



January 28, 1999

Senator Brian Burke, Senate Chair
Representative John Gard, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

Annually, 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 the odd-numbered years, the report includes estimated tax collections and expenditures for the current fiscal year and revenue projections for each year of the next biennium. The purpose of this report is to present the conclusions of our analysis.

Comparison with the Administration's November 20, 1998, Report

On November 20, 1998, the Departments of Administration and Revenue submitted a report to the Governor and Legislature that identified revenue projections for 1998-99 and the 1999-01 biennium. Our analysis indicates that for that three-year period, the state's general fund will realize \$481.2 million more than is reflected in the November 20 report. The \$481.2 million consists of \$172.5 million in 1998-99, \$186.2 million in 1999-00 and \$122.5 million in 2000-01.

Of the \$481.2 million, \$407.7 million is due to a projected increase in tax collections. The other \$73.5 million is the result of increased departmental revenues and reduced expenditures in 1998-99.

Prior to addressing the reasons for this difference, 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 present a projection of tax collections. Given its timing in the 1998-99 fiscal year, sufficient data is not available to reestimate

certain revenues and expenditures for the current fiscal year. Thus, as indicated in their report, departmental revenues and expenditures were not reestimated by DOA. This is consistent with previous November 20 reports.

1998-99 General Fund Condition Statement

Based upon our analysis, we believe that the gross balance in the state's general fund will be \$500.9 million on June 30, 1999. After consideration of the required statutory balance (\$99.4 million), the net balance will be \$401.4 million. This is shown in Table 1.

The administration's November 20 report contained a 1998-99 general fund condition statement that showed a gross balance of \$328.4 million. Thus, the projected gross balance of this report (\$500.9 million) is \$172.5 million greater than that shown in the November 20 report.

The additional \$172.5 million in 1998-99 consists of additional projected tax collections (\$99.0 million), increased departmental revenues (\$14.2 million) and decreased expenditures (\$59.3 million).

The \$99.0 million in additional tax collections is the result of continued strength in the economy, particularly with sales tax receipts and the recent realization of a significant estate tax payment. Much of the increase in departmental revenues is attributable to an expanded use of medical assistance for school-based services and increased activities in the Securities Division of the Department of Financial Institutions. The decrease in projected

expenditures is due, in part, to the fact that most of the funding set aside for BadgerCare will not be expended in the current biennium because the necessary federal waivers for that program were only recently approved. Also, at its s. 13.10 meeting in December, 1998, the Joint Committee on Finance transferred \$15.0 million from the Department of Workforce Development to the Committee's appropriation. It is anticipated that this amount will not be expended and, thus, will revert to the general fund at the close of the fiscal year.

Table 1 indicates that the general fund will show a gross balance of \$500.9 million at the end of the current fiscal year. This amount will be carried forward as the opening balance of the next

| Revenues | 1998-99 |
|---|---------------------|
| Opening Balance, July 1 | \$554,311,000 |
| Taxes | 9,770,400,000 |
| Departmental Revenues | <u>165,359,800</u> |
| Total Available | \$10,490,070,800 |
| Appropriations, Transfers and Reserves | |
| Gross Appropriations | \$9,876,323,600 |
| Compensation Reserves | 66,338,400 |
| Transfers to: | |
| Local Government Property Insurance Fund | 2,108,600 |
| Property Tax Relief Fund | 100,000,000 |
| Computer Escrow Fund | 64,000,000 |
| Less: Lapses and Sum Sufficient | |
| Reestimates | <u>-119,551,600</u> |
| Net | \$9,989,219,000 |
| Balances | |
| Gross Balance | \$500,851,800 |
| Less: Required Statutory Balance | <u>-99,426,600</u> |
| Net Balance, June 30 | \$401,425,200 |

biennium. In addition, Table 1 also reflects a \$100.0 million transfer from the general fund to the property tax relief fund and a \$64.0 million transfer to the computer escrow fund. The \$100.0 million will be expended in 1998-99 for general school aids. The \$64.0 million in the computer escrow fund will be deposited in the general fund on July 1, 1999. Therefore, the general fund will begin the next biennium with \$564.9 million (\$500.9 million gross balance of 1998-99 plus \$64.0 million from the computer escrow fund).

It should be noted that this report does not reflect the anticipated receipt of the tobacco settlement monies. By the end of the 1999-01 biennium, it is anticipated that the state will receive \$339.0 million from the settlement. Of that amount, \$50.0 million could be received in the current fiscal year and \$289.0 million in the next biennium. Or, the entire \$339.0 million could be received in the 1999-01 period.

General Fund Tax Revenues

The following sections provide information related to general fund tax revenues for 1998-99 and the 1999-01 biennium. The information provided includes a brief review of the economy in 1998, a discussion of the national economic forecast for 1999 through 2001, and detailed general fund tax revenue projections for the current fiscal year and the next biennium.

Review of the Economy in 1998

Last January, this office prepared general fund revenue estimates for the 1997-99 biennium based on the January, 1998, forecast of the U.S. economy prepared by Standard & Poor's DRI. In general, the economy was projected to expand through 1998 and 1999, but at a slower rate than in 1997. The Asian economic slowdown was expected to reduce exports and increase the competitiveness of foreign imports, and thus reduce U.S. economic growth. However, it was not expected that Asian economic problems would lead to recession, because exports to those countries make up a relatively small portion of U.S. gross domestic product (GDP). Similarly, the impact of the Asian financial crisis on American financial markets was projected to be minimal. The stock market had been trending upward since its October, 1997, correction and it was assumed that the Federal Reserve would reduce interest rates to offset any "Asian flu" that might affect the economy.

The DRI economic forecast projected that real (inflation-adjusted) GDP growth would slow from 3.7% in 1997 to 2.3% in 1998 and 1.5% in 1999. Similarly, nominal (current-dollar) GDP growth was forecast to decline from 5.8% in 1997 to 4.2% in 1998 and 3.3% in 1999. Inflation was expected to drop below 2% in 1998, before increasing slightly in 1999. The forecast anticipated a moderation in consumer spending, with the growth in personal consumption expenditures estimated to decrease from 5.4% in 1997 to 4.2% in 1999. As the economy slowed, the unemployment rate would increase from 4.9% in 1997 to 5.3% by the end of the forecast period.

The U.S. economy proved to be quite resilient in 1998 after experiencing a number of potentially unsettling events:

- In early summer, workers at General Motors plants went on strike.
- The Asian economic and financial crisis, particularly as it affected Japan, was more severe than many economists anticipated. A severe recession in Japan led to a change in government leaders.
- The Russian economy and financial system essentially collapsed.
- After reaching all-time highs in July, U.S. stock prices dropped until they bottomed out in October.
- The Asian economic and financial crisis, falling commodity prices and a strong dollar led to a record \$16.7 billion foreign trade deficit in August.

