



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #767

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### Required Transportation Fund Statutory Balance (Transportation -- Transportation Finance)

#### *Bill Agency*

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#### CURRENT LAW

The required general fund statutory balance is set at \$65,000,000 for fiscal year 2007-08 and for 2008-09. The required statutory balance will increase to 2% of total GPR appropriations plus GPR compensation reserves for fiscal year 2009-10 and annually thereafter. Under current law, no bill directly or indirectly affecting GPR may be enacted by the Legislature if the bill would cause the estimated general fund balance on June 30 of any fiscal year to be less than the required general fund balance.

A similar provision establishes a required lottery fund statutory balance equal to 2% of estimated gross lottery revenues for each fiscal year. There is no required transportation fund statutory balance under current law.

#### GOVERNOR

No provision.

#### DISCUSSION POINTS

##### Background

1. The original provision for a required general fund statutory balance was enacted as a part of Chapter 1, Laws of 1981, and first became effective for the 1983-85 biennial budget. The provision was enacted in response to the recession that occurred in the early 1980s and was an effort

to ensure that a reserve was set aside in each biennium within the general fund in the event of economic downturn or other fiscal difficulties.

2. As originally enacted, the requirement was for a 1% statutory balance within the general fund. The 1% reserve amount was applied to total GPR appropriations for the biennium (rather than being applied separately to each year as under current law), but the biennial reserve amount was applied to the second fiscal year of the biennium. Since 1984-85, the reserve amount has either been set at a percentage of annual appropriations or at a specified amount. The attachment shows the history of the required general fund balance.

3. The general fund budget reserve offers several advantages to the state. If moneys are available in a budget reserve, they can be used if revenues are less than projected or expenditures exceed budgeted amounts. A budget reserve can be used to support the general fund's cash position, which may reduce the need for short-term borrowing for cashflow purposes. The state's bond rating may be influenced by the presence of a budget reserve, although rating agencies consider many financial, economic, and organizational aspects of a state in their rating analysis. Finally, a budget reserve reduces the state's deficit under generally accepted accounting principles (GAAP), because the budget reserve increases the state's ending balance under the statutory basis of accounting, which is the starting point for calculating the state's balance using GAAP.

4. There are individuals who disagree with the idea of establishing or increasing a budget reserve. Other uses for these funds may be viewed as having a higher priority than funding a budget reserve. In this case, either reducing state taxes or increasing state spending may be preferred uses of moneys that otherwise would fund a budget reserve. Underlying this viewpoint is the concern that moneys accumulated as a reserve represent over-taxation, and could better be used by the state to either support higher priority spending programs or to reduce taxes.

5. Although the statutes establish a required reserve amount, as a practical matter, such a statutory limit is not binding. If a bill would reduce the balance in the general fund below the required amount, the Legislature can include a provision in the bill that specifies that the statutory reserve requirement does not apply to the bill under consideration.

6. The required lottery fund statutory balance was created by 1989 Wisconsin Act 336 at a level equal to 3.5% of annual lottery fund revenues, effective with the 1991-93 biennium. The percentage was decreased to 2% under 1993 Wisconsin Act 16. The lottery fund reserve is intended to help to ensure that adequate funds are available for property tax relief in the event that lottery sales decline from anticipated levels.

## **Transportation Fund**

7. Although there is not a required statutory balance for the transportation fund, transportation revenues can also deviate considerably from budget estimates. Like the general fund revenues, transportation revenues are sensitive to business cycle changes in the economy. Fluctuations in motor fuel prices also can have a significant effect. The following table compares final budgeted revenues for each fiscal year since 1991-92 with actual revenues for the same year

(for 2006-07, the current estimate is used).

### **Comparison of Budgeted and Actual Transportation Fund Revenues**

<u>Fiscal Year</u>	<u>Final Budget Estimate</u>	<u>Actual Revenue</u>	<u>Change to Budget Estimate</u>	
			<u>Amount</u>	<u>Percent</u>
1991-92	\$846,705,400	\$834,921,798	-\$11,783,602	-1.4%
1992-93	857,759,000	859,011,054	1,252,054	0.1
1993-94	902,445,000	916,379,459	13,934,459	1.5
1994-95	941,787,300	942,346,183	558,883	0.1
1995-96	974,283,800	981,257,609	6,973,809	0.7
1996-97	983,027,600	979,008,190	-4,019,410	-0.4
1997-98	1,068,329,100	1,069,756,919	1,427,819	0.1
1998-99	1,136,362,900	1,154,184,996	17,822,096	1.6
1999-00	1,160,954,000	1,186,910,001	25,956,001	2.2
2000-01	1,175,800,400	1,194,300,859	18,500,459	1.6
2001-02	1,228,237,600	1,249,707,462	21,469,862	1.7
2002-03	1,267,288,300	1,285,459,043	18,170,743	1.4
2003-04	1,323,028,900	1,327,324,915	4,296,015	0.3
2004-05	1,401,127,700	1,360,857,158	-40,270,542	-2.9
2005-06	1,420,251,700	1,379,628,915	-40,622,785	-2.9
2006-07	<u>1,449,668,000</u>	<u>1,432,092,577*</u>	<u>-17,575,423</u>	<u>-1.2</u>
Total	\$18,137,056,700	\$18,153,147,138	\$16,090,438	0.1%

\*This is the April, 2007, estimate.

