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

[LFB 2015-17 Budget Summary: Page 74, #3]

CURRENT LAW

The required general fund statutory balance is set at $65 million in each year for fiscal years 2015-16 and 2016-17, and will increase to 2% of total GPR appropriations plus GPR compensation reserves for fiscal year 2017-18 and annually thereafter. As an example, the 2% calculation would equal $340 million if it applied to 2016-17. 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 would be $65 million for fiscal years 2017-18 and 2018-19. Specify that, beginning in 2019-20, the required balance would equal 2% of total GPR appropriations plus GPR compensation reserves.

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 within the general fund was set aside in each biennium in the event of an economic downturn or other fiscal difficulties. The attachment shows the history of the required general fund statutory balance since 1984-85.

2. 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 expected or expenditures exceed budgeted

amounts. Maintaining a larger balance in the general fund improves the general fund's cash position, which reduces 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, having a larger balance also reduces the state's deficit under generally accepted accounting principles (GAAP), because the state's ending balance under the statutory basis of accounting enters into the calculation of the state's balance using GAAP. The current reserve amount of $65 million equals approximately 0.4% of proposed GPR appropriations in 2016-17.

3. There are people who disagree with the idea of a larger budget reserve. As a matter of policy, other uses for these funds can be viewed as having a higher priority than funding a budget reserve. From this point of view, either reducing state taxes or increasing state spending are preferred uses of moneys that otherwise could fund a budget reserve. Underlying this position 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.

4. The state has $279.8 million in its budget stabilization fund, which equals approximately 1.6% of proposed GPR appropriations in 2016-17. Under current law, there is a statement of intent that indicates: "Moneys in this fund are reserved to provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated revenues…". Because the state has a balance in this fund, the long-term goal of a 2% statutory reserve may be less important.

5. Although the statutes establish a required reserve amount, 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 reduces the requirement, or that specifies that the statutory reserve requirement does not apply to the bill under consideration.

6. The state has maintained the statutory reserve at $65 million since 2005-06, as shown in the attachment. In each of the last five budgets (2005-07, 2007-09, 2009-11, 2011-13, and 2013-15) and again in the Governor's current budget recommendations for the 2015-17 biennium, it has been proposed that the required reserve would increase to the 2% level two biennia in the future. Because of repeated budget difficulties in recent years, this increase has not occurred. Also, the statutory 2% threshold has always been pushed from the succeeding biennium to two biennia in the future because it would negatively impact the out-year commitment analysis ("structural surplus/deficit exercise") prepared by the Department of Administration and Legislative Fiscal Bureau.

Given that the 2% threshold has never been realized, it may be more realistic to simply set the statutory reserve at $65 million (or whatever amount is deemed appropriate) in 2016-17 and annually thereafter. Under this approach, it would be left to some future Legislature to increase the statutory reserve if additional moneys become available and are allocated for that purpose.

ALTERNATIVES

A. 2015-17 Statutory Reserve Requirements

1. Approve the Governor's recommendation to retain the annual $65 million statutory reserve under current law.

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

B. Statutory Reserve Requirements After 2015-17

1. Approve the Governor's recommendation to set the statutory reserve at $65 million in each fiscal year of the 2017-19 biennium and then set it at 2% of GPR appropriations and compensation reserves beginning in 2019-20 and annually thereafter.

2. Set the statutory reserve at $65 million in 2016-17 and annually thereafter. No reference would be made to future increases in the reserve.

3. Set the statutory reserve at some other amount or percentage of GPR appropriations. (Each 1% of GPR appropriations and compensation reserves in 2016-17 equals $170 million).

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Attachment

ATTACHMENT

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

Year	Amount	Requirement
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	65.0	Set dollar amount -- suspended by 2009 Act 2
2009-10	65.0	Set dollar amount
2010-11	65.0	Set dollar amount
2011-12	65.0	Set dollar amount
2012-13	65.0	Set dollar amount
2013-14	65.0	Set dollar amount
2014-15	65.0	Set dollar amount
2015-16	65.0	Set dollar amount
2016-17	65.0	Set dollar amount
2017-18 and thereafter	340.0*	2.0% of annual gross appropriations and compensation reserves

*Estimated based on 2016-17 appropriations and reserves.