However, in spite of these events, real and nominal GDP grew by an estimated 3.8% and 4.8%, respectively, in 1998. A primary factor in this growth was the strength in consumer spending. Current-dollar personal consumption expenditures increased 5.7%, while real consumer spending grew 4.9%. A number of factors contributed to this boost in spending. Falling commodity prices, particularly for gas and oil and agricultural products, and low import prices kept inflation low. The overall CPI advanced 1.6% in 1998, the smallest annual increase since the mid-1980s. Employment has remained strong, with the unemployment rate expected to be 4.5%. The autumn cuts in the federal funds interest rate by the Federal Reserve reassured financial markets and led to the rebound of stock prices. In turn, this led to a parallel rebound in consumer confidence. Finally, low mortgage interest rates helped consumers refinance and free up additional money to spend.

Other contributing factors to growth in 1998 were business investment and housing construction. Low mortgage interest rates and low unemployment contributed to a booming housing market. Sales of new one-family homes reached an all-time high in November while sales of existing homes reached their second highest level ever. Similarly, low interest rates, tight labor markets and relatively high wage costs caused businesses to increase capital expenditures. In addition, the low prices of products from foreign competitors created an incentive to improve productivity in order to increase narrow profit margins. As a result, it is estimated that purchases of business equipment increased by 16.6% in 1998.

National Economic Forecast

The revenue estimates prepared by this office are based on the January, 1999, forecast of the economy by Standard & Poor's DRI.

Low interest rates and inflation and a strong stock market have enabled the economy to offset the slump in foreign demand. Consumer purchasing power has increased and boosted spending. Home sales and business equipment purchases have also been strong. These factors helped to counteract the drag imposed on the economy by foreign trade deficits and low import

prices. As a result, 1998 fourth quarter real GDP growth is estimated to be 4.0% and growth is expected to continue into 1999.

In general, the consumer is the key to the economy in the near future. Inflation and unemployment are projected to remain relatively low in 1999 and consumer confidence remains strong. Investment and housing purchases are forecast to moderate, but will still contribute to growth, while foreign trade is expected to continue to be a negative factor. Nominal GDP growth is projected to be 4.1% in 1999; real GDP is projected to increase by 2.7%.

Growth is forecast to slow in the following years. Nominal GDP is projected to grow by 3.7% in 2000 and 4.0% in 2001; real GDP is forecast to increase 2.0% each year. Consumer spending is expected to soften during this period. Personal consumption exceeded income during the fall of 1998, but spending is projected to be restrained by the growth in income in the future. Moreover, corporate profits have slowed considerably and the reduced earnings should diminish stock price increases. The reduction in wealth will also restrain consumer spending while the reduced profits will limit business investment. Commodity prices are projected to stabilize, import prices should also rise and wage and fringe benefit costs will remain significant so that inflation should increase, although only moderately. Finally, the forecast slowdown in the national economy is expected to push the unemployment rate slightly higher by the end of the forecast period.

Consumer spending has been a primary source of economic growth throughout the current expansion and will continue to be a significant source of growth for the next few years. As noted, personal consumption has been supported by low inflation, increasing stock values, refinancing mortgages at low interest rates and borrowing. Consumer confidence remains quite high, with the University of Michigan's Index of Consumer Sentiment averaging 104.6 for 1998. This was the index's highest recorded level and, in part, reflected the high level of stock prices. However, consumption has been outpacing income and this is not expected to continue. In addition, the forecast indicates that stock prices are overvalued, particularly in view of declining corporate profits. Although a correction of the magnitude of the drop in prices that occurred last August is not forecast, gains and consumer confidence will gradually decrease. As a result, consumer spending is forecast to grow at a slower rate from 1999 through 2001. Specifically, personal income is projected to increase by 4.6% in 1999, 4.2% in 2000 and 4.1% in 2001. Personal consumption expenditures are forecast to grow by 5.1% in 1999, 4.3% in 2000 and 4.2% in 2001.

Both business investment and housing sales are projected to moderate during the forecast period. The annual real increase in business fixed investment is expected to drop from 5.4% in 1999 to 3.8% in 2001. Purchases of equipment will exhibit a similar pattern with the annual real increase receding from 9.0% in 1999 to 4.5% in 2001. The strongest areas of growth will continue to be data processing and communications equipment, which will be given a lift by spending to replace computers to address year 2000 (Y2K) problems. The last half of 1999 also is expected to include a modest increase in inventory accumulations to provide a cushion against possible Y2K disruptions. However, these increases will be shifted from purchases that would have occurred in 2000. As the overall population ages, new and existing home sales are projected to decline to conform to demographic trends

Foreign trade is expected to continue to be a drain on the U.S. economy. Asia's economies have not yet started to rebound and Japan's economy is still getting worse. In addition, with Brazil's economy faltering and declining oil prices affecting Mexico, the economic crisis is spreading to Latin America. Although U.S. interest rate cuts and a weakening dollar should eventually help foreign economies and the U.S. trade deficit, the dollar remains strong at current and projected near term levels. Most foreign economies are not projected to recover enough to generate sufficient demand for exports to offset the negative effects of the relatively strong dollar. Relatively robust domestic demand and the strong dollar will combine to keep imports at higher than normal levels. However, the relative trade position of the U.S. is expected to improve slightly as the Asian economies begin to recover in later years and the dollar weakens somewhat. While the merchandise trade deficit is forecast to increase from \$331.3 billion in 1999 to \$367.3 billion in 2001, real exports are projected to increase each year.

At this point in most economic expansions, inflation has generally been a major threat to the economy. However, the 1998 consumer price index increase of 1.6% is the lowest annual increase of the current eight-year expansion. Inflation has been held in check by falling commodity prices and low import prices. Because of global economic slowdowns in Asia and elsewhere, the demand for oil, metals and food products has been depressed, which has caused prices to drop. In addition, devaluations of foreign currencies against the dollar have made imports relatively cheaper. The low import prices reduce the pricing power of domestic manufacturers, which also keeps prices low. These factors have combined to bring inflation down to its current level. The forecast projects inflation to accelerate slightly as commodity prices stabilize and foreign economies rebound. The CPI is projected to be 2.2% in 1999, 2.3% in 2000 and 2.4% in 2001.

The continued expansion is expected to boost employment and keep the unemployment rate relatively low in 1999. A slow upward drift in the unemployment rate is then forecast for the next few years. The unemployment rate is projected to be 4.5% in 1999, 4.6% in 2000 and 4.9% in 2001.

The forecast indicates that the Federal Reserve's interest rate cuts have reduced the likelihood of a recession in 1999. The rate cuts have revived the stock market and the economy continues to show strength. Inflation is believed to be a concern, but weaknesses in commodity prices and foreign economies are expected to keep it in check in the near term. However, by 2000, prices are expected to recover and a tight labor market will continue to make increases in wages and fringe benefit costs a significant concern. At this point the Federal Reserve may increase rates in response.

