

2003 DRAFTING REQUEST

Bill

Received: **03/01/2003**

Received By: **rchampag**

Wanted: **Soon**

Identical to LRB:

For: **Legislative Council - JLC**

By/Representing: **John**

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

Drafter: **rchampag**

May Contact:

Addl. Drafters:

Subject: **State Finance - bud generally**
State Finance - miscellaneous

Extra Copies:

Submit via email: **YES**

Requester's email: **john.stolzenberg@legis.state.wi.us**

Carbon copy (CC:) to:

Pre Topic:

No specific pre topic given

Topic:

Budget stabilization fund, generally accepted accounting principles deficit reduction fund, and the general fund deficit

Instructions:

See Attached.

Drafting History:

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/?	rchampag 03/01/2003	wjackson 03/03/2003		_____			
/1			rschluet 03/03/2003	_____	amentkow 03/03/2003	amentkow 03/06/2003	

FE Sent For:

<END>

None Needed
2/1"

4/7/03

Rush -
requested for hearing
even though it's not
required

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/?	rchampag	1 WLJ 3/3					

FE Sent For:

3.3.3<END>

Champagne, Rick

From: Stolzenberg, John
Sent: Thursday, February 27, 2003 11:01 AM
To: Champagne, Rick
Subject: Fiscal management drafts

Rick,

Here are 3 requests for you relating to bills recommended by the JLC's study committee on fiscal management.

1. The JLC did approve the introduction of LRB-1490/2, and now the study committee co-chairs want a companion bill to LRB-1490/2. Please redraft it at the request of the JLC with another LRB number.
2. In reviewing LRB-2107/1, we realized that we made a mistake in the pref note, as the GAAP deficit is different from the unreserved general fund balance in a CAFR. Please prepare a /2 version of LRB-2107 that substitutes the following paragraph for the second to last paragraph on page 2 in LRB-2107/1:

The draft also creates a mechanism to address the worsening of the state's GAAP deficit. In particular, the draft directs the governor, when the unreserved general fund balance in the most recent CAFR is a larger negative amount than the unreserved general fund balance reported in the CAFR for the previous year, to recommend legislation to eliminate this increase.

3. Once you complete LRB-2107/2, please redraft it with another LRB number, as we also need a companion bill to it.

Thanks again for your help.

John

John Stolzenberg,
Legislative Council Staff Scientist
Suite 401, One East Main Street
PO Box 2536
Madison, WI 53701-2536
Direct: 608-266-2988
Fax: 608-266-3830



State of Wisconsin
2003 - 2004 LEGISLATURE

LRB-2107/2
RAC:wlj:jf

Seon

2003 BILL

LRB-2185/1
RAC:wlj:

REGEN

1 AN ACT *to renumber* 16.002 (1); *to amend* 13.093 (2) (a), 16.40 (3) (title), 16.50
2 (7) (b), 16.518 (title), 20.875 (1) (a) and 25.60; *to repeal and recreate* 16.46 (9);
3 and *to create* 13.95 (1m) (c), 16.002 (1), 16.40 (3m), 16.50 (8), 16.518 (4) and (5),
4 20.877, 25.17 (1) (fr) and 25.64 of the statutes; **relating to:** the budget
5 stabilization fund, the generally accepted accounting principles deficit
6 reduction fund, the general fund deficit based on generally accepted accounting
7 principles, and making appropriations.

Analysis by the Legislative Reference Bureau

This bill is explained in the NOTES provided by the Joint Legislative Council in the bill.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

JOINT LEGISLATIVE COUNCIL PREFATORY NOTE: This bill was introduced at the recommendation of the Joint Legislative Council's Special Committee on Improving Wisconsin's Fiscal Management.

The provisions in the bill relate to the state's budget stabilization fund and the state's general fund deficit based on generally accepted accounting principles (the GAAP deficit).

BILLBudget Stabilization Fund

Under current law, the budget stabilization fund is funded by a transfer each fiscal year from the general fund of an amount equal to 50 percent of the difference between the amount of tax revenues projected to be deposited in the general fund during the fiscal year and the amount of these revenues actually deposited in the general fund during the fiscal year. This transfer is not made when the balance in the budget stabilization fund budget on June 30 of the fiscal year is at least equal to 5 percent of the estimated general fund expenditures during the fiscal year. In addition, the amount of the transfer is reduced by an amount necessary to ensure that the general fund balance after the transfer is equal to the statutory reserve required for that fiscal year.

