



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #178

Required General Fund Statutory Reserve (Budget Management and Compensation Reserves)

[LFB 2009-11 Budget Summary: Page 115, #4]

CURRENT LAW

The required general fund statutory balance is set at \$65,000,000 in each year for fiscal years 2007-08 through 2010-11. This requirement for a statutory balance is suspended for 2008-09 under the provisions of 2009 Act 2. The required statutory balance will increase to 2% of total GPR appropriations plus GPR compensation reserves for fiscal year 2011-12 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.

GOVERNOR

Provide that the required statutory balance for fiscal years 2010-11 through 2012-13 would be set at \$130,000,000 for each year. Specify that the statutory 2% balance requirement would then become effective for fiscal year 2013-14 and succeeding fiscal years.

DISCUSSION POINTS

1. The original provision for a required statutory balance amount 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 1980's and was an effort to ensure that a reserve was set aside in each biennium within the general fund in the event of an 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 As originally enacted, the requirement was for a 1% statutory balance within the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. The attachment shows the history of the required general fund balance.

3. A 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 would also reduce the state's deficit under generally accepted accounting principles (GAAP), because the budget reserve would increase 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 a larger budget reserve. As a matter of policy, other uses for these funds are 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. In the 2009-11 budget, the Governor has recommended that the statutory reserve amounts be changed to be \$130 million for fiscal year 2010-11. This amount would be \$65 million more than would be required under current law. In addition, the Governor has recommended that the 2% statutory balance requirement that would otherwise apply in 2011-13 be delayed until the 2013-15 biennium (the 2% requirement would then first apply to fiscal years 2013-14 and thereafter). Instead, the statutory balance requirements for the 2011-13 biennium would continue to be set at a fixed dollar amount of \$130 million for fiscal years 2011-12 and 2012-13. The following table compares current law with the Governor's recommendations for the required statutory balance.

<u>Fiscal Year</u>	<u>Current Law</u>	<u>Governor's Recommendation</u>
2009-10	\$65,000,000	\$65,000,000
2010-11	65,000,000	130,000,000
2011-12	2.0%*	130,000,000
2012-13	2.0%	130,000,000
2013-14 and thereafter	2.0%	2.0%

*As an example, under the bill, 2% of total GPR appropriations plus GPR compensation reserves would equal \$286.5 million in 2010-11, if it applied in that year.

7. The Committee could consider the two parts of the Governor's recommendation separately, dealing first with the recommendations for statutory balance requirements for the current budget (2009-11) and then separately determining what the requirements should be for succeeding biennia. Alternatives relating to these two components are presented below.

ALTERNATIVES

A. 2009-11 Statutory Reserve Requirements

1. Approve the Governor's recommendation to increase the annual statutory reserve to \$130 million in 2010-11.

2. Delete the Governor's recommendation and retain the annual \$65 million statutory reserve under current law.

ALT A2	Change to Bill
Available GPR	\$65,000,000

3. Set the statutory reserve requirement at some other amount.

B. Statutory Reserve Requirements After 2009-11

1. Approve the Governor's recommendation to set the statutory reserve at \$130 million in each fiscal year of the 2011-13 biennium and then set the statutory reserve at 2% of GPR appropriations and GPR compensation reserves beginning in 2013-14 and annually thereafter.

2. Delete the Governor's recommendation and retain the current requirement that the statutory reserve equal 2% of GPR appropriations and GPR compensation reserves beginning in 2011-12 and annually thereafter.

3. Set the statutory reserve requirement at some other amount or percentage of GPR appropriations.

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Attachment

ATTACHMENT

History of Required General Fund Statutory Balance (\$ in Millions)

<u>Year</u>	<u>Amount</u>	<u>Requirement</u>
1984-85	\$86.3	1% of biennial gross appropriations
1985-86	0.0	No requirement for the first fiscal year of the biennium
1986-87	72.9	Set dollar amount
1987-88	53.0	1% of annual gross appropriations
1988-89	55.5	1% of annual gross appropriations
1989-90	58.1	1% of annual gross appropriations
1990-91	62.9	1% of annual gross appropriations
1991-92	66.6	1% of annual gross appropriations
1992-93	69.6	1% of annual gross appropriations
1993-94	73.6	1% of annual gross appropriations
1994-95	78.8	1% of annual gross appropriations
1995-96	82.6	1% of annual gross appropriations and compensation reserves
1996-97	92.0	1% of annual gross appropriations and compensation reserves
1997-98	98.1	1% of annual gross appropriations and compensation reserves
1998-99	99.4	1% of annual gross appropriations and compensation reserves
1999-00	113.9	1% of annual gross appropriations and compensation reserves
2000-01	134.3	1.2% of annual gross appropriations and compensation reserves
2001-02	0.0	No requirement
2002-03	134.4	1.2% of annual gross appropriations and compensation reserves
2003-04	35.0	Set dollar amount
2004-05	40.0	Set dollar amount
2005-06	65.0	Set dollar amount
2006-07	65.0	Set dollar amount
2007-08	65.0	Set dollar amount
2008-09	0.0	Suspended under 2009 Act 2
2009-10*	65.0	Set dollar amount
2010-11*	65.0	Set dollar amount
2011-12 and thereafter*	2.0%	2.0% of annual gross appropriations and compensation reserves

* Current Law