Table 2 shows projected values for several economic indicators that underlie our general fund tax revenue estimates for 1998-99 and the 1999-01 biennium.

The primary risk to the forecast is that global economic problems would expand and trigger a recession in the United States. Under this scenario, Asian economies would worsen and the Brazilian recession would expand across the rest of Latin America. The deteriorating global economic situation and declining corporate earnings would cause a major stock market sell-off. In turn, the stock market decline would erode consumer wealth and confidence, and cause a reduction in consumer spending. The drop in domestic spending and further reduction in exports would result in a recession in late 1999.

TABLE 2

Summary of National Economic Indicators
Standard & Poor's Data Resources, Inc.
January, 1999
(\$ in Billions)

| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> |
|--------------------------------|-------------|-------------|-------------|-------------|
| Nominal Gross Domestic Product | \$8,500.0 | \$8,846.8 | \$9,175.2 | \$9,538.1 |
| Percent Change | 4.8% | 4.1% | 3.7% | 4.0% |
| Real Gross Domestic Product | \$7,542.8 | \$7,748.7 | \$7,904.2 | \$8,066.1 |
| Percent Change | 3.8% | 2.7% | 2.0% | 2.0% |
| Consumer Price Index | 1.6% | 2.2% | 2.3% | 2.4% |
| Personal Income | \$7,123.8 | \$7,451.4 | \$7,764.2 | \$8,084.7 |
| Percent Change | 5.0% | 4.6% | 4.2% | 4.1% |
| Personal Consumption Expend. | \$5,807.9 | \$6,104.8 | \$6,364.9 | \$6,630.8 |
| Percent Change | 5.7% | 5.1% | 4.3% | 4.2% |
| Corporate Profits Before Tax | \$720.6 | \$715.9 | \$688.1 | \$695.9 |
| Percent Change | -1.9% | -0.7% | -3.9% | 1.1% |
| Unemployment Rate | 4.5% | 4.5% | 4.6% | 4.9% |

General Fund Tax Projections

Table 3 shows revenue estimates for all sources of state general fund taxes for 1998-99 and the 1999-01 biennium. The projections are higher than the estimates prepared by the Department of Revenue last November by \$99.0 million in 1998-99, \$186.2 million in 1999-00 and \$122.5 million in 2000-01. These increases are primarily due to the individual income, sales and estate taxes. Collection data and an improvement in the economic forecast of consumer income and spending indicate that revenues from these three taxes will be higher than the November estimates. These additional revenues are partially offset by the corporate income, utility and cigarette taxes, which are expected to be lower than DOR's estimates. The reduction in cigarette tax revenues primarily reflects the recent price increases that occurred in response to the tobacco settlement. The corporate income and utility tax estimates reflect recent collections and a reduced forecast of corporate profits in 2000 and 2001. All of the figures in Table 3 have been adjusted to account for law changes adopted during the 1997-99 biennium.

TABLE 3

**Projected General Fund Tax Collections
(\$ in Millions)**

| <u>Source of Tax Revenue</u> | <u>1997-99 Biennium</u> | | <u>1999-01 Biennium</u> | |
|------------------------------|---------------------------|------------------------------|------------------------------|------------------------------|
| | <u>1997-98 Actual</u> | <u>1998-99 Estimated</u> | <u>1999-00 Estimated</u> | <u>2000-01 Estimated</u> |
| Individual Income | \$5,047.5 | \$5,070.0 | \$5,340.0 | \$5,590.0 |
| General Sales and Use | 3,047.4 | 3,250.0 | 3,430.0 | 3,600.0 |
| Corporate Income & Franchise | 627.0 | 600.0 | 620.0 | 620.0 |
| Public Utility | 288.4 | 270.0 | 240.0 | 210.0 |
| Excise | | | | |
| Cigarettes | 247.7 | 253.0 | 238.0 | 233.0 |
| Liquor and Wine | 32.7 | 32.5 | 33.0 | 33.5 |
| Beer | 9.3 | 9.3 | 9.3 | 9.3 |
| Tobacco Products | 9.4 | 9.3 | 9.2 | 9.1 |
| Insurance Company | 88.1 | 80.0 | 84.0 | 86.0 |
| Estate | 80.1 | 105.0 | 57.0 | 59.0 |
| Miscellaneous Taxes | 50.9 | 56.3 | 58.6 | 61.0 |
| Amnesty | N.A. | 35.0 | N.A. | N.A. |
| TOTAL | \$9,528.4 | \$9,770.4 | \$10,119.1 | \$10,510.9 |
| Increase Over Prior Year | | \$242.0 | \$348.7 | \$391.8 |
| Percent Increase | | 2.5% | 3.6% | 3.9% |

The following sections provide additional detail regarding the revenue estimates for each tax source.

Individual Income Tax. Individual income tax receipts are estimated to total \$5,070.0 million in 1998-99, which represents a 0.4% increase over actual collections for 1997-98. Through the end of December, 1998, total income tax collections were 6.8% higher than collections were at the same time last year. The relatively flat level of projected revenue growth for the fiscal year is due to the income tax reductions enacted during the 1997-99 legislative session. It is anticipated that the effects of the law changes will not occur until later this spring when DOR begins to process the majority of tax returns for 1998. A one-time increase in the property tax/rent credit, a reduction in the income tax rates of approximately 2.5%, the creation of the working families tax credit, a deduction for higher education tuition expenses and an increase in the married couple credit were among the changes that took effect with the 1998 tax year, which are primarily reflected in 1998-99 revenues. These law changes are estimated to cost \$330.0 million in 1998-99. If these modifications had not been enacted, estimated growth would be 7.0% rather than 0.4%

For the 1999-01 biennium, individual income tax collections are estimated to be \$5,340.0 million in 1999-00 and \$5,590.0 million in 2000-01, an increase of 5.3% and 4.7% over prior year estimates, respectively. Again, this relatively low level of growth as compared to prior years is largely due to the income tax reductions adopted during the prior legislative session. The indexing of the standard deduction and income tax brackets beginning in 1999, further increases in the married couple credit and withholding adjustments for the 1998 tax cuts are projected to slow revenue growth over the 1999-01 biennium. In addition, national personal income growth is expected to moderate over the forecast period, and it is anticipated that the additional revenues realized in recent years from the growth in the stock market will begin to level off.

General Sales and Use Tax. Sales tax revenues totaled \$3,047.4 million in 1997-98 and are estimated at \$3,250.0 million in 1998-99, \$3,430.0 million in 1999-00 and \$3,600.0 million in 2000-01. These projections are based on past experience and forecast growth in personal consumption expenditures. The estimates represent growth rates of 6.6% in 1998-99, 5.5% in 1999-00 and 5.0% in 2000-01. Through December, 1998, sales tax collections were \$1,339.1 million, which is 8.3% higher than the same period in 1997-98. With anticipated slower growth in personal consumption, it is estimated that growth in sales tax revenues will be 5.7% over the remainder of the 1998-99 fiscal year.

