



WISCONSIN LEGISLATIVE COUNCIL AMENDMENT MEMO

2003 Assembly Bill 178

**Assembly
Amendments 1 and 2**

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Assembly Bill 178 contains a provision to ensure that the state's deficit reported under generally accepted accounting principles (GAAP) in the Comprehensive Annual Financial Report (CAFR) does not worsen (referred to as the "GAAP deficit limit provision" in this memo). Specifically, if after July 1, 2005, the Secretary of the Department of Administration (DOA) determines that the unreserved General Fund balance in the most recent CAFR is a larger negative amount than the unreserved General Fund balance reported in the CAFR for the previous year, the Secretary must notify the Governor, presiding offices of each house of the Legislature, and the Joint Committee on Finance of the difference. Following this notification, the Governor must submit a bill containing his or her recommendation for eliminating this difference. If the most recent CAFR was published in an even-numbered year, the Governor may include his or her recommendations in an executive budget bill.

Assembly Bill 178 also transfers from the General Fund to the Budget Stabilization Fund (or "rainy day" fund) each fiscal year, beginning in fiscal year 2005-06, an amount equal to the General Fund statutory balance (or statutory reserve) required under s. 20.003 (4), Stats., for the fiscal year until the Budget Stabilization Fund reaches a balance of 5% of the estimated expenditures from the General Fund during the fiscal year. In each fiscal year that a transfer is not made to the Budget Stabilization Fund, the bill transfers from the General Fund to the GAAP Deficit Reduction Fund an amount equal to the statutory balance for the fiscal year. The latter transfer is required each year until the unreserved balance of the General Fund in the Comprehensive Annual Financial Report based on GAAP for the previous year is no longer a negative amount.

Assembly Amendment 1 addresses a conflict in the implementation of the two provisions in the bill, described above, the GAAP deficit limit provision, and the fund transfers provision. This conflict is created by the accounting treatment and different purposes of the funds affected by these provisions. Under GAAP, the current Budget Stabilization Fund and the GAAP Deficit Reduction Fund created by Assembly Bill 178 are considered separate and distinct from the General Fund. This means that balances in the former two funds will not be included in the overall accounting of assets and liabilities in the state's General Fund. As a result, if there were no other changes in the condition of the General

Fund, the act of transferring funds from the General Fund to the Budget Stabilization or GAAP Deficit Reduction Fund, as required under the bill, would increase the state's General Fund GAAP deficit. This increase would have the unintended consequence of triggering the bill's requirement that the Governor introduce corrective legislation.

The amendment addresses this conflict by adjusting the test in the GAAP deficit limit provision in the bill. In particular, under the amendment, if the Secretary of the Department of Administration determines that the first sum, described below, is a larger negative amount than the second sum, described below, then the Secretary must notify the Governor, presiding officers of each house of the Legislature, and the Joint Committee on Finance of the difference. Following this notification, the Governor must submit a bill containing his or her recommendations for eliminating this difference. In this criterion, the first sum is the sum of the unreserved balance of the General Fund in the most recent CAFR, the balance of the GAAP Deficit Reduction Fund in the most recent CAFR, and any amount transferred to the Budget Stabilization Fund during the fiscal year covered by the most recent CAFR. The second sum is the sum of the unreserved balance of the General Fund and the balance of the GAAP Deficit Reduction Fund in the CAFR for the previous year.

As under the bill, the amended provision authorizes the Governor to submit his or her recommendations as part of an executive budget bill, if the most recent CAFR was published in an even-numbered year.

Assembly Amendment 2 addresses the situation in which there are insufficient funds in the General Fund on June 30 of the fiscal year to make either of the entire transