



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

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2017

Joint Committee on Finance

Paper #162

### **Transfer Funds to Budget Stabilization Fund (Budget Management and Compensation Reserves)**

[LFB 2017-19 Budget Summary: Page 84, #3]

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#### **CURRENT LAW**

State law specifies that moneys in the budget stabilization fund are reserved to provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated revenues. In years in which actual general fund tax revenues exceed projected revenues included in the biennial budget act, 50% of the additional tax revenues are required to be transferred to the budget stabilization fund. Additionally, the net proceeds from the sale of surplus state agency supplies and equipment must be deposited in the fund.

#### **GOVERNOR**

Transfer \$20.0 million from the general fund to the budget stabilization fund in 2017-18.

#### **DISCUSSION POINTS**

1. The purpose of the budget stabilization fund, as defined in state statute, is to provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated revenues. The fund was created by 1985 Act 120 as a response to an economic downturn in the early 1980's, during which the state increased general fund taxes and reduced budgets in a number of the state's programs and agencies. Under Act 120, revenues to the fund were to be provided through direct appropriation from the general fund. A separate appropriation to accomplish this was created, but no funds were appropriated in the act.

2. Prior to 2001, no funding mechanism existed for the budget stabilization fund, and the only revenue to the fund consisted of small donations. Under 2001 Act 16, an automatic procedure was established under which funds are transferred to the budget stabilization fund when general fund tax revenues exceed the level of such revenues as estimated in the general fund condition statement for that biennium under the biennial budget act. Under Act 16, if actual general fund tax revenues exceed projected revenues in any fiscal year, 50% of the additional tax revenues are required to be transferred to the budget stabilization fund, subject to the following two limitations: (a) if the balance in the budget stabilization fund prior to a transfer exceeds 5% of general fund expenditures for that fiscal year, no transfer is made; and (b) if a transfer would reduce the balance in the general fund below the required statutory balance, then the transfer must be reduced as needed to maintain the required statutory reserve in the general fund.

3. In 2003 Act 33, two additional funding mechanisms were created to provide for additional potential sources of revenue to the budget stabilization fund. Under those provisions, the net proceeds from the sale of surplus state agency supplies and equipment were required to be deposited in the budget stabilization fund, except as otherwise provided by law. Additionally, Act 33 required the net proceeds from the sale or lease of surplus state land or buildings (net revenues remaining after paying off any outstanding debt on the land or buildings) to be deposited in the fund. However, under 2013 Act 20, net revenues from the sale of surplus land or buildings are no longer deposited in the budget stabilization fund.

4. After Act 33, the largest revenue source to the fund was the sale of surplus property until 2006-07, when actual general fund tax revenues exceeded the amounts projected for 2006-07 in the 2005-07 budget act. Under the 2001 Act 16 provisions, \$55.6 million was transferred from the general fund to the budget stabilization fund in the fall of 2007. As a result of these various revenue streams and the deposit of \$55.6 million in September, 2007, plus interest earnings, the budget stabilization fund reached a balance of approximately \$58 million in May, 2008.

5. Under the provisions of 2007 Act 226 (the 2007-09 budget adjustment act), \$57 million was transferred by law from the budget stabilization fund to the general fund in June, 2008, to help address a budget shortfall of an estimated \$652 million in the 2007-09 biennium. The June 30, 2008, balance in the budget stabilization fund as shown in the state's Annual Fiscal Report (AFR) was \$1.3 million.

6. In 2010-11, actual general fund tax revenues exceeded the amounts projected for that year in the 2009-11 budget act, and \$14.8 million was transferred to the budget stabilization fund. In 2011-12, actual general fund tax revenues exceeded the amounts projected for that year in the 2011-13 budget act, and \$108.7 million was transferred to the budget stabilization fund. A similar transfer of \$153.2 million was made in the fall of 2013. After these transfers and other minor receipts from the sale of surplus property and interest earnings, the June 30, 2016, balance in the budget stabilization fund as shown in the AFR was \$281.2 million.

