



Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #163

Required General Fund Structural Balance (Budget Management and Compensation Reserves)

CURRENT LAW

Under s. 20.003(4m) of the statutes, no bill may be adopted by the Legislature if the bill would cause general fund net appropriations to exceed general fund revenues in the second year of the fiscal biennium.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The "required general fund structural balance" provision was first enacted by 2001 Act 109. As initially enacted, the provision directed that no bill could be adopted by the Legislature that would cause net general fund appropriations to exceed general fund revenues in either year of the biennium.

2. The intent of the provision was to ensure that, for each fiscal year, revenues would exceed net appropriations, which would produce a structural balance in the general fund. To meet the statutory test, any opening balance (monies brought forward from the previous fiscal year) was to be ignored. Thus, the provision compared only estimated revenues collected in any given year with net appropriations in that year. The following table presents two hypothetical examples of the general fund balance and structural balance under the provision.

TABLE 1

	<u>Example A</u>	<u>Example B</u>
1 Opening Balance	\$200,000,000	\$200,000,000
2 Revenues	\$15,000,000,000	\$15,000,000,000
3 Net Appropriations	\$15,100,000,000	\$14,900,000,000
4 Balance (1 + 2 - 3)	\$100,000,000	\$300,000,000
5 Structural Balance (2 - 3)	-\$100,000,000	\$100,000,000

In example "A" and "B", the opening balance (1) is \$200 million and revenues (2) equal \$15 billion. Net appropriations (3) are \$15.1 billion in "A" and \$14.9 billion in "B".

Both examples reflect a positive balance (4) for the year. To meet the statutory requirement, however, the opening balance is ignored and the structural balance only compares revenues (2) with net appropriations (3). As shown, "A" indicates an imbalance of \$100 million whereas "B" would meet the statutory test.

3. The 2001 Act 109 provision remained unchanged until the 2009-11 budget. That budget (2009 Act 28), modified the requirement to have it apply to the second year of any biennium rather than to each year. The statutory provision has not been changed since Act 28. However, the 2013-15 budget (2013 Act 20) and the 2015-17 budget (2015 Act 55) each stated that the provision would not apply to any legislation adopted in those respective biennia.

4. The reason that the structural balance provision was suspended for 2013-15 and 2015-17 was due to the fact that, at the time of budget deliberations, there was a relatively large projected balance carried into the second year of those biennia (\$464 million in 2014-15 and \$162 million in 2016-17). The Legislature used a part of those opening balances to address revenue and spending priorities.

5. The purpose of the provision is to ensure that budgeted expenditures do not exceed projected revenues. Thus, a balance is established which many would support as sound fiscal management. In addition, because the budget in the ensuing biennium is constructed from the second year of the current biennium (the base year), having a structural balance in the base year negates the use of revenue growth to address a structural shortfall from the previous biennium.

6. The provision, however, limits the options that the Legislature may have on use of balances that are carried forward from year to year. The table below shows the condition of the general fund for 2014-15 at time of adoption of the 2013-15 budget.

TABLE 2

2014-15 General Fund Condition (In Millions)

1	Opening Balance	\$464
2	Revenues	\$15,079
3	Net Appropriations	\$15,386
4	Balance (1 + 2 - 3)	\$157
5	Structural Balance (2 - 3)	-\$307

To meet the structural balance requirement for the 2013-15 biennium, the Legislature would have had to increase revenues by \$307 million or cut net appropriations by that amount (or some combination of the two) for the 2014-15 fiscal year. Essentially, the statutory structural balance provision can significantly reduce the Legislature's ability to use balances to assist in budget deliberations.

7. It is very likely that the Legislature will be unable to meet the structural balance requirement for the 2017-19 biennium. Table 3 shows the general fund condition statement for 2018-19 under the Governor's budget recommendations (AB 64/SB 30).

TABLE 3

2018-19 general Fund Condition -- AB 64/SB 30 (In Millions)

1	Opening Balance	\$298
2	Revenues	\$17,046
3	Net Appropriations	\$17,257
4	Balance (1 + 2 - 3)	\$87
5	Structural Balance (2 - 3)	-\$211

In order to meet the statutory requirement for the 2017-19 biennium, the Legislature would need to increase revenues under the Governor's budget by \$211 million or reduce net appropriations by that amount (or some combination of the two) in 2018-19. It is likely, then, as with the 2013-15 and 2015-17 budgets, the statute will again need to be suspended.

8. The statutory provision only applies to the Legislature. There is no similar requirement that the Governor meet the provision when preparing the Governor's biennial budget recommendations. If the requirement also applied to the Governor, it would undoubtedly be easier for the Legislature to adhere to the statutory provision as it would begin its deliberations from a budget recommendation that was structurally balanced. (Alternative 1)

9. Because it is unlikely that the Legislature will be able to meet the statutory test for 2017-19, it may need to suspend the requirement for 2017-19 as was done for 2013-15 and 2015-17.

(Alternative 2)

Finally, given the fact that the provision has been suspended in the last two biennia and will likely need to be suspended in 2017-19, the Committee may decide to repeal the statutory provision.

(Alternative 3)

ALTERNATIVES

1. Apply the s. 20.003(4m) structural requirement to the Governor in preparation of the Governor's biennial budget recommendations.

2. Suspend the provision for the 2017-19 biennium.

3. Repeal the statutory requirement.

4. Maintain current law.

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