Currently, moneys in the budget stabilization fund may be used for any purpose specified by the legislature. The governor may also request that moneys in the fund be used to correct an imbalance between projected general fund revenues and authorized expenditures when the Department of Administration (DOA) secretary determines that previously authorized expenditures will exceed revenues in the current or forthcoming fiscal year by more than 0.5 percent of the estimated general fund appropriations for that fiscal year.

The bill does the following to the budget stabilization fund:

- Transfers from the general fund to the budget stabilization fund each fiscal year an amount equal to the statutory reserve for the fiscal year until the budget stabilization fund reaches a balance of 5 percent of the estimated expenditures from the general fund during the fiscal year.
- Specifies that moneys in the budget stabilization fund are reserved for a transfer from the fund to the general fund to provide state revenue stability during periods of below-normal economic activity when actual general fund revenues are 98 percent or less of the estimated general fund revenues published in the biennial budget act.

GAAP Deficit

Currently, DOA prepares a state financial statement based on GAAP under its general authority. The bill explicitly directs DOA to prepare this statement and identifies it as the comprehensive annual financial report (CAFR).

The bill creates a GAAP deficit reduction fund. The bill:

- Transfers to the fund from the general fund each fiscal year that a transfer is not made to the budget stabilization fund an amount equal to the statutory reserve for the fiscal year, until the unreserved balance of the general fund in the CAFR for the previous year is no longer a negative amount.
- Specifies that moneys in this fund may only be used to increase any unreserved balance of the general fund reported as a negative amount in the most recent CAFR.

The bill also creates a mechanism to address the worsening of the state's GAAP deficit. In particular, the bill directs the governor, when the unreserved general fund balance in the most recent CAFR is a larger negative amount than the unreserved general fund balance reported in the CAFR for the previous year, to recommend legislation to eliminate this increase.

Currently, the biennial state budget report prepared by the secretary of DOA under the direction of the governor must contain a number of specified types of information, including the effect of the recommendations in the biennial budget bill or bills on the GAAP deficit. The bill clarifies this requirement by removing ambiguous text and simplifying this requirement.

BILL

The bill creates 2 other provisions to provide the legislature additional information on the effects of legislation on the state's general fund balance based on GAAP. These provisions:

- Direct the Legislative Fiscal Bureau (LFB) to identify, where feasible, recommendations in specified versions of a biennial budget bill that may have a significant impact on the GAAP general fund balance.
- Expand the fiscal estimate process to include an estimate of the effects of a bill, other than an executive budget bill, on the GAAP general fund balance.

Effective Dates

In general, the bill takes effect on the day after publication. The expansion of the fiscal estimate process in the bill takes effect 9 months after publication. The transfer by the bill of moneys in the general fund to the budget stabilization fund and the GAAP deficit reduction fund and the duty of the governor to recommend legislation to address any worsening of the GAAP deficit take effect on July 1, 2005.

1 **SECTION 1.** 13.093 (2) (a) of the statutes is amended to read:

2 13.093 (2) (a) Any bill making an appropriation and any bill increasing or
3 decreasing existing appropriations or state or general local government fiscal
4 liability or revenues shall, before any vote is taken thereon by either house of the
5 legislature if the bill is not referred to a standing committee, or before any public
6 hearing is held before any standing committee or, if no public hearing is held, before
7 any vote is taken by the committee, incorporate a reliable estimate of the anticipated
8 change in appropriation authority or state or general local government fiscal liability
9 or revenues under the bill, including to the extent possible the impact of such changes
10 on the general fund balance in the most recently published comprehensive annual
11 financial report, as defined in s. 16.002 (1), and a projection of such changes in future
12 biennia. For purposes of this paragraph, a bill increasing or decreasing the liability
13 or revenues of the unemployment reserve fund is considered to increase or decrease
14 state fiscal liability or revenues. Except as otherwise provided by joint rules of the
15 legislature, such estimates shall be made by the department or agency
16 administering the appropriation or fund or collecting the revenue. The joint survey
17 committee on retirement systems shall prepare the fiscal estimate with respect to

BILL

1 the provisions of any bill referred to it which create or modify any system for, or make
2 any provision for, the retirement of or payment of pensions to public officers or
3 employees. When a fiscal estimate is prepared after the bill has been introduced, it
4 shall be printed and distributed as are amendments.

5 **SECTION 2.** 13.95 (1m) (c) of the statutes is created to read:

6 13.95 (1m) (c) The legislative fiscal bureau shall prepare a report identifying,
7 where feasible, recommendations in each version of the biennial budget bill or bills
8 that may have a significant impact on the general fund balance in the most recently
9 published comprehensive annual financial report, as defined in s. 16.002 (1).