Corporate Income and Franchise Tax. Corporate income and franchise taxes are projected to decline from \$627.0 million in 1997-98 to \$600.0 million in 1998-99. Corporate tax revenues are then estimated to increase slightly to \$620.0 million for both 1999-00 and 2000-01.

The 1998-99 estimate reflects declining collections over the last few years. Corporate income and franchise tax revenues decreased from \$643.8 million in 1996-97 to \$627.0 million in 1997-98. Through December, 1998, monthly corporate income and franchise tax collections have been significantly lower than 1997-98 monthly collections. In addition, corporate profits declined over the last half of 1998.

Estimated revenues for 1999-00 and 2000-01 are expected to flatten out to \$620.0 million each year, in part reflecting the forecast slowdown in economic growth beginning in the latter part of 1999. Low commodity prices and inflation make it difficult for businesses to raise prices. In addition, a relatively strong dollar will continue to make imports quite competitive, and the Asian economic crisis and economic slowdown in Latin America will limit exports. These factors, along with significant wage and fringe benefit costs, are expected to result in declining corporate profits.

The corporate income and franchise tax revenue estimates for 1998-99 through 2000-01 are also adjusted to reflect refunds of an estimated \$38.4 million in installments from 1997 through 2000, as a result of settlement of the NCR v. Wisconsin Department of Revenue case in September, 1996. Under the settlement, DOR will refund taxes paid on certain dividends received from subsidiary corporations. The Circuit Court of Dane County had ruled that these dividends should have been deductible in computing Wisconsin corporate income and franchise tax liability.

Public Utility Taxes. Public utility taxes are projected to be \$270.0 million in 1998-99, \$240.0 million in 1999-00 and \$210.0 million in 2000-01. These estimates represent decreases of 6.4% in 1998-99, 11.1% in 1999-00 and 12.5% in 2000-01.

The decreases in utility tax revenues are attributable to the conversion of telecommunications companies from a gross receipts tax to ad valorem taxation beginning with taxes due for 1998. The ad valorem tax is expected to generate less revenue than was collected from the gross receipts tax. A transition fee is imposed on cellular phone companies and local exchange companies, equal to the difference between taxes due under the gross receipts tax and ad valorem tax. This fee delays the full effect of converting telephone companies until fiscal year 2000-01.

Utility tax collections from telecommunications companies totaled \$158.5 million in 1997-98 and are estimated at \$134.0 million in 1998-99, \$96.0 million in 1999-00 and \$67.0 million in 2000-01. These estimates reflect decreases of 15.5% in 1998-99, 28.3% in 1999-00, and 30.2% in 2000-01. Because tax revenues from telecommunications companies make up over half of total utility tax revenues, this pattern of revenue decline is reflected in total utility tax estimates.

Excise Taxes. Excise taxes on cigarettes, tobacco products and alcoholic beverages totaled \$299.1 million in 1997-98. These collections are projected to be \$304.1 million in 1998-99, \$289.5 million in 1999-00 and \$284.9 million in 2000-01. The increase in 1998-99 collections reflects a 15¢ per package increase in the state cigarette tax, which took effect in November, 1997. However, 1998-99 cigarette tax collections have also been adjusted downward to reflect an anticipated drop in demand following a large price increase in cigarettes after the tobacco settlement in November, 1998. It is expected that demand for cigarettes will decrease again when a 10¢ per package increase in the federal tax on cigarettes, enacted as part of the Taxpayer Relief Act of 1997, takes effect in January, 2000. These estimates assume an underlying 1% decrease in cigarette consumption in addition to the effects of the price and tax changes referred to above.

After several years of strong growth in revenue from the tax on tobacco products, this estimate assumes that tobacco tax collections will decrease at a rate of 1% annually over the forecast period. The estimate is based on year-to-date collections and an increase in the federal tax on tobacco products in January, 2000. It is projected that collections from taxes on beer, liquor and wine will increase slightly.

Insurance Premium Taxes. Insurance premium taxes decreased from \$94.6 million in 1996-97 to \$88.1 million in 1997-98. Premium taxes are projected to decrease to \$80.0 million in 1998-99 and then increase to \$84.0 million in 1999-00 and \$86.0 million in 2000-01. The decrease in collections between 1996-97 and 1998-99 is due to an Illinois Supreme Court decision that found that state's premium tax to be unconstitutional. Because of Wisconsin's reciprocal taxation statutes for insurance companies, premium taxes on Illinois insurers doing business in Wisconsin were reduced. The estimated increase in collections during the 1999-01 biennium reflects historical growth in collections for non-Illinois insurers and enactment of a lower premium tax in Illinois.

Estate Tax. Estate tax collections in 1998-99 are projected to total \$105.0 million. Year-to-date collections through December, 1998, are 53.4% higher than collections for the same period in 1997-98, primarily as a result of a large tax payment that was received in December, 1998.

Wisconsin imposes an estate tax that is equal to the maximum federal credit provided for death taxes paid to a state government, commonly known as a "gap" tax. As a result of recent changes in federal law, the allowable exclusion amount used in determining the federal estate tax is being increased over a nine-year period that started in 1998. Prior to 1998, the exclusion was \$600,000. Under the new law, the exclusion amount will be \$625,000 in 1998 and gradually increase to \$1,000,000 in 2006 and thereafter. The higher exclusion amounts will impact both federal and state estate tax revenues. Based on past experience and on the federal tax changes, estate tax collections are projected to total \$57.0 million in 1999-00 and \$59.0 million in 2000-01.

Miscellaneous Taxes. Miscellaneous taxes are estimated to be \$56.3 million in 1998-99, \$58.6 million in 1999-00 and \$61.0 million in 2000-01. The real estate transfer fee, the primary component of these taxes, is expected to grow by 14.5% in 1998-99, largely as a result of the strong housing market. This market is expected to moderate but remain healthy in the remainder of the forecast period.

Tax Amnesty. The Department of Revenue conducted a tax amnesty program between June 15, 1998, and August 14, 1998. When the program was enacted it was estimated that total amnesty collections would be \$40.0 million. However, based on preliminary information from the Department, total amnesty collections are projected to be \$35.0 million in 1998-99. Final figures on the tax amnesty program are not anticipated until March, 1999.

