



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #172

Additional GPR Spending Limit Exclusions (Budget Management and Compensation Reserves)

[LFB 2005-07 Budget Summary: Page 82, #6]

CURRENT LAW

Total GPR appropriations for each fiscal year of a succeeding biennium, after excluding specific appropriations, may not exceed an amount that results from multiplying the applicable total level of GPR appropriations that are subject to the limit in the base year (second fiscal year of prior biennium) by the projected increase in state personal income for the calendar year which precedes the July 1 of the fiscal year for which the limit is being calculated. For the second year of a forthcoming biennium, the projected percentage increase in state personal income is applied against the amount permitted for the first year of the succeeding biennium.

GOVERNOR

Provide, for the 2005-07 biennium, a one-time exclusion from those GPR appropriations that are subject to the overall limit on increases in GPR appropriations for any GPR appropriation that is established for the purpose of making payments to counties, towns, villages and cities under s. 79.035 (county and municipal aid) of the statutes. Under the bill, the only GPR appropriation that this would affect would be the county and municipal aid account appropriation [s. 20.835(1)(db)]. Second, create an additional permanent exemption from the expenditure limit for the new GPR appropriation [s. 20.505(1)(br)] created in the last budget (2003 Act 33) for appropriation obligations repayments. These are required repayments of bonds that have been used to make a one-time pay-off of state unfunded prior service pension liabilities under the state retirement fund.

DISCUSSION POINTS

1. This spending limit provision was established under 2001 Wisconsin Act 16 (the

biennial budget) and was first effective for the 2003-05 biennial budget. Under the requirements of this spending cap limit, the Legislative Fiscal Bureau is required each biennium to determine the amount appropriated in the fiscal year preceding the forthcoming biennial budget period that is subject to this statutory spending limit and report this amount to the Legislature by December 1 of each even-numbered year.

2. Under the statute, to determine the permitted increases in state spending for those GPR appropriations that are subject to the limit, the projected increases in state personal income for calendar years 2005 and 2006 are the relevant percentages that govern the permitted increase levels for the fiscal years 2005-06 and 2006-07 respectively. This office estimated in November of 2004, as required under the statute, that state personal income growth for those two years would be 5.5% for calendar year 2005 and 5.1% for calendar year 2006. Based on those projections, it was then calculated that the total of the GPR appropriations subject to the limit could not increase by more than a total of \$306,920,100 in 2005-06 over the base 2004-05 level or by more than a total of \$607,171,700 (an additional \$300,251,600 over the 2005-06 permitted increase amount) in 2006-07 over the base 2004-05 level.

3. Under current law, the following GPR appropriations or appropriation categories are excluded from the limit:

- Any appropriation passed by at least a two-thirds vote of each house of the Legislature.
- All appropriations to the following agencies: (a) Higher Educational Aids Board; (b) Department of Public Instruction; and (c) University of Wisconsin System.
 - All appropriations for the payment of tax relief under s. 20.835(2) of the statutes.
 - Any appropriation for the payment of principal and interest on public debt.
 - Any appropriation for the payment of principal and interest on operating notes.
 - Any appropriation for payments to honor statutory moral obligation pledges.
 - Any appropriation for payments to the federal government from bond revenues to avoid a designation of state bonds as arbitrage bonds.
 - Any appropriation for payments for legal expenses and for the costs of judgments, orders and settlements of actions and appeals incurred by the state.
 - Any appropriation for payments to execute a transfer from the general fund to the budget stabilization fund (as required under s. 16.518(3) of the statutes).

4. The provision in AB 100 would add the above-mentioned exemption relating to payment of aids to counties, towns, villages and cities under s.79.035 to that list, but the exemption would be in effect only for the 2005-07 fiscal biennium.

5. Funding for the county municipal aid amount appropriation in 2004-05 totaled

\$659,703,100 GPR. Under AB 100, the proposed GPR funding level in the this appropriation (which is a sum sufficient appropriation) is estimated at \$854,703,100 GPR in 2005-06 and 2006-07. Therefore, the effect of the Governor's proposed change is to allow an additional \$854,703,100 GPR to be outside the spending limit in 2005-06 and in 2006-07.

