



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #225

Transfer Funds to Budget Stabilization Fund (Budget Stabilization Fund) Required General Fund Statutory Balance (Budget Management and Compensation Reserves)

[LFB 2023-25 Budget Summary: Page 86, #2, Page 87, #1]

CURRENT LAW

Budget Stabilization Fund. 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, 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. Additionally, the net proceeds from the sale of surplus state agency supplies and equipment must be deposited in the fund.

The budget stabilization fund had a cash balance of \$1.79 billion at the end of May, 2023, which is held in the state investment fund that is managed by the Investment Board. At current rates of interest for balances held in the state investment fund (5.0%), interest earnings of approximately \$7 million a month are accruing to the fund. By June 30, 2023, it is estimated that the fund will have a balance of \$1.8 billion.

Required General Fund Statutory Balance. Under current law, the required balance is \$100 million in 2023-24 and \$105 million in 2024-25, and in future fiscal years it will equal the prior year amount plus \$5 million, but not to exceed 5% of total GPR appropriations plus GPR compensation reserves for each fiscal year. The law specifies that no bill directly or indirectly affecting general purpose revenues may be enacted by the Legislature if the bill would cause the estimated general fund balance to be less than the required amount.

DISCUSSION POINTS

Budget Stabilization Fund

1. Assembly Bill 43/Senate Bill 70 would transfer \$500 million from the general fund to the budget stabilization fund in fiscal year 2023-24.

2. The following table shows the ending transfers, other revenue, fund withdrawals, and the balance in the budget stabilization fund since 2003-04.

Budget Stabilization Fund Activity 2003-04 through 2022-23 (In Millions)

	Excess Tax Revenue <u>Transfers In</u>	Other Revenue*	Fund <u>Withdrawals</u>	Ending Balance (As of June 30)
2003-04	-	-	-	\$0.0
2004-05	-	\$0.5	-	0.5
2005-06	-	0.1	-	0.6
2006-07	\$55.6	0.2	-	56.4
2007-08	-	1.9	-\$57.0	1.3
2008-09	-	0.2	-	1.5
2009-10	-	0.2	-	1.7
2010-11	14.8	0.1	-	16.6
2011-12	108.7	0.1	-	125.4
2012-13	153.2	0.7	-	279.3
2013-14	-	0.4	-	279.7
2014-15	-	0.6	-	280.3
2015-16	-	0.9	-	281.2
2016-17	-	1.7	-	282.9
2017-18	33.1	4.1	-	320.1
2018-19	321.7	7.3	-	649.1
2019-20	105.8	6.9	-	761.8
2020-21	967.4	0.7	-	1,729.9
2021-22	-	3.8	-	1,733.7
2022-23	-	58.9**	-	1,792.6**

*Revenue from interest earnings, gifts and donations, sales of surplus land and buildings, and sales of surplus equipment. Sales of surplus land and buildings were no longer transferred beginning in 2013-14.

**Includes interest earnings through May, 2023.

Source: Annual Fiscal Reports for 2003-04 through 2021-22; estimate for 2022-23.

3. 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.

4. 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, the current law procedure governing the transfer of excess tax revenues described above was established, and 2003 Act 33 required the deposit of the net proceeds from the sale of surplus agency supplies and equipment into the fund. No moneys may be taken out of the fund except by an act of the Legislature.

5. Based on survey data collected by the National Association of State Budget Officers (NASBO) from the fall of 2022, the average size of rainy day fund balances across all states, measured as a percentage of total expenditures, equaled 12.4% and the median was 11.6%. The NASBO survey indicates that Wisconsin's balance of \$1,733.7 million equaled approximately 8.9% of general fund expenditures in that 2021-22. To reach the median percentage of 11.6%, an additional \$525 million would have been required in the budget stabilization fund in that year. [Alternative 1]

6. 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. As an example, in the severe economic downturn in 2008-09, general fund tax collections declined by \$930 million from the prior year (-7.3%), and then grew by only \$20 million the next year. Over those two years, annual general fund tax collections were \$1,840 million less than if tax revenues had continued unchanged from the amount received in 2007-08. If a similar percentage reduction over two years is calculated using 2022-23 tax collections as a base, the potential shortfall could total \$3,100 million, or an additional \$1,300 million more than the projected June 30, 2023, current balance in the fund. [Alternative 2]

- A budget reserve could be used to support the state's cash position through current law authorizing temporary reallocations of available balances.

- 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.

- Moneys 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), and contribute to the GAAP surplus.

7. 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.

Required General Fund Statutory Balance

8. Assembly Bill 43/Senate Bill 70 would increase the required general fund statutory balance to \$600 million beginning in 2023-24 and annually thereafter, compared to the current law amounts of \$100 million in 2023-24 and \$105 million in 2024-25.

9. Although the statutes require a specified budget reserve amount, 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.

10. If the statutory reserve would be increased, the funds would remain in the general fund, but would be set aside in the event of an economic downturn or other fiscal difficulty. Interest earnings on the balances would accrue to the general fund. Any moneys held in the statutory reserve would be readily available in the case of an unexpected revenue shortfall; since they are already in the general fund, no legislative action would be required for their use if an imbalance of revenues and expenditures would occur during a fiscal year.

ALTERNATIVES

A. Budget Stabilization Fund

1. Transfer \$525 million from the general fund to the budget stabilization fund in 2023-24, which would increase its balance to the median percentage of annual expenditures other states hold in their rainy day funds based on survey data from 2022.

ALT A1	Change to Base
GPR-Transfer	\$525,000,000

2. Transfer \$1,300 million from the general fund to the budget stabilization fund in 2023-24, which would increase its balance to a level that could address a decline in revenues in percentage terms similar to what the State experienced during the recession in 2008-09 and 2009-10.

ALT A2	Change to Base
GPR-Transfer	\$1,300,000,000

3. Take no action.

B. Required Statutory Balance

1. Increase the required statutory balance to \$525 million beginning in 2023-24 (an increase of \$420 million from current law in 2024-25), which in combination with the balance held

in the budget stabilization fund would reserve moneys consistent with the median percentage of annual expenditures based on survey data from 2022.

ALT B1	Change to Base
GPR Required	
Balance	\$420,000,000

2. Increase the required statutory balance to \$1,300 million beginning in 2023-24 (an increase of \$1,195 million from current law in 2024-25), which in combination with the balance held in the budget stabilization fund, would reserve moneys that could address a decline in revenues in percentage terms similar to what the State experienced during the recession in 2008-09 and 2009-10.

ALT B2	Change to Base
GPR Required	
Balance	\$1,195,000,000

3. Take no action.

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