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,



Robert Wm. Lang
Director

cc: Members, Wisconsin Legislature

JANUARY 1999 GENERAL FUND TAX ESTIMATES

| | 1997-98 | November 1998 DOR | | January 1999 LFB | | LFB Over DOR | |
|---------------|------------------|-------------------|------------------|------------------|-------------------|--------------------------|----------------|
| | Actual | 1998-99 | 1999-00 | 1998-99 | 1999-00 | 1998-99 | 1999-00 |
| Individual | \$5,047.5 * | \$4,990.0 | \$5,200.0 | \$5,070.0 | \$5,340.0 | \$80.0 | \$140.0 |
| Sales | 3,047.4 | 3,237.0 | 3,355.0 | 3,250.0 | 3,430.0 | 13.0 | 75.0 |
| Corporate | 627.0 | 628.0 | 625.0 | 600.0 | 620.0 | (28.0) | (5.0) |
| Utility | 288.4 | 282.7 | 244.8 | 270.0 | 240.0 | (12.7) | (4.8) |
| Excise | | | | | | | |
| Cigarette | 247.7 | 262.0 | 256.0 | 253.0 | 238.0 | (9.0) | (18.0) |
| Liquor | 32.7 | 32.5 | 33.0 | 32.5 | 33.0 | 0.0 | 0.0 |
| Beer | 9.3 | 9.3 | 9.3 | 9.3 | 9.3 | 0.0 | 0.0 |
| Tobacco | 9.4 | 10.0 | 10.5 | 9.3 | 9.2 | (0.7) | (1.3) |
| Insurance | 88.1 | 80.0 | 85.0 | 80.0 | 84.0 | 0.0 | (1.0) |
| Estate | 80.1 | 55.0 | 57.0 | 105.0 | 57.0 | 50.0 | 0.0 |
| Miscellaneous | 50.9 | 54.9 | 57.3 | 56.3 | 58.6 | 1.4 | 1.3 |
| Amnesty** | 0.0 | 30.0 | 0.0 | 35.0 | 0.0 | 5.0 | 0.0 |
| TOTAL | \$9,528.4 | \$9,671.4 | \$9,932.9 | \$9,770.4 | \$10,119.1 | \$99.0 | \$186.2 |
| % Change | 8.1% | 1.5% | 2.7% | 2.5% | 3.6% | Three-Year Total: | |
| | | | | | | | \$407.7 |

*Before deduction of \$0.2 million for federal retirees' refunds.

**DOR believes the amnesty breakdown will be: \$13 million to sales, \$10 million to individual and \$7 million to corp.

Table 3

**General Fund Condition Under
Revised Revenue Estimates for FY99
(in millions of dollars)**

| | <u>FY98 Actual</u> | <u>FY99 Revised Estimate</u> |
|--|------------------------|--------------------------------------|
| <u>Revenues</u> | | |
| Opening Balance, July 1 | \$ 337.8 | \$ 552.3* |
| Taxes | 9,528.2 | 9,671.4 |
| Transfer from: | | |
| Property Tax Relief Fund | 257.8 | 0.0 |
| Recycling Fund | 3.9 | 0.0 |
| Departmental Revenues | <u>172.6</u> | <u>151.2</u> |
| Total Available | \$ 10,300.3 | \$ 10,374.9 |
| <u>Appropriations and Reserves</u> | | |
| Gross Appropriations | \$ 9,694.5 | \$ 9,876.3 |
| Compensation Reserve | | 66.3 |
| Transfer to: | | |
| Local Government Property Insurance Fund (Interest) | 0.0 | 0.1 |
| Property Tax Relief Fund | 0.0 | 100.0 |
| Computer Escrow Fund | 0.0 | 64.0 |
| Less Estimated Lapses | <u>0.0</u> | <u>- 60.2</u> |
| Expenditures or Net Appropriations | \$ 9,694.5 | \$ 10,046.5 |
| Add Residual Equity Transfers | 2.3 | 0.0 |
| <u>Balances</u> | | |
| Gross Balance | \$ 608.1 | \$ 328.4 |
| Less Designated Biennial Appropriation Carry Forward | <u>- 55.8</u> | <u>0.0</u> |
| Gross Balance Available | 552.3 | 328.4 |
| Less Required Statutory Balance | <u>- 98.1</u> | <u>- 99.4</u> |
| Net Balance, June 30 | \$ 454.2 | \$ 229.0 |

* FY99 opening balance is the FY98 gross balance less \$55.8 million of designated biennial appropriation carry forward that may be spent or lapsed at the end of FY99.

Note: No revisions have been made to FY99 expenditure, lapse or departmental revenue estimates. Revised estimates will be made later in the fiscal year and could result in a different FY99 balance.



Legislative Fiscal Bureau

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

January 24, 2000

Senator Brian Burke, Senate Chair
Representative John Gard, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:

This office has now completed its review of the status of the state's general fund for the remainder of the 1999-01 biennium. Our analysis included an examination of economic forecasts and tax collection and expenditure data for the first six months of the current fiscal year.

Based upon our review, we now project the closing, gross general fund balance at the end of the biennium (June 30, 2001) to be \$514.5 million. This is \$364.1 million above the level that was indicated at the conclusion of gubernatorial and legislative action on the state budget and sales tax rebate legislation. After consideration of the \$134.2 million required statutory balance, the net balance at the end of the biennium is estimated at \$380.3 million.

The \$364.1 million is the net result of increased estimated tax collections of \$417.2 million, a decrease of \$25.5 million in departmental revenues and an estimated increase in net expenditures (sum sufficient appropriations and lapses) of \$27.6 million.

The following table reflects the estimated general fund condition statement which incorporates our revenue and expenditure projections.

TABLE 1

Estimated 1999-01 General Fund Condition Statement

| Revenues | <u>1999-00</u> | <u>2000-01</u> |
|---|---------------------|---------------------|
| Opening Balance, July 1 | \$701,293,000 | \$660,058,700 |
| Estimated Taxes | 10,793,300,000 | 10,599,000,000 |
| Departmental Revenues | | |
| Tobacco Settlement | 167,886,100 | 124,763,700 |
| Other | 260,087,900 | 190,946,100 |
| Transfer from Computer Escrow Fund | <u>64,000,000</u> | <u>0</u> |
| Total Available | \$11,986,567,000 | \$11,574,768,500 |
| | | |
| Appropriations, Transfers and Reserves | | |
| Gross Appropriations | \$11,316,183,700 | \$11,060,523,900 |
| Sum Sufficient Reestimates | 14,753,200 | 1,799,200 |
| Compensation Reserves | 56,100,000 | 117,750,000 |
| Transfer to Tobacco Control Fund | 23,500,000 | 0 |
| Less Estimated Lapses | <u>-84,028,600</u> | <u>-119,791,500</u> |
| Total Expenditures | \$11,326,508,300 | \$11,060,281,600 |
| | | |
| Balances | | |
| Gross Balance | \$660,058,700 | \$514,486,900 |
| Less Required Statutory Balance | <u>-113,870,400</u> | <u>-134,160,900</u> |
| Net Balance, June 30 | \$546,188,300 | \$380,326,000 |

General Fund Taxes

The following section provides information on general fund tax revenues for the 1999-01 biennium, including a discussion of the national economic forecast for 2000 and 2001 and general fund tax revenue projections for 1999-00 and 2000-01.