10 **SECTION 3.** 16.002 (1) of the statutes is renumbered 16.002 (1m).

11 **SECTION 4.** 16.002 (1) of the statutes is created to read:

12 16.002 (1) "Comprehensive annual financial report" means a financial
13 statement prepared under s. 16.40 (3m).

14 **SECTION 5.** 16.40 (3) (title) of the statutes is amended to read:

15 16.40 (3) (title) PREPARE BUDGETARY BASIS ANNUAL FINANCIAL STATEMENT.

16 **SECTION 6.** 16.40 (3m) of the statutes is created to read:

17 16.40 (3m) PREPARE ANNUAL FINANCIAL STATEMENT BASED ON GENERALLY ACCEPTED
18 ACCOUNTING PRINCIPLES. Prepare at the end of each fiscal year not later than
19 December 31, a financial statement for the state in accordance with generally
20 accepted accounting principles as promulgated by the governmental accounting
21 standards board.

22 **SECTION 7.** 16.46 (9) of the statutes is repealed and recreated to read:

23 16.46 (9) The estimated impact of the recommendations in the biennial budget
24 bill or bills on the general fund balance in the most recently published comprehensive
25 annual financial report.

BILL

1 **SECTION 8.** 16.50 (7) (b) of the statutes is amended to read:

2 16.50 (7) (b) Following such notification, the governor shall submit a bill
3 containing his or her recommendations for correcting the imbalance between
4 projected revenues and authorized expenditures, including, if the imbalance is
5 caused by actual general fund revenues being 98% or less of estimated general fund
6 revenues under s. 20.005 (1) as published in the biennial budget act or acts, a
7 recommendation as to whether moneys should be transferred from the budget
8 stabilization fund to the general fund. If the legislature is not in a floorperiod at the
9 time of the secretary's notification, the governor shall call a special session of the
10 legislature to take up the matter of the projected revenue shortfall and the governor
11 shall submit his or her bill for consideration at that session.

12 **SECTION 9.** 16.50 (8) of the statutes is created to read:

13 16.50 (8) DEFICIT INCREASE. (a) If following the publishing of any
14 comprehensive annual financial report the secretary determines that the
15 unreserved balance of the general fund in that report is a larger negative amount
16 than the unreserved balance of the general fund in the comprehensive annual
17 financial report for the previous fiscal year, the secretary shall immediately notify
18 the governor, the presiding officers of each house of the legislature, and the joint
19 committee on finance of the difference.

20 (b) Following such notification, the governor shall submit a bill containing his
21 or her recommendations for eliminating the difference, so that the unreserved
22 balance in the most recently published comprehensive annual financial report, as
23 adjusted by the governor's recommendations, is no less than the unreserved balance
24 in the comprehensive annual financial report for the previous fiscal year. If the
25 comprehensive annual financial report that contains the larger negative unreserved

BILL

1 balance was published in an even-numbered year, the governor may include his or
2 her recommendations in an executive budget bill introduced under s. 16.47 (1m).

3 **SECTION 10.** 16.518 (title) of the statutes is amended to read:

4 **16.518 (title) Transfers to the budget stabilization fund and the cash**
5 **building projects generally accepted accounting principles deficit**
6 **reduction fund.**

7 **SECTION 11.** 16.518 (4) and (5) of the statutes are created to read:

8 16.518 (4) (a) Subject to par. (b) and after making any transfer under sub. (3)
9 or determining that no transfer is required under sub. (3), the secretary shall
10 annually transfer from the general fund to the budget stabilization fund an amount
11 equal to the amount of the general fund balance that is required under s. 20.003 (4)
12 for that fiscal year.

13 (b) If the balance of the budget stabilization fund on June 30 of the fiscal year
14 is at least equal to 5% of the estimated expenditures from the general fund during
15 the fiscal year, as reported in the summary, the secretary may not make the transfer
16 under par. (a).

17 (5) (a) Subject to par. (b), the secretary shall annually transfer from the general
18 fund to the generally accepted accounting principles deficit reduction fund an
19 amount equal to the amount of the general fund balance required under s. 20.003 (4)
20 for that fiscal year.

21 (b) 1. The secretary may not make the transfer under par. (a) in a fiscal year if
22 the secretary made a transfer in the fiscal year under sub. (4).

