



**WISCONSIN  
BUDGET  
PROJECT**

An Initiative of the Wisconsin Council on Children and Families

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## **A Rainy Day Fund That Can't Be Used Even When It's Pouring**

### **Proposed Constitutional Amendment Would Hamstring Policy Makers While Providing No Help for a Deficit Like This Biennium's**

The Wisconsin Budget Project has released a new analysis of a proposed amendment to the state Constitution that would require the state to make specific contributions to a rainy day fund. Establishing a rainy day fund could help cushion against future economic downturns; however, this proposal would make the fund difficult to access in times of need and could have the side effect of driving up state-imposed fees. Worse, it would enshrine these changes in the state constitution, severely limiting the Legislature's options for confronting a budget crisis.

The proposed constitutional amendment, Assembly Joint Resolution 21, would:

- require contributions to a state "fiscal responsibility fund" intended to be used in a recession;
- specify that if the fund level gets high enough, the excess must be returned to taxpayers; and
- have the effect of capping state taxes (but not property taxes).

There are some positive aspects to this proposal. A robust rainy day fund would have been very useful in the current situation, as the state struggles with options to fill the revenue shortfall in the 2011-13 budget. This proposal could help Wisconsin set aside money during flush economic times to protect against the impact of future recessions on state revenue.

Under this proposal, the criteria for using money from the rainy day fund are so strict that we wouldn't actually be able to use it under conditions like those we now face (unless two-thirds of the Legislature agreed to waive the rules governing access to the fund). In fact, if the amendment were already in place, we'd be required to make a contribution to the fund of \$61 million this year, and would likely be required to budget another \$124 million in contributions to the fund for the upcoming biennium.

"A rainy day fund is a fine thing, but this is the wrong way to put one in place," said Jon Peacock, director of the Wisconsin Budget Project. "If we're going to set aside funds, which is generally a smart practice, we should do it in a way that allows policymakers to tap into them when needed, and gives them the flexibility to make the right budget decisions at the right times. This proposal does neither."

(more)

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The amendment could also effectively shift a significant part of the load from taxes to fees, which often fall more heavily on low-income residents. And by limiting the revenue available for the state to provide property tax relief, it could have the effect of increasing property taxes.

Besides the specifics of the proposal, we believe it is generally a bad idea to put specific fiscal policy into the state constitution. Since we don't have a full understanding of what the fiscal landscape will look like in future years, we should not limit our options by tying future lawmakers' hands.

The new Wisconsin Budget Project analysis is available online at [http://www.wisconsinbudgetproject.org/AJR-21\\_fiscal\\_responsibility\\_fund.pdf](http://www.wisconsinbudgetproject.org/AJR-21_fiscal_responsibility_fund.pdf).

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