



# Fiscal Responsibility Calls for Increasing the Minimum Balance in Wisconsin's General Fund

Wisconsin should not postpone a requirement to increase the minimum balance in the state's general fund.

About ten years ago, Wisconsin lawmakers passed legislation to raise the minimum balance in the state's general fund. However, the Legislature postponed that requirement before it ever took effect, and has continued to postpone it repeatedly since then. The Governor's proposed 2013-15 budget postpones raising the minimum balance yet again.

Increasing the minimum balance offers a number of advantages to Wisconsin's fiscal position. This year's budgetary surplus offers an opportunity to increase the minimum level in the general fund without making painful spending cuts to state programs.

## Postponing the Higher Minimum Balance, Year after Year

Currently, state statutes specify a minimum balance of \$65 million in the state's general fund. The 1999-2001 budget bill contained a series of incremental increases that was to culminate in a required minimum balance of 2% (which is very modest compared to most other states' requirements) beginning in 2006. The year the 2% minimum was to take effect was postponed in the 2003-05 budget, and then postponed again in every budget after that. Now, in his 2013-15 budget, Governor Walker has proposed postponing the 2% requirement yet again, to 2018 and beyond.

**Table 1: General Fund Balance Levels, in Millions**

Fiscal Year	Projected Balance of General Fund	2% Minimum Balance
2013*	\$484.7	\$296.3
2014**	\$286.9	\$300.5
2015**	\$88.1	\$311.7

\*Source: January 2013 LFB memo

\*\*Based on proposed executive budget

In fiscal 2013, the state would need to have a balance of \$296.3 million in the general fund to meet a 2% minimum balance requirement, as shown in Table 1, with the amounts increasing somewhat in 2014 and 2015.

## Advantages of a Higher Minimum Balance

Increasing the minimum balance of the general fund would provide a cushion against budget shortfalls.

The Legislature could use a higher balance to cover small or moderate-sized budget gaps that occur between budgets when an economic downturn causes revenues to be less than expected, or spending to be higher. Currently, the state usually addresses these gaps by requiring agencies to lapse funds — often with short notice — or by passing a budget repair bill that cuts spending or increases revenues.

The statutory reserve requirement establishes the minimum general fund balance that a budget bill needs to leave at the end of a fiscal year. However, if revenue comes up short, the Legislature isn't required to replenish the reserve until it passes the next budget bill.

## How Much Would it Cost to Increase the Minimum Balance?

No new spending would be required to increase the minimum balance. In that sense, the cost of increasing the minimum balance is zero.

However, in order to meet the 2% minimum balance, the Legislature would need to commit additional funds to increase the balance in the general fund above what it would otherwise be.

In 2014, the general fund would need an additional \$13.6 million at year-end balance to meet a 2% minimum balance requirement. In 2015, the general fund would need to have an additional \$210 million in it to meet the higher minimum balance requirement, in addition to the extra amount from 2014, as shown in Chart 1.

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## A Rainy Day Fund is Helpful, but Not Enough

The state's budget stabilization fund, also known as the rainy day fund, performs some of the same functions as a minimum balance in the general fund. Like the balance of the general fund, the rainy day fund contains money that can be tapped during difficult fiscal times. However, there are enough differences between a budget reserve and a rainy day fund that it is helpful to have both.

Statutes do not specify a minimum balance in the rainy day fund, and deposits to the fund are not made on a regular basis. Instead, statutes require that when actual general fund revenues exceed projections, half the difference must be deposited into the rainy day fund. If revenue projections are on target or are less than expected, no deposit is made to the rainy day fund.

The balance in Wisconsin's rainy day fund has fluctuated a great deal. At the end of 2012, the rainy day fund held \$125.4 million. That year-end balance was more than twice as high as the next highest year-end balance, which occurred in 2007. For most of its existence, the rainy day fund has had year-end balances of less than \$2 million.

## Compared to Other States, Wisconsin has Set Aside Relatively Few Resources

For many years, the general rule of thumb was that a state should set aside about 5% of total expenditures as a cushion against lower-than-expected revenue or higher-than-anticipated spending, according to the National Association of State Budget Officers (NASBO). In the wake of the recession, some lawmakers have called for increasing the level of funds set aside to above 5% — in some cases much more than 5%.

Wisconsin's budget reserves, which include the balances in the general fund and the rainy day fund, are projected to be lower than the 5% level in coming years, as shown in Table 2. In 2015, Wisconsin's total budget reserves are projected to be less than a third of the recommended level.

Fiscal Year	Budget Reserves (General Fund Balance and Rainy Day Fund) as Share of Appropriations
2013*	4.1%
2014**	2.8%
2015**	1.4%

\*Source: January 2013 LFB memo

\*\*Based on proposed executive budget, and assuming no additional deposits to rainy day fund

The median budget reserve for other states was 5.4% in 2013, according to a fiscal survey of the states conducted by NASBO. In 2013 Wisconsin nearly approached the median budget reserve of other states, but budget reserves are projected to shrink in 2014 and in 2015.

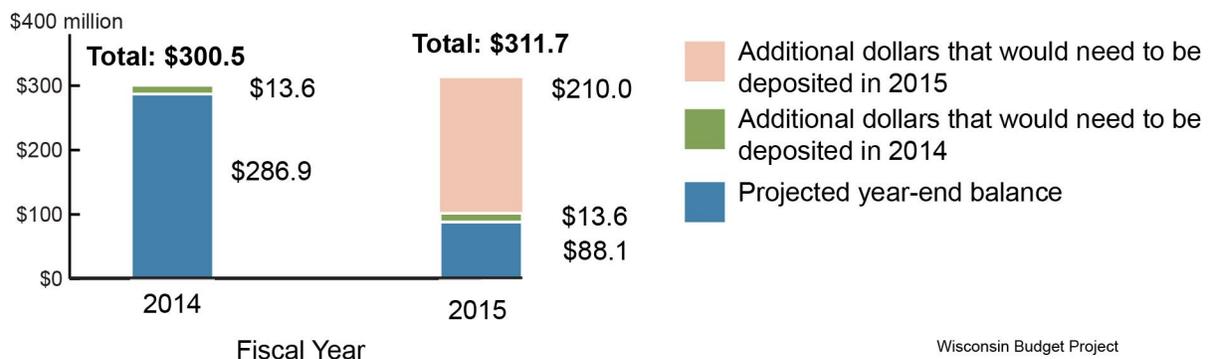
## Conclusion

Policymakers who state their commitment to fiscal responsibility should advocate for measures that help state government address the fiscal effects of economic downturns, without disrupting vital services. Not postponing — yet again — the increase in the minimum balance would be one such measure.

Tamarine Cornelius  
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**Chart 1: Potential Components of a 2% Minimum Balance in General Fund**

In Millions



Wisconsin Budget Project