National Economic Forecast. This office first prepared revenue estimates for the 1999-01 biennium in January, 1999. At that time, the economic expansion was expected to continue through the 1999-01 biennium. However, the forecast was for slowing economic growth, slightly accelerating inflation and a slow upward drift in the unemployment rate. It was believed that the primary risk to the forecast was that global economic problems would trigger a recession in the United States.

In July, 1999, this office revised its 1999-01 estimates upward by 1.8%. The revision was based on 1998-99 general fund tax collections through June, 1999, and on revised national economic forecasts that were more favorable than those at the end of 1998. The June, 1999, U.S. economic forecast prepared by Standard and Poor's Data Resources, Inc. (DRI), reported growth in nominal gross domestic product (GDP) in 1998 of 4.9% and projected increases of 5.1% in 1999, 3.3% in 2000 and 3.9% in 2001. The June projections were for higher growth rates for 1998 and 1999 but lower rates for 2000 and 2001, as compared to the January, 1999, forecast (however, even with lower growth rates expected for 2000 and 2001, nominal GDP was estimated to be higher for each year of the forecast period). Other indicators (including real GDP, personal income, consumption and corporate profits) were also generally greater in the June forecast, while unemployment and inflation were lower.

Recently released GDP data suggest that the U.S. economy has been growing faster than had been estimated in June, 1999. According to DRI, a large share of the increase is based on conceptual revisions to the 1999 benchmark national income and product accounts (NIPA) used by the U.S. Bureau of Economic Analysis, which supplies the data used for national economic forecasts. However, after considering the effect of the conceptual changes, the January, 2000, projection of GDP growth is still stronger than the June, 1999, forecast. Overall, the expansion is expected to continue with few signs of increasing core inflation in spite of recent increases in the prices of oil and other commodities. The general forecast is for strong but slowing economic growth and low levels of inflation. The January, 2000, DRI forecast projects growth rates for nominal GDP of 5.4% in 1999, 4.9% in 2000 and 4.6% in 2001. Although oil prices continue to rise, overall inflation is expected to remain low. The consumer price index is estimated at 2.1% during 1999, 2.3% in 2000 and 2.1% in 2001. National unemployment is also expected to remain low, with estimated rates of 4.2% in 1999, 4.0% in 2000 and 4.2% in 2001.

As with the nominal GDP projections, real GDP estimates reported in the January, 2000, DRI forecast are higher than those projected in June, 1999, partly as a result of the NIPA revisions. However, DRI attributes some of the growth in real GDP to lower imports and to increased construction spending, state and local spending and consumer outlays. Growth in real GDP is projected at 4.0% in 1999, 3.7% in 2000 and 3.1% in 2001 (real GDP growth was estimated at 3.9% in 1999, 2.0% in 2000 and 2.1% in 2001 in the June forecast).

The January, 2000, forecast indicates higher levels of personal income, personal consumption and savings in 1999 than were projected in the June report. In addition to the increases that are a result of the NIPA revisions, growth in personal income and consumer spending is significantly stronger than had been previously forecast. The January, 2000, DRI forecast estimates growth in personal income of 5.9% in 1999, 5.4% in 2000 and 4.8% in 2001. In contrast, the June forecast was for 5.0% growth in 1999, followed by 4.3% in 2000 and 4.1% in 2001. Personal consumption expenditures are expected to increase by 6.8% in 1999, 5.8% in 2000 and 5.2% in 2001 (last June, DRI estimated growth of 6.0% in 1999, 4.0% in 2000 and 4.2% in 2001). Like the June forecast, the January forecast predicts a pattern of strong but moderating growth in consumer expenditures. This pattern mirrors expectations that consumer confidence (as measured

by the University of Michigan's Index of Consumer Sentiment) will peak in 1999, followed by decreases in 2000 and 2001.

Projections of corporate profits before tax have been increased under the current forecast: after a small negative growth rate in 1998 (-1.8%), before-tax corporate profits are expected to increase by 7.3% in 1999, remain flat in 2000 and decrease slightly in 2001. Under the June forecast, profits were not expected to recover as strongly in 1999 and were projected to decrease in 2000 before leveling off in 2001. The change in the forecast for corporate profits is partially a result of NIPA revisions that change the treatment of computer software from an intermediate good to an investment in information processing equipment.

The DRI baseline forecast assumes that the economic expansion will continue, with consumer confidence remaining strong. The Federal Reserve is expected to raise interest rates twice in the first half of 2000, successfully containing inflation without negatively impacting the stock market. The forecast also assumes a federal income tax cut in 2001.

The most likely risk to the forecast is that the Federal Reserve will not increase the funds rate in time to head off accelerating inflationary pressures. Such pressure could arise from a sudden increase in Asian demand (the Asian economies are expected to recover more quickly than previously anticipated) that could drive up the prices of oil, metals and agricultural products. Additional inflationary pressure could result from wage acceleration in the face of a shortage of available workers. Increasing inflation, followed by belated interest rate hikes by the Federal Reserve, could result in reduced consumer confidence, a downturn in the stock market and, finally, a recession in 2002. A less likely risk is an earlier recession caused by a more rapid increase in oil prices, higher interest rates, reduced stock values and lower consumer confidence.

Table 2 shows a summary of national economic indicators drawn from the January, 2000, forecast by Standard & Poor's DRI.

TABLE 2

**Summary of National Economic Indicators
Standard and Poor's Data Resources, Inc.
January, 2000
(\$ in Billions)**

| | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>2001</u> |
|-----------------------------------|-------------|-------------|-------------|-------------|
| Nominal Gross Domestic Product | \$8,760.0 | \$9,233.9 | \$9,689.9 | \$10,140.4 |
| % Change | 5.5% | 5.4% | 4.9% | 4.6% |
| Real Gross Domestic Product | \$8,516.3 | \$8,855.1 | \$9,184.5 | \$9,473.7 |
| % Change | 4.3% | 4.0% | 3.7% | 3.1% |
| Consumer Price Index | 1.6% | 2.1% | 2.3% | 2.1% |
| Personal Income | \$7,358.9 | \$7,791.6 | \$8,214.4 | \$8,609.5 |
| % Change | 5.9% | 5.9% | 5.4% | 4.8% |
| Personal Consumption Expenditures | \$5,848.6 | \$6,247.0 | \$6,606.4 | \$6,950.0 |
| % Change | 5.9% | 6.8% | 5.8% | 5.2% |
| Pre-Tax Corporate Profits | \$781.9 | \$839.0 | \$838.9 | \$836.4 |
| % Change | -1.8% | 7.3% | 0.0% | -0.3% |
| Unemployment Rate | 4.5% | 4.2% | 4.0% | 4.2% |

General Fund Tax Projections. Our estimates of general fund tax collections for the 1999-01 biennium are based on the January, 2000, Standard & Poor's DRI forecast of national economic growth. In addition, all of the tax law changes adopted by the Legislature in 1999 Wisconsin Act 9 (the 1999-01 biennial budget) and Act 10 (the sales tax rebate legislation) are reflected in these estimates. Projections of general fund tax collections for the 1999-01 biennium are shown in Table 3. It should be noted that the recent sales tax rebate (estimated at \$700 million in 1999-00) is not shown in the table because the rebates were paid from a general fund appropriation rather than accounted for as a reduction in tax revenues.