23 2. If the unreserved balance of the general fund in the comprehensive annual
24 financial report for the previous fiscal year is at least \$0, the secretary may not make
25 the transfer under par. (a).

BILL

1 **SECTION 12.** 20.875 (1) (a) of the statutes is amended to read:

2 20.875 (1) (a) *General fund transfer.* A sum sufficient equal to the amount that
3 is required to be transferred under s. 16.518 (3) and (4).

4 **SECTION 13.** 20.877 of the statutes is created to read:

5 **20.877 Generally accepted accounting principles deficit reduction**
6 **fund.** (1) TRANSFERS TO FUND. There is appropriated to the generally accepted
7 accounting principles deficit reduction fund:

8 (a) *General fund transfer.* A sum sufficient equal to the amount that is required
9 to be transferred under s. 16.518 (5).

10 (2) TRANSFERS FROM FUND. There is appropriated from the generally accepted
11 accounting principles deficit reduction fund to the general fund:

12 (a) *Generally accepted accounting principles deficit reduction fund transfer.*
13 The amounts in the schedule to be transferred no later than October 15 of each year.

14 **SECTION 14.** 25.17 (1) (fr) of the statutes is created to read:

15 25.17 (1) (fr) Generally accepted accounting principles deficit reduction fund.
16 (s. 25.64).

17 **SECTION 15.** 25.60 of the statutes is amended to read:

18 **25.60 Budget stabilization fund.** There is created a separate nonlapsible
19 trust fund designated as the budget stabilization fund, consisting of moneys
20 transferred to the fund from the general fund under s. 16.518 (3) and (4). Moneys
21 in this fund are reserved for a transfer from the fund to the general fund to provide
22 state revenue stability during periods of below-normal economic activity when
23 actual general fund revenues are 98% or less of estimated general fund revenues
24 under s. 20.005 (1), as published in the biennial budget act or acts.

25 **SECTION 16.** 25.64 of the statutes is created to read:

Mentkowski, Annie

From: Stolzenberg, John
Sent: Thursday, March 06, 2003 11:58 AM
To: LRB.Legal
Subject: Draft review: LRB 03-2185/1 Topic: Budget stabilization fund, generally accepted accounting principles deficit reduction fund, and the general fund deficit

It has been requested by <Stolzenberg, John> that the following draft be jacketed for the SENATE:

Draft review: LRB 03-2185/1 Topic: Budget stabilization fund, generally accepted accounting principles deficit reduction fund, and the general fund deficit

LRB



State of Wisconsin

LEGISLATIVE REFERENCE BUREAU

100 NORTH HAMILTON STREET
P. O. BOX 2037
MADISON, WI 53701-2037

LEGAL SECTION: (608) 266-3561
REFERENCE SECTION: (608) 266-0341
FAX: (608) 266-5648

STEPHEN R. MILLER
CHIEF

May 5, 2003

MEMORANDUM

To: Legislative Council (John Stolzenberg)

From: Richard A. Champagne, Legislative Attorney, (608) 266-9930

Subject: Technical Memorandum to **2003 SB 65** (LRB-2185/1)

We received the attached technical memorandum relating to your bill. This copy is for your information and your file. If you wish to discuss this memorandum or the necessity of revising your bill or preparing an amendment, please contact me.

Technical Note on 2003 Senate Bill 65

Included in 2003 Senate Bill 65 are provisions related to the state's budget balance under generally accepted accounting principles (GAAP). These include the creation of a GAAP deficit reduction fund and an analysis of the state's GAAP deficit by the Secretary of Administration. The interaction of these requirements, along with the additional requirement to transfer the required general fund statutory balance to the budget stabilization fund, could be procedurally in conflict.

The separate budget stabilization fund under current law, and the GAAP deficit reduction fund under SB 65, are considered separate and distinct under GAAP. As such, balances in these funds would not be included in the overall accounting of assets and liabilities in the state's general fund. One of the provisions in the bill would require the Secretary of Administration to determine, at the end of each fiscal year, if the general fund's GAAP deficit has increased. If the Secretary determines the deficit has increased, he or she must notify the Governor and Legislature of the imbalance. Upon notification, the Governor must submit a bill to eliminate the increase in the deficit.

Since the budget stabilization and GAAP deficit reduction funds are separate and distinct from the general fund, the act of transferring funds from the general fund to these funds will automatically increase the state's general fund GAAP deficit. In other words, SB 65 will mandate that legislation be introduced to correct an increase in the GAAP deficit that is caused by actions required under the bill.