 9 (the 1999-01 biennial budget), \$1,325.9 million in general obligation bond authority is authorized for the biennium. In addition, 1999 Act 4 authorized \$59.5 million in general obligation bonding to complete restoration of the State Capitol Building. For comparison, the following table indicates the amount of general obligation bonding authorized in each biennium since 1989-91, excluding refunding bonds, and the cumulative amount of bonding authorized through each biennium. These amounts are shown for each biennium, rather than by fiscal year, because bonding is not authorized on a fiscal year basis.

**Biennial General Obligation Bonding Authorization (\$ in Millions)**

<u>Biennium</u>	<u>Biennial Authorization</u>	<u>Cumulative Authorization</u>
1989-91	\$1,053.7	\$5,482.0
1991-93	715.8	6,197.8
1993-95	628.1	6,825.9
1995-97	647.0	7,472.9
1997-99	812.5	8,253.0
1999-01	1,385.4*	9,648.4

\*Includes 1999 Act 4 and 1999 Act 9.

**Potential Fiscal Effect of Reduced Borrowing**

You requested information on a proposal to appropriate funding for state construction projects and other general fund supported borrowing programs in lieu of issuing \$700 million in bonds for those purposes. In order to ensure that the appropriated funds are used in lieu of bonding, the proposal could be structured to require that the bonding authorizations for specific agencies or purposes would be reduced as the appropriated funds are spent for that agency or purpose.

Issuing \$700 million in bonds would result in total principal and interest costs over the life of the bonds of \$1,171.5 million (\$700 million in principal and \$471.5 in interest costs). Therefore, paying cash versus issuing \$700 million in general obligation bonds would save the state \$471.5 million over the life of the bonds. These figures assume a 5.5% bond rate and a 20-year, flat repayment schedule. However, because the debt service would be repaid over 20-years, the value, in real terms, of the interest savings associated with paying cash versus borrowing would be lower than the nominal dollar savings.

It is estimated that when the bonds are fully issued annual debt service payments associated with \$700 million in bonding would be approximately \$58.6 million. Therefore, if cash funding were used in lieu of issuing \$700 million in bonds for authorized purposes, annual debt service costs would be reduced by \$58.6 million. Again, these figures assume a 5.5% bond rate and a 20-year, flat repayment schedule

**Retirement Bill Impact on State Budget**

You also asked what the impact on the recently enacted budget would be if the pending retirement bill (Assembly Bill 495) were to be found unconstitutional. It is difficult to know what the exact impact of any such court ruling might be on the bill since a court might or might not find a constitutional problem with the bill or might or might not find a constitutional problem with only some part of the bill. Also, under the bill, there is a provision that requests that in the event of any

original action in court relating to implementation of this bill, the Supreme Court take jurisdiction of such action. The Supreme Court would not have to take such original action however, in which case any lawsuit would have to be first considered in circuit court. To provide an answer to your question, however, if it were presumed that a court were to rule that the provisions of the bill could not be implemented due to constitutional problems, then in terms of the state budget, we would estimate that there would be two direct fiscal impacts:

First, the budget contains an estimated general fund savings of about \$7.3 million in 1999-00 and \$14.8 million in 2000-01 that is expected to occur due to reduced state agency fringe benefits payments for unfunded accrued liability costs during a proposed "premium contribution" holiday provided for in the bill. A provision in AB 495 requires that the Department of Employee Trust Funds, as a part of the \$4 billion transfer from the transaction amortization account (TAA), establish for each WRS employer (state agencies and local governments) a credit balance in the employer accumulation reserve account equal to, in total, \$200 million. These respective individual employer balances would then be used to offset the individual employer payments for existing unfunded accrued liabilities until the balance is used up (thus, the "premium holiday"). If the bill cannot be implemented, then these estimated savings to the state as a result of agency GPR fringe benefit lapses to the general fund would not occur.

Second, the budget appropriates a total of \$2.2 million of segregated funds to the Department of Employee Trust Funds to implement the provisions of the retirement bill. If the bill is not implemented, DOA would presumably not release these funds and they would lapse back to the retirement trust funds.

I hope this information is helpful. Please contact me if you have any further questions.

BL/AR/sas

**Alternative Sales Tax Rebate Amounts**

		SS AB 1	SS AB 1	Klusman	Klusman
		<u>Married-Joint</u>	<u>Single</u>	<u>Married-Joint</u>	<u>Single</u>
		<u>Head-of-Household</u>	<u>Married-Sep</u>	<u>Head-of-Household</u>	<u>Married-Sep</u>
less than	25,000	\$337	\$190	\$326	\$184
25,000	to 50,000	345	198	334	192
50,000	to 75,000	362	216	351	209
75,000	to 100,000	380	233	368	226
100,000	to 200,000	414	267	401	259
200,000	to 500,000	457	311	443	301
more than	500,000	500	354	484	343
		cost	\$700,000,000	cost	\$677,900,000



*D-NOTE*  
State of Wisconsin  
1999 - 2000 LEGISLATURE

October 1999 Special Session

*Now*

ASSEMBLY AMENDMENT ,  
TO ASSEMBLY BILL 1

LRBa0912/1  
RAC:.....  
*cmr*

- 1 At the locations indicated, amend the bill as follows:
- 2 **1.** Page 5, line 6: delete "\$337" and substitute "\$326".
- 3 **2.** Page 5, line 8: delete "\$345" and substitute "\$334".
- 4 **3.** Page 5, line 10: delete "\$362" and substitute "\$351".
- 5 **4.** Page 5, line 12: delete "\$380" and substitute "\$368".
- 6 **5.** Page 5, line 14: delete "\$414" and substitute "\$401".
- 7 **6.** Page 5, line 16: delete "\$457" and substitute "\$443".
- 8 **7.** Page 5, line 18: delete "\$500" and substitute "\$484".
- 9 **8.** Page 5, line 24: delete "\$190" and substitute "\$184".
- 10 **9.** Page 6, line 2: delete "\$198" and substitute "\$192".
- 11 **10.** Page 6, line 4: delete "\$216" and substitute "\$209".
- 12 **11.** Page 6, line 6: delete "\$233" and substitute "\$226".





**DRAFTER'S NOTE  
FROM THE  
LEGISLATIVE REFERENCE BUREAU**

LRBa0912/1dn  
RAC:.....

*cmf*

*DATE*

Representative Klusman:

This amendment reduces the rebate amounts by an amount that equals \$22,100,000. This is the amount identified by Bob Lang in his November 2, 1999, memorandum to you on the estimated general fund savings provided in 1999 Assembly Bill 495. The reduced rebate amounts were provided by Kelsie Doty of the legislative fiscal bureau. If you have any questions, please contact me.

Rick A. Champagne  
Senior Legislative Attorney  
Phone: (608) 266-9930  
E-mail: Rick.Champagne@legis.state.wi.us

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RAC:cmh:mrc

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