As shown in Table 3, general fund tax revenues are estimated to total \$10,793.3 million in 1999-00 and \$10,599.0 million in 2000-01. These amounts are higher than the estimates used in Acts 9 and 10 by \$145.3 million in the first year and \$271.9 million in the second year of the biennium. The increase is primarily in the individual income and sales taxes, which have been revised upward significantly, based on recent collections data and the new economic forecast. Smaller increases are projected for most of the other tax sources.

TABLE 3

**Projected General Fund Tax Collections
(\$ in Millions)**

| <u>Source</u> | <u>1998-99 Tax Collections</u> | <u>Budget Estimates (Acts 9&10)</u> | | <u>Revised Estimates January, 2000</u> | |
|------------------|------------------------------------|---|-------------------|--|-------------------|
| | | <u>1999-00</u> | <u>2000-01</u> | <u>1999-00</u> | <u>2000-01</u> |
| Individual | \$5,162.2 | \$5,795.1 | \$5,343.8 | \$5,825.0 | \$5,480.0 |
| Sales and Use | 3,284.7 | 3,443.1 | 3,623.8 | 3,500.0 | 3,710.0 |
| Corporate | 635.2 | 645.7 | 639.5 | 660.0 | 655.0 |
| Public Utilities | 287.1 | 244.1 | 220.0 | 250.0 | 220.0 |
| Excise Taxes | | | | | |
| Cigarette | 257.4 | 238.0 | 233.0 | 248.0 | 245.0 |
| Liquor | 32.9 | 33.0 | 33.5 | 33.0 | 33.5 |
| Beer | 9.2 | 9.3 | 9.3 | 9.3 | 9.3 |
| Tobacco Products | 9.4 | 9.6 | 9.6 | 10.0 | 10.2 |
| Insurance | 97.1 | 84.0 | 86.0 | 105.0 | 100.0 |
| Estate | 116.9 | 90.0 | 70.0 | 95.0 | 75.0 |
| Miscellaneous | <u>56.3</u> | <u>56.1</u> | <u>58.6</u> | <u>58.0</u> | <u>61.0</u> |
| TOTAL | \$9,948.4 | \$10,648.0 | \$10,327.1 | \$10,793.3 | \$10,599.0 |

The following sections present brief summaries of current collections data and the projected impact of national economic conditions on state general fund taxes.

Individual Income Tax. The current estimates of individual income tax collections are \$5,825.0 million in 1999-00 and \$5,480.0 million in 2000-01, which are higher than the estimates used in Acts 9 and 10 by \$29.9 million in 1999-00 and \$136.2 million in 2000-01. Compared to prior years, the revised estimates reflect an increase of 12.8% in 1999-00 (largely due to the elimination of the property tax/rent credit (PTRC) in 1999) and a reduction of 5.9% in 2000-01 (attributed to the tax modifications contained in Act 9). The additional revenues are primarily due to the improved economic forecast. As noted, the current DRI forecast of national personal income growth is 5.9% for 1999, 5.4% for 2000 and 4.8% for 2001. The earlier estimates were based on the June, 1999, forecast of personal income growth, which was lower at 5.0% in 1999, 4.3% in 2000 and 4.1% in 2001.

Through December, 1999, income tax collections were higher by 5.5% (\$116.6 million) over the same time last year. Withholding payments, which make up the largest source of income tax revenues, have increased by 7.6% since last year. On the other hand, estimated tax payments through December are lower than last year by 2.1%. These declaration payments are expected to continue to decline since the payments for April and June will reflect the tax law changes for 2000.

However, with elimination of the PTRC, payments of income taxes with returns filed this spring should increase over last year and tax refunds should be lower.

General Sales and Use Tax. Sales tax revenues were \$3,284.7 million in 1998-99, and are estimated at \$3,500.0 million in 1999-00 and \$3,710.0 million in 2000-01, which is an increase of \$56.9 million in the first year and \$86.2 million in the second year over the Act 9 estimates.

The revised projections are based on current collection data and the most recent forecast of growth in personal consumption expenditures. The estimates represent growth of 6.6% in 1999-00 and 6.0% in 2000-01. Through December, 1999, sales tax revenues were 7.3% higher than the same period last year. Consistent with the economic forecast of decelerating growth in personal consumption, growth in sales tax collections is expected to moderate to 6.1% over the remainder of 1999-00.

Corporate Income and Franchise Tax. Corporate income and franchise tax collections were \$635.2 million in 1998-99, which was \$35.2 million more than estimated last January. Collections are projected to be \$660.0 million in 1999-00 and \$655.0 million in 2000-01. These amounts represent an annual increase of 3.9% in 1999-00 and a decrease of 0.8% in 2000-01.

These revisions exceed the Act 9 estimates by \$14.3 million in 1999-00 and \$15.5 million in 2000-01 and reflect stronger than anticipated corporate tax collections and future economic growth. Through December, 1999, collections were 8.6% higher than 1998-99 collections for the same period. Economic growth, consumer purchases and industrial production are forecast to moderate in 2000 and 2001. Pretax corporate profits are projected to remain flat in 2000 and decrease slightly in 2001. Consequently, corporate income and franchise tax revenues are estimated to decline slightly between 2000 and 2001.

Public Utility Taxes. Public utility taxes were \$287.1 million in 1998-99 and are projected to total \$250.0 million in 1999-00 and \$220.0 million in 2000-01. The projection for 1999-00 is about \$6 million higher than the Act 9 estimate, due to additional strength in revenues from the tax on telecommunications companies.

Excise Taxes. Cigarette tax revenues are estimated to be \$248.0 million in 1999-00 and \$245.0 million in 2000-01. The first year amount is a reduction of 3.7% from the 1998-99 total of \$257.4 million. Much of this decrease reflects the price increases that were implemented last winter following the tobacco settlement. Through December, cigarette tax collections were 6.7% lower than in 1998-99. However, the full impact of last year's price increases should now be reflected in the collection data, and cigarette consumption is expected to decrease by approximately 1% over the remainder of 1999-00 and in 2000-01. Although cigarette tax revenues have declined substantially since last year, the decrease has not been as significant as anticipated in the Act 9 estimates. Therefore, the new estimates represent an upward revision of \$10.0 million in 1999-00 and \$12.0 million in 2000-01 from the previous figures.

Tobacco products tax revenues are expected to be slightly higher than the Act 9 estimates (\$0.4 million in 1999-00 and \$0.6 million in 2000-01), based on current collections. The estimates for the excise taxes on liquor, wine and beer have not been revised from the Act 9 amounts.

