Wisconsin Budget Project

An Initiative of the Wisconsin Council on Children and Families

Constitutionally Requiring a "Fiscal Responsibility Fund"

Assembly Joint Resolution 21, which was introduced on April 1, 2011, would amend the Wisconsin Constitution to mandate contributions to a state "fiscal responsibility fund" intended to be used in the case of a recession. Once the fund level exceeds a specified amount, the excess must be returned to taxpayers. The amendment would also have the effect of capping state taxes (but not the property tax) at a specified level.

About the Data

This analysis relies on the following data:

- Income and gross domestic product data from the Bureau of Economic Analysis at the U.S. Department of Commerce; and
- Tax revenue figures taken from the Annual Fiscal Report published by the Wisconsin Department of Administration and projections made by the Legislative Fiscal Bureau.

Mandated Contributions to Fund

The amendment proposes that each fiscal year, the state must make a contribution to a fiscal responsibility fund. The state must contribute the larger of these two amounts:

- One half of 1 percent of the general fund tax collections in the second preceding fiscal year.

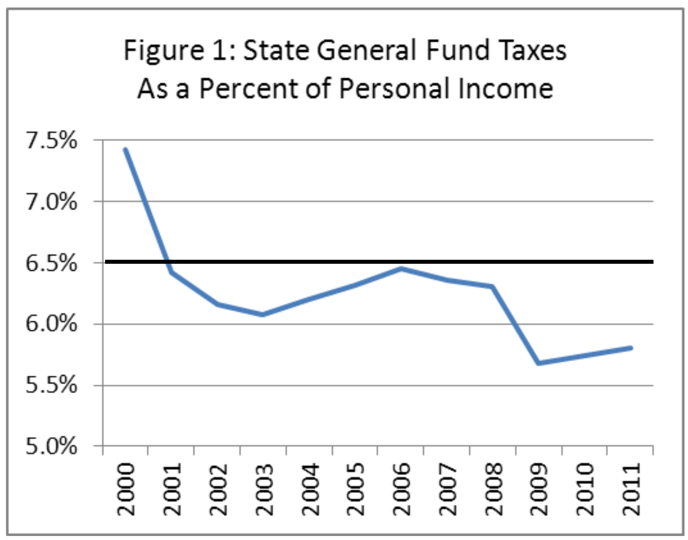
  Example: In fiscal year 2014, the state would deposit 0.5 percent of 2012 general fund tax collections into the fund, which would be $65 to $70 million.

--OR--

- The amount by which general fund tax collections in the second preceding fiscal year exceeded 6.5 percent of state personal income in the calendar year in which the second preceding fiscal year began. The Legislature could change the 6.5 percent threshold by a two-thirds vote.

  Example: In fiscal year 2014, the state would deposit the amount by which general fund taxes in fiscal year 2012 exceeded 6.5 percent of the state's personal income in calendar year 2011. If the taxes were 6.75 percent of the state's personal income, a rough estimate indicates this could require a deposit of more than a billion dollars over the biennium.

State general fund taxes have been below 6.5 percent of personal income since 2001, as shown in Figure 1.



Withdrawals from Fund

The amendment proposes that the Legislature could appropriate from the fiscal responsibility fund with a majority vote if there is a recession, as defined by a governor's declaration that the real national gross domestic product (GDP) is projected to decline for two or more quarters in the current or succeeding fiscal year. With a two-thirds vote, the Legislature could withdraw money at any time.

There is a limit on the balance in the proposed fiscal responsibility fund. If the fund level exceeds 10 percent of general fund tax collections in that

Jon Peacock, Project Director • Ken Taylor, Executive Director, WCCF
Supported by the Annie E. Casey Foundation
555 West Washington Avenue, Suite 200 • Madison, WI 53703 • (608) 284-0580
www.wisconsinbudgetproject.org. www.wisconsinbudgetproject.blogspot.com

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fiscal year, the excess must be used for property tax relief in the next fiscal year in the same manner as net lottery proceeds.

Does WI Already Have a Rainy Day Fund?

Technically, Wisconsin already has a budget stabilization fund, albeit with virtually nothing in it. At the end of fiscal year 2010, the fund balance was $1.7 million. Instead, a statutory requirement for a General Fund balance fulfills some of the functions of a budget stabilization fund. The required balance is currently set at $65.0 million. 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 specifies that the statutory reserve requirement does not apply.

There Are a Few Pros to This Proposal….

Substantial contributions to a budget stabilization fund could help cushion against future economic downturns. Wisconsin has not had much success in setting aside money during flush economic times to help protect against recessions. The proposed amendment would make contributions to the fund more likely. A meaningful budget stabilization fund could have the side effect of reducing the state's borrowing costs, since bond rating organizations look favorably upon such funds.

…But Mostly Cons

The criteria for using money from the proposed fund is too stringent. In order to take money out of the fund with a majority vote, the national GDP must be projected to decline for two or more quarters in either the current or succeeding fiscal year. In the last 25 years, there have only been two fiscal years that met that test. Even in 2011, when we are still feeling the effects of the recession, we would not be able to access the fund without a two-thirds vote of the Legislature.

The amendment would require contributions to the fund even during economic doldrums. The amendment would require the state to contribute to the fund every year. For example, if this amendment were in effect for fiscal year 2011, the state would need to contribute about $61 million to the fiscal responsibility fund.

Also, the law uses national GDP figures, and changes in the state economy sometimes lag or precede changes in the national economy.

The amendment would reduce options at a time when we need to retain maximum flexibility. It's difficult to imagine the Legislature transferring a billion dollars over the biennium to a fiscal responsibility fund; more likely is that general fund taxes as a percent of personal income would be in essence capped at a rate below 6.5 percent. Tying future lawmakers' hands and reducing the choices available could result in cuts to critical services, harm Wisconsin's long-term economy, and restrict innovation.

The amendment takes a narrow view of taxes and ignores fees. Presumably one of the goals of this proposed amendment is to limit the amount of taxes Wisconsinites pay to support state and local government. To that end, this amendment essentially caps *state* general fund taxes at 6.5 percent of personal income, but doesn't place any limits on property taxes, which are levied at the local level. In fact, this amendment could actually end up *increasing* property taxes by limiting the revenue available for the state to provide property tax relief.

If the purpose of the 6.5 percent trigger is to limit the amount of money Wisconsinites pay to support state services, the amendment has missed part of the picture by including only taxes and excluding fees. This amendment could shift state revenue sources away from taxes and towards fees such as tuition and vehicle registration fees, which often fall more heavily on low-income residents.

The distribution is likely to be regressive. The amendment requires the mandated property tax relief to be distributed consistent with the constitutional requirements for use of net proceeds of the state lottery. State statutes now limit the use of lottery proceeds to homeowners and exclude renters from the relief (though that isn't constitutionally required). Following that precedent would be regressive.

Proposed constitutional amendments require adoption by two successive legislatures and ratification by referendum.

Tamarine Cornelius
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