



## Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #180

### **Required General Fund Statutory Balance (Budget Management and Compensation Reserves)**

[LFB 2003-05 Budget Summary: Page 71, #2]

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#### **CURRENT LAW**

Under s. 20.003(4) of the statutes, there is provision for a required general fund statutory balance. That provision specifies that no bill, including the biennial budget bill, may be enacted if the bill would result in the general fund balance for either fiscal year of a given fiscal biennium from being at least equal to a specified amount, usually expressed as a percentage of total GPR appropriations plus compensation reserves, but sometimes also expressed in the statute as a fixed dollar amount. Currently, those requirements are as follows:

- For fiscal year 2003-04, 1.6%.
- For fiscal year 2004-05, 1.8%.
- For fiscal year 2005-06 and thereafter, 2.0%.

#### **GOVERNOR**

Modify the current law provision that requires a statutory general fund balance (reserve) equal to 1.6% of gross general fund appropriations plus GPR compensation reserves for fiscal year 2003-04 and 1.8% of gross general fund appropriations plus GPR compensation reserves for 2004-05 to instead provide that: (a) for fiscal year 2003-04, the required reserve be the greater of \$35,000,000 or the amount by which the 2003-04 GPR funding under s. 20.435 (4)(b) for the state medical assistance program is reduced by the use of a transfer in that fiscal year of any revenues from the medical assistance trust fund that are in excess of \$550,000,000; and (b) for fiscal year 2004-05, the required reserve be the greater of \$40,000,000 or the amount by which

the 2004-05 GPR funding under s. 20.435 (4)(b) for the state medical assistance program is reduced by the use of any revenues in that fiscal year from the medical assistance trust fund are in excess of \$80,000,000. Create a session law provision requiring that the Secretary of Administration prepare: (a) by December 31, 2003, an estimate for fiscal year 2003-04 of the total amount of revenues that will be deposited in the medical assistance trust fund in that fiscal year that are in excess of \$550,000,000; and (b) by December 31, 2004, an estimate for fiscal year 2004-05 of the total amount of revenues that will be deposited in the medical assistance trust fund in that fiscal year that are in excess of \$80,000,000.

Also, create a session law provision specifying that the appropriations schedule, as adopted in the biennial budget act, would automatically be adjusted – without any legislative action – as follows: (a) the amounts in the schedule under s. 20.435(2)(b) would automatically be reduced by the amount of increased revenue to the medical assistance trust fund, if any, that the Secretary of Administration estimates, as required above, will, in 2003-04, be in excess of \$550,000,000 and will, in 2004-05, be in excess of \$80,000,000.

Further, modify the current law provision that requires a statutory general fund balance equal to 2.0% of gross general fund appropriations plus GPR compensations for fiscal year 2005-06 (and thereafter) to instead provide that the on-going 2.0% requirement not become effective until fiscal 2006-07 (the second fiscal year of the 2005-07 biennial budget) and that instead, for fiscal year 2005-06 the required general fund statutory balance be required to be a fixed amount of \$75,000,000.

## **DISCUSSION POINTS**

1. There are three distinct considerations regarding this issue that the Committee could consider. The first relates to the portion of the Governor's proposal that would set an absolute dollar amount (\$35,000,000 in 2003-04 and \$40,000,000 in 2004-05) as the minimum amount of statutory reserve (required general fund balance) that would be required in the two fiscal years of the budget biennium.

2. The second relates to the portion of the Governor's recommendation that provides that in the first year of the succeeding fiscal biennium (2005-06), the otherwise applicable requirement for a statutory reserve percentage of 2.0% would not apply and that instead the reserve requirement for that year would also be set as fixed dollar amount (\$75,000,000). The otherwise on-going statutory level of 2.0% would then first take effect beginning in 2006-07.

3. The third relates to the portion of the Governor's proposal that would in effect provide for an automatic increase in that minimum if balances in the medical assistance trust fund are estimated by the DOA Secretary to be greater than certain specified levels estimated under the budget process. These issues are discussed further below. They are discussed in reverse order.

## **A. Medical Assistance Trust Fund Offsets**

4. The medical assistance trust fund was created in the 2001-03 biennial budget act. Under current law, revenue to the trust fund is derived from federal MA matching funds that the state receives under the nursing home intergovernmental transfer program (IGT). This revenue is placed in the MA trust fund and is then available for appropriation as SEG funds. These SEG monies from the trust fund, along with GPR funds, are then used as state funds to secure matching federal dollars for the state's medical assistance and related programs in DHFS.

5. The Governor's budget, as introduced, contains a number of initiatives involving the IGT program and other efforts to garner additional federal funds for the state under the medical assistance program. A number of questions and issues are still pending before the Committee about these initiatives and the level of federal funding that may ultimately be received by the state as a result of these initiatives. This paper is not intended to review those issues. What this paper is intended to note is that these uncertainties would argue that any mechanism designed to somehow use possible additional federal medical assistance revenues to increase the statutory balance appears to be too uncertain as to allow the setting of an amount.

6. However, even if it were believed that some minimum amount might be used as a threshold amount, there is an additional policy question that the Committee could consider. The presumed intent of the Governor's recommendation is to "lock up" any excess revenues that may become available to the medical assistance trust fund by immediately offsetting budgeted GPR appropriations for medical assistance activities by using the additional trust fund dollars to lower GPR appropriations by a like amount. The general mechanism that is proposed to accomplish this would abrogate two areas of legislative prerogative: (a) delegating unilaterally to the Secretary of Administration the determination of amounts by which certain appropriations are to be increased or decreased; and (b) more importantly, allowing the administration, as a result of this mechanism, to actually modify appropriations with no legislative review and approval. The administration would likely argue that the proposed mechanism is merely ministerial. The alternative argument is that the Legislature's arguably strongest function in the balance of powers between the executive and the legislative branches is the power of the purse.

