September 3, 2014

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Revenue Shortfall

Following the release of information regarding 2013-14 general fund tax collections, this office has received numerous legislative inquiries regarding statutory provisions related to the administration of a state budget shortfall.

Administration of the State’s Budget. Statutory provisions relating to the general execution of state fiscal matters are located in Chapter 16 of the statutes. Section 16.50 (1) requires each executive branch agency, in concert with the Department of Administration (DOA), to prepare estimates of the amount of money that it expects to expend, encumber, or distribute from each of its appropriations provided under the biennial budget. With the permission of DOA, agencies may subsequently adjust such estimates through the allotment process among expenditure categories (between salaries and supplies and services, for example). Although such initial estimates are required only once a biennium following the enactment of the biennial budget, the statute gives DOA authority to determine when, and for what period of time (quarterly, for example), such estimates will be prepared and also allows for the preparation of revised and supplemental estimates.

Following the preparation of these budget estimates, the Secretary of DOA, under s. 16.50(2), is authorized to approve or disapprove such estimates in whole or in part. Among the tests that the Secretary is to use in reviewing the estimates for approval is to determine: (1) whether the appropriations are adequate to support the estimates; (2) whether the estimated expenditures under the appropriations can be made without incurring danger of exhausting the appropriations before the end of the appropriation period; (3) whether there will be sufficient revenue to meet such contemplated expenditures; and (4) whether the expenditure will reflect the budget intentions of the Joint Committee on Finance, Governor, and Legislature. The budget estimate process is initially conducted for agencies following the enactment of the biennial budget. However, DOA can direct agencies to subsequently adjust their spending (budget estimates) to reflect changing fiscal situations.
The Secretary's actions are limited to refusing to allot, through the estimate process, the full level of appropriated funds. This power does not allow the Secretary of DOA to actually reduce the statutory appropriation amount. However, if an agency cannot access some of its appropriated funds because they are placed in unallotted reserve, the ultimate result is the same in that the moneys cannot be expended and, therefore, will lapse to the general fund (or program revenue account or segregated fund balance) at the end of the fiscal period for which the appropriation is effective.

In exercising the allotment provision of s. 16.50, the DOA Secretary is prohibited from withholding payments from any appropriations for general equalization school aids, supplemental appropriations under the Joint Committee on Finance, or appropriations under s. 20.835 of the statutes for shared revenue and tax relief.

Revenue Shortfall Provision. Section 16.50(7) establishes a separate process that must be followed if there is a larger revenue shortfall. Under this provision, if at any time after enactment of the biennial budget, the Secretary of Administration determines that previously authorized expenditures will exceed revenues in either year of the biennium by more than 0.5% of the estimated GPR appropriations for that fiscal year, the Secretary cannot address that revenue shortfall by use of the budget estimate process described above. Instead, the Secretary is required to immediately notify the Governor, the presiding officer of each house of the Legislature, and the Joint Committee on Finance of the revenue shortfall.

Following this notification, the Governor is required to submit a bill to the Legislature containing recommendations for correcting the imbalance between projected revenues and authorized expenditures. Further, if the Legislature is not in a floor period at the time of the Secretary's notification, the Governor is required to call a special session of the Legislature to take up the matter of the projected revenue shortfall and to submit a bill dealing with the shortfall to the Legislature for consideration at that special session.

It is important to note that s. 16.50(7) gives the Secretary of DOA discretion as to how and when the determination of a revenue shortfall is to take place. Once that determination is made, the Governor is required to submit recommendations correcting the imbalance between revenues and expenditures. However, the statutes do not specify a time frame for either the DOA Secretary’s determination or the submission of the Governor’s recommendations.

Shortfall Calculation. The Department of Revenue recently indicated that general fund tax collections for 2013-14 were $281,171,300 below estimated collections for that year. Because of the significant projected balance ($443.2 million) in the general fund for 2013-14, the 0.5% “trigger” is not a factor in that year. It would, however, be applicable to 2014-15. The shortfall calculation for 2014-15 is shown as follows.
1. Estimated 2014-15 GPR appropriations $15,842,371,800
   One-half of one percent  x 0.005
   Threshold $79,211,900


3. Change in 2013-14 tax collections -$281,170,300

4. Shortfall in 2015 $165,340,600
   \[\frac{-281,170,300}{165,340,600}\]
   \[\frac{-281,170,300}{165,340,600}\]
   -$115,829,700

The shortfall of $115,829,700 exceeds the threshold of $79,211,900 by $36,617,800.

It is important to note that the calculation shown above reflects only the $281.2 million reduction in tax collections for 2013-14. By October 15, 2014, the Department of Administration will publish the state’s 2013-14 Annual Fiscal Report. In addition to tax collections, that report will include other revenues to the general fund and final expenditure data. The data of that report may alter the calculation shown above.