6. The permanent exemption that is proposed for the appropriation obligations repayments appropriation is consistent with the general exemption provided under the original spending limit provision. While it would seem to already be covered under the general exemption of any appropriation for the payment of principal and interest on public debt, this proposed change is presumably desired to alleviate any question regarding whether this appropriation is excluded from the spending limit. This exemption from the limit has a substantial impact since the projected payments total \$190,833,100 GPR in 2005-06 and in 2006-07.

7. This office has reviewed AB 100 with regard to the amount of GPR spending increase that would be provided for those appropriations that are subject to the spending cap under AB 100 compared to the levels that are allowed under the spending cap under current law. The results of that analysis are shown in the following table.

**Current Limit Amounts and Comparison with AB 100 Levels
2005-06**

FY 2004-05 GPR Capped Spending Base	\$5,580,365,700
Permitted Increase Amount in 2005-06	<u>306,920,100</u>
Maximum Permitted Spending Level for 2005-06	\$5,887,285,800
Actual AB 100 GPR Spending Levels for Capped Appropriations (current law)	5,738,757,600
Plus Compensation Reserves	<u>90,054,100</u>
	\$5,828,811,700
Over/(Under) Limit	-\$58,474,100

2006-07

FY 2004-05 Capped GPR Spending Base	\$5,580,365,700
Permitted Increase Amount in 2005-06	306,920,100
Permitted Increase Amount in 2006-07	<u>300,251,600</u>
Maximum Permitted Spending Level for 2006-07	\$6,187,537,400
Actual AB 100 GPR Spending Levels for Capped Appropriations (current law)	5,789,199,600
Plus Compensation Reserves	178,302,800
Plus Transfer to Budget Stabilization Fund	<u>36,000,000</u>
	\$6,003,502,400
Over/(Under) Limit	-\$184,035,000

8. As shown in the table, under AB 100 the total level of 2005-06 GPR appropriations that are subject to the spending cap is below the increase permitted under current law (more than \$58 million under the cap). Further, for 2006-07, those GPR appropriations subject to the limit would be well below the permitted spending limit (more than \$184 million below the cap amount). Moreover, under the AB 100 proposed additional exemption from the spending cap, the remaining appropriations would be more than \$913 million under the cap in 2005-06 and more than \$1 billion under the cap in 2006-07. Under the GPR spending levels in AB 100 then, there would appear to be no need for including the proposed one-time exemption of the county and municipal aid appropriation from the spending cap.

9. One issue for the Committee to consider, however, involves the various budget items that have been funded from GPR but which under AB 100 would be wholly or partially funded from non-GPR funding sources. Examples of such items include the use of revenue bonds and the patients compensation fund for medical assistance benefits. Before the Committee would make any decision on whether to delete the Governor's proposal to again include a one-time exemption from the spending cap for the county and municipal aid GPR appropriation, it may wish to first ascertain how the Committee's final level of total GPR appropriations compares with the spending limit. The Committee could, alternatively, take action to provide that there be a session law provision included to allow, on a one-time basis, the GPR spending limit to be exceeded by the rounded dollar amount, if any, by which the Committee's recommended GPR spending level exceeds the statutory spending limit as applied to the 2005-07 budget.

10. A second issue for consideration is that, even though the Governor's proposed exemption for the county and municipal aid account appropriation has a limiting reference making it applicable for the 2005-07 fiscal biennium only, it has been drafted into the permanent statutes. Therefore, it would be possible to partially veto the 2005-07 limitation to thereby make the exemption permanent. If the Committee decides to include this exemption again on a one-time basis, it could create the exclusion as a session law provision.

11. The Committee could delete the proposed exemption. However, the Committee would then have to ensure that its final recommended level of GPR appropriations plus compensation reserves is within the spending limit allowed under the spending caps.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to establish the proposed exemption as a session law provision by specifying that, notwithstanding the statutory spending cap provision, that spending cap is not applicable with regard to the GPR appropriations levels in 2005-06 and 2006-07 for the county and municipal aid account appropriation [s. 20.835(1)(db)].
3. In lieu of the Governor's proposed exemption language, adopt exemption language as a session law provision that would specify that for fiscal year 2005-06 and fiscal year 2006-07,

notwithstanding the provisions of the spending cap law, the GPR spending limit for that year may be exceeded by not more than the specific amount, if any, by which the Committee's final recommended GPR spending amounts that are subject to the cap exceed the applicable spending limit for that year.

4. Maintain current law.

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