8. As shown above, over the entire 16-year period, actual revenues varied from budget estimates by only 0.1%. However, within individual years, the variance ranged from actual revenues exceeding estimates by 2.2% to actual revenues being 2.9% below estimates. In dollar terms, the variance ranged from having \$26 million more than anticipated to having \$40 million less than anticipated (this happened twice).

9. Having revenues come in below estimated amounts has been disruptive to the Department of Transportation's (DOT) ability to deliver the level of program activity anticipated when budgets were passed. This has been exacerbated by the historical tendency to budget almost all anticipated revenues for expenditure. For example, the past two budgets incorporated expected closing balances of \$371,900 and \$481,700, respectively.

10. In response to lower-than-expected revenues in both the 2003-05 and 2005-07 biennia, DOT had to take administrative actions to reduce expenditures in order to avoid biennium-ending deficits in the fund. In the 2003-05 biennium, the Department reduced expenditures in annual appropriations for administrative functions, such as the Division of Motor Vehicles, the State Patrol, and departmental management and operations, resulting in higher appropriation lapses. These reductions were obtained primarily by holding positions vacant and deferring or eliminating

the purchase of various supplies and services. In the 2005-07 biennium, the projected revenue shortfall is larger, making it unlikely that lapses from administrative appropriations could be sufficient to avoid a deficit. A provision of 2007 Act 5, therefore, gives the Joint Committee on Finance authority to approve additional lapses from the Department's continuing appropriations. In anticipation of needing to lapse funds from the highway improvement programs, the Department has reduced project bid letting (which has delayed projects) and non-let expenditures (such as real estate acquisition and highway design contracts), which would allow the lapses to be taken from unencumbered balances in those programs.

11. Establishing a required statutory balance for the transportation fund would provide a greater degree of confidence that budgeted program levels will actually be delivered. Based on the appropriation levels and compensation reserves under the bill, a 1% annual balance requirement would require \$15.6 million in 2007-08, which would increase to \$16.6 million in 2008-09.

12. As with the general fund, a transportation fund statutory balance would set aside revenue that could otherwise be spent. In effect, some spending would be deferred now to ensure that planned spending levels will actually occur later. If the balance is needed in a future year, a subsequent budget would have to reestablish the balance amount.

13. If a balance larger than 1% is desired, but is viewed as not being practical to establish in either one fiscal year or biennium, a phased increase could be established in the statutes. This approach has been taken at times with the general fund.

## ALTERNATIVES TO BILL

*The amounts shown in these alternatives will change based on other decisions the Committee makes affecting transportation fund spending.*

1. Establish a required transportation fund statutory balance equal to 1.0% of annual gross appropriations and compensation reserves. Estimate this balance at \$15,601,800 in 2007-08 and \$16,612,600 in 2008-09.

ALT 1	Change to Bill Statutory Balance	Change to Base Statutory Balance
SEG	\$16,612,600	\$16,612,600

2. Establish a required transportation fund statutory balance equal to 0.5% of gross appropriations and compensation reserves in 2007-08 and 1.0% of gross appropriations and compensation reserves in 2008-09. Estimate this balance at \$7,800,900 in 2007-08 and \$16,612,600 in 2008-09.

<b>ALT 2</b>	<b>Change to Bill</b>	<b>Change to Base</b>
	Statutory Balance	Statutory Balance
SEG	\$16,612,600	\$16,612,600

3. In addition to either Alternative #1 or #2, increase the required transportation fund statutory balance percentage to 1.5% in 2009-10 and 2.0% in 2010-11 and thereafter.

4. Maintain current law.

Prepared by: Fred Ammerman  
Attachment



## ATTACHMENT

### **History of Required General Fund Statutory Balance**

<u>Year</u>	<u>Requirement</u>
1984-85	1% of biennial gross appropriations
1985-86	No requirement for the first fiscal year of the biennium
1986-87	Set dollar amount
1987-88	1% of annual gross appropriations
1988-89	1% of annual gross appropriations
1989-90	1% of annual gross appropriations
1990-91	1% of annual gross appropriations
1991-92	1% of annual gross appropriations
1992-93	1% of annual gross appropriations
1993-94	1% of annual gross appropriations
1994-95	1% of annual gross appropriations
1995-96	1% of annual gross appropriations and compensation reserves
1996-97	1% of annual gross appropriations and compensation reserves
1997-98	1% of annual gross appropriations and compensation reserves
1998-99	1% of annual gross appropriations and compensation reserves
1999-00	1% of annual gross appropriations and compensation reserves
2000-01	1.2% of annual gross appropriations and compensation reserves
2001-02	No requirement
2002-03	1.2% of annual gross appropriations and compensation reserves
2003-04	Set dollar amount
2004-05	Set dollar amount
2005-06	Set dollar amount
2006-07	Set dollar amount
2007-08	Set dollar amount
2008-09	Set dollar amount
2009-10 and thereafter	2.0% of annual gross appropriations and compensation reserves