7. The following table shows the ending balance in the budget stabilization fund in each of the last fiscal 10 years, as shown in the AFR.

**Budget Stabilization Fund Ending Balance,  
2006-07 to 2015-16**

	<u>Ending Balance</u>
2006-07	\$56.4
2007-08	1.3
2008-09	1.5
2009-10	1.7
2010-11	16.6
2011-12	125.4
2012-13	279.3
2013-14	279.7
2014-15	280.3
2015-16	281.2

8. Based on survey data collected by the National Association of State Budget Officers, 46 states had rainy day funds in 2015-16. The preliminary actual total fund balances in each state in that year ranged from \$0 in Nevada and New Jersey to \$6,607 million in Alaska. The median size of rainy day fund balances across all states, measured as a percentage of total expenditures, equaled 5.1%. Wisconsin's balance of \$281 million equaled approximately 1.8% of general fund expenditures in that year.

9. The following arguments could be made in favor of increasing the amount of funds in the state's budget stabilization fund:

- In years in which revenues are expected to be sufficient, it could be viewed as fiscally prudent to put aside some funds to be used in the future if revenues are less than projected or expenditures exceed budgeted amounts. This could mitigate the effects of a future economic downturn on a state's finances, or allow the Legislature more time to consider a response to the imbalance in the case of a more severe revenue shortfall.

- A budget reserve could be used to support the state's cash position, which may reduce the need for future operating notes to fund a cash-flow deficit in the general fund. Operating notes were last issued in 2011-12.

- The state's bond rating may also be influenced by the presence and size of its budget reserve, although rating agencies will not specify the amount of weight they place upon budget reserves in discussing their ratings.

- Monies held in the budget stabilization fund count into the state's ending balance used to calculate the state's financial position under generally accepted accounting principles (GAAP).

10. On the other hand, some might argue that other uses for state funds, such as reducing state taxes or increasing spending for specific programs, should have a higher priority than increasing the size of the budget stabilization fund. Underlying this position is the concern that monies accumulated in the fund represent over-taxation, and could better be used by the state to either support higher priority spending programs, or to reduce taxes.

11. In addition to the budget stabilization fund, current law requires that the state maintain a budget reserve within the general fund. The statutory reserve must equal \$65 million in 2016-17, and the prior year balance plus \$5 million beginning in 2017-18, not to exceed 2% of total GPR appropriations plus GPR compensation reserves. Although the statutes require that the specified budget reserve amount is maintained, the 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 reduces the requirement, or that specifies that the statutory reserve amount does not apply to the bill under consideration.

12. Instead of increasing the size of the budget stabilization fund, the Committee may wish to consider increasing the statutory reserve by \$20 million, so that it would be equal to \$90 million in 2017-18 and \$95 million in 2018-19. Under this approach, the funds would remain in the general fund, but would be set aside in the event of an economic downturn or other fiscal difficulty. If the funds were added to the statutory reserve, they would be more readily available in the case of an unexpected revenue shortfall, and could also be used to appropriate funds if the Legislature chose to do so.

**ALTERNATIVES**

1. Approve the Governor's recommendation to transfer \$20.0 million from the general fund to the budget stabilization fund in 2017-18.

ALT 1	Change to	
	Base	Bill
GPR-Transfer	\$20,000,000	\$0

2. Modify the Governor's proposal by increasing the size of the statutory reserve by \$20 million, so that it would equal \$90 million in 2017-18 and \$95 million in 2018-19, rather than transferring the funds to the budget stabilization fund.

ALT 2	Change to	
	Base	Bill
GPR-Reserve	\$20,000,000	\$20,000,000
GPR-Transfer	0	- 20,000,000

3. Delete provision.

ALT 3	Change to	
	Base	Bill
GPR-Transfer	\$0	- \$20,000,000

Prepared by: Christa Pugh