Insurance Premiums Taxes. Insurance premiums taxes increased from \$88.1 million in 1997-98 to \$97.1 million in 1998-99. Premiums taxes are projected to be \$105.0 million in 1999-00 and \$100.0 million in 2000-01. These estimates represent an increase over previous estimates of \$21.0 million in 1999-00 and \$14.0 million in 2000-01. The substantial increase in the revised estimates of insurance premiums taxes reflects a number of factors: (a) the \$9.0 million increase in collections between 1997-98 and 1998-99; (b) a significant increase in collections for the first six months of fiscal year 1999-00 over 1998-99; (c) the increased use of life insurance policies as market investments; and (d) increased health insurance premiums to cover rising costs in the health care industry. Premiums tax collections are projected to decrease slightly in 2000-01 to reflect stable premiums growth offset to an extent by reduced premiums taxes on Illinois insurers under the state's reciprocal taxation statute and premiums tax credits claimed under the certified capital companies (CAPCO) program which began in the fall of 1999.

Estate Tax. Estate tax revenues totaled \$116.9 million in 1998-99 and are estimated at \$95.0 million in 1999-00 and \$75.0 million in 2000-01. These estimates are higher than the Act 9 figures by \$5.0 million in each year, based on recent collection data. The larger numbers for 1998-99 and 1999-00 reflect a small number of very large estate tax payments that were received in those years.

Miscellaneous Taxes. Miscellaneous taxes have been revised upward by \$1.9 million in 1999-00 and \$2.4 million in 2000-01 to reflect strength in the real estate transfer fee and court fees. Total miscellaneous tax collections were \$56.3 million in 1998-99 and are estimated at \$58.0 million in 1999-00 and \$61.0 million in 2000-01.

Departmental Revenues and Net Expenditures

It is projected that departmental revenues (non-tax receipts) are lower than previous estimates by \$25.5 million. The primary reason for this is a reduction in the amount to be received from the tobacco settlement. At the time of enactment of the budget, it was anticipated that \$334.0 million would be received in this biennium. That number is now estimated to be \$41.4 million less than previously projected due to reduced shipments of cigarettes by U.S. manufacturers.

On the appropriation side, it is now anticipated that net expenditures will be above previous projections by \$27.6 million. The primary components of this estimate are an increase in debt

service payment amounts and a reestimate of the savings from the employer contribution credit balance provision of the recently-enacted retirement legislation.

We will continue to monitor tax collections, economic forecasts and expenditures and keep you apprised of any further modifications that may be necessary.

Sincerely,

A handwritten signature in black ink, appearing to read "Bob", written in a cursive style.

Robert Wm. Lang
Director

RWL/sas

cc: Members, Wisconsin Legislature

Legislative Fiscal Bureau

Robert Wm. Lang, Director

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



State of Wisconsin

January 31, 2000

Senator Brian Burke, Senate Chair
Representative John Gard, Assembly Chair
Joint Committee on Finance
State Capitol
Madison, WI 53702

Dear Senator Burke and Representative Gard:


Under section 9258 (1d) of 1999 Act 9, the Legislative Fiscal Bureau is required to certify to the Joint Committee on Finance its estimates of GPR debt service on general obligation bonding for each year of the 1999-01 biennium by January 31, 2000. This provision of Act 9 specifies that if these estimates are less than the amounts incorporated in Act 9, any savings would be transferred to the budget stabilization fund. This certification is subject to review by the Committee under a 14-day passive review process.

In preparing this office's revenue estimates earlier this month, we reviewed estimated GPR debt service payment amounts for each year of the 1999-01 biennium. Based on that review, it is projected that debt service payments, after consideration of related adjustments to estimated lapses, will increase from Act 9 levels by \$8.2 million in 1999-00 and \$5.0 million in 2000-01. This increase is primarily attributable to the allocation of proceeds for GPR supported purposes from the 1999 Series A bond issue being higher than had been anticipated last spring when the Act 9 estimates were prepared. Total GPR debt service is projected to be \$315.0 million in 1999-00 and \$334.0 million in 2000-01. Based on this certification, no transfer to the budget stabilization fund would occur at this time. The cost of this projected increase in GPR debt service is reflected in the this office's January 24, 2000, document on revenue estimates.

Section 9258 (1d) of Act 9 establishes a similar process for next January relating to GPR debt service in 2000-01. Under this provision, this office is required to review GPR debt service payments for 2000-01 in January 2001, using any additional information relating to debt issuance in

calendar year 2000. By January 31, 2001, I will certify to the Committee whether any GPR debt service savings would transfer to the budget stabilization fund, subject to review by the Committee under a 14-day passive review process.

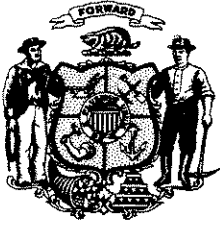
Sincerely,

A handwritten signature in black ink that reads "Bob Lang". The signature is written in a cursive style with a large, prominent "B" and "L".

Robert Wm. Lang
Director

RWL/sas

cc: Members, Joint Committee on Finance
Richard Chandler, Department of Administration



STATE OF WISCONSIN

May 11, 2000

Members, Joint Committee on Finance
State Capitol
Madison, WI 53702

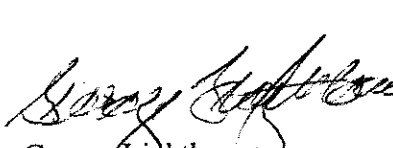
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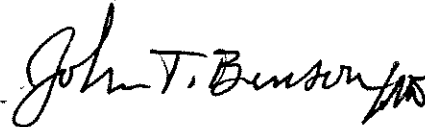
Dear Members of the Joint Committee on Finance:

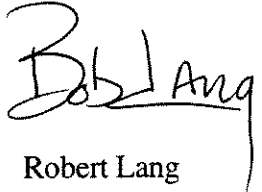
As required under s. 121.15(3m) of the statutes, the purpose of this letter is to certify our estimate of the amount necessary to appropriate as general equalization aid in fiscal year 2000-01 to ensure that the sum of state school aids and the school levy tax credit equals two-thirds of partial school revenues. By June 30, 2000, the Joint Committee on Finance must determine the general equalization aid appropriation amount for 2000-01.

Based on estimated 2000-01 partial school revenues of \$7,401,860,400, we hereby certify that \$3,931,871,500 GPR is the estimated amount necessary to appropriate as general equalization aid in 2000-01. This amount is identical to the amount of funding provided under 1999 Act 9 (the 1999-01 state budget) for general equalization aid in 2000-01. Therefore, based on this estimate, the Committee may determine, by June 30, 2000, that no change to the current law general equalization aid appropriation is necessary for 2000-01.

Sincerely,


George Lightbourn
Secretary
Department of Administration


John Benson
State Superintendent
Department of Public Instruction


Robert Lang
Director
Legislative Fiscal Bureau