7. For both of the reasons discussed above, the Committee could delete this aspect of the Governor's proposed changes to the statutory balance requirement.

8. As will be discussed below, there may be substantial reasons for suspending the otherwise applicable statutory reserve percentages for fiscal years 2003-04 and 2004-05. However, a separate issue is the question of the statutory balance requirement for the forthcoming fiscal biennium (2005-07). Presumably because the fiscal situation with regard to general purpose revenue growth and necessary funding of current commitments will likely still mean a relatively constrained budget situation for the 2005-07 budget, the Governor has proposed that the 2.0% statutory reserve percentage that would otherwise apply in both fiscal years of that budget biennium not be in force for fiscal year 2005-06. Rather, as under SB 44, the statutory reserve for that year would also be established at this time as a set dollar amount of \$75,000,000. It would then be in

effect at the 2.0% level for the second fiscal year of that budget biennium (2006-07).

9. To put these different percentage and dollar amounts as statutory balance requirements into perspective, the following table shows these amounts in terms of the GPR appropriations plus compensation reserves amounts as proposed under SB 44.

<u>Statutory Balance Percentage</u>	<u>Balance Requirements as Dollar Amounts</u>	
	<u>2003-04</u>	<u>2004-05</u>
1.60%	\$174,392,300	\$189,684,100
1.70%	185,291,900	201,539,400
1.80%	196,191,400	213,394,600
1.90%	207,090,900	225,249,900
2.00%	217,990,400	237,105,200

<u>Statutory Balance Amount</u>	<u>Equivalent Balance Requirement As Percent of Total Appns.</u>	
	<u>2003-04</u>	<u>2004-05</u>
\$35,000,000	0.3%	0.3%
40,000,000	0.4	0.3
50,000,000	0.5	0.4
60,000,000	0.6	0.5
70,000,000	0.6	0.6
75,000,000	0.7	0.6
80,000,000	0.7	0.7
90,000,000	0.8	0.8
100,000,000	0.9	0.8
110,000,000	1.0	0.9

**B. 2005-07 Statutory Reserve Amounts**

10. The Committee could adopt one of the following four alternatives to the Governor's recommended treatment for the statutory reserve requirements for the 2005-07 fiscal biennium:

- Retain for fiscal year 2005-06, the same dollar amount of statutory reserve as would be required for 2004-05 (without the proposed MA adjustment mechanism) of \$40,000,000.
- Retain the current law statutory percentage requirement of 2.0% for fiscal year 2005-06. This would result in an estimated statutory reserve amount of at least \$237 million (based on 2004-05 appropriation levels).
- Set the reserve requirement at the same percentage level for 2005-06 as would have been required for fiscal year 2003-04 (1.6%). This would result in an estimated statutory reserve

amount of at least \$189 million (based on 2004-05 appropriation levels).

- Set the reserve requirement at the same percentage level for 2005-06 as would have been required for fiscal year 2004-05 (1.8%). This would be an estimated required statutory reserve amount of at least \$213 million (based on 2004-05 appropriation levels).

### **C. 2003-05 Statutory Reserve Amounts**

11. As shown in the table above, if the current law statutory reserve percentage requirements of 1.6% and 1.8% were applied in SB 44 rather than the Governor's recommended specific amounts of \$35 million and \$40 million, additional funding of \$139.4 million in 2003-04 and \$173.4 million in 2004-05 would be required to be added to the statutory balance. Within SB 44, that could come either from using reductions in appropriations or providing additional revenues to the general fund for appropriation to the statutory reserve.

12. The other means of increasing the reserve would be to just increase the dollar amounts for either or both years by a specified amount. For example, the \$35,000,000 statutory reserve amount for 2003-04 could be increased to \$40,000,000 and the \$40,000,000 statutory reserve for 2004-05 could be increased to \$50,000,000. Again, however, increasing this reserve amount has the same fiscal implications as increasing an appropriation in terms of the ending general fund balance in any given year.

## **ALTERNATIVES**

### **A. Medical Assistance Trust Fund Offsets**

1. Approve the Governor's recommendation.
2. Delete the Governor's recommendation

### **B. 2005-07 Statutory Reserve Amounts**

1. Approve the Governor's recommendation to set a statutory balance requirement of \$75,000,000 for fiscal year 2005-06 rather than the current requirement for the balance to be 2.0% of gross GPR appropriations plus compensation reserves.

2. Provide for a statutory balance requirement for fiscal year 2005-06 of \$40,000,000.

3. Provide for a statutory balance requirement for fiscal year 2005-06 of 1.6% of gross GPR appropriations plus compensation reserves.

4. Provide for a statutory balance requirement for fiscal year 2005-06 of 1.8% of gross appropriations plus compensation reserves.

5. Maintain current law (statutory balance requirement of 2.0% of gross appropriations

plus compensation reserves for fiscal year 2005-06.).

**C. 2003-05 Statutory Reserve Amounts**

1. Approve the portion of the Governor's recommendation that would set the statutory reserve amount for fiscal year 2003-04 at \$35,000,000 and for fiscal year 2004-05 at \$40,000,000.

2. Retain the current law requirement that the statutory reserve be set at the following percent of gross appropriations plus compensation reserves for each fiscal year: (a) for 2003-04, 1.6%; and (b) for 2004-05, 1.8%.

<b><u>Alternative C2</u></b>	<b><u>GPR</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$312,786,900

3. Set the statutory reserve amount for 2003-04 at \$40,000,000 and for 2004-05 at \$50,000,000.

<b><u>Alternative C3</u></b>	<b><u>GPR</u></b>
<b>2003-05 FUNDING</b> (Change to Bill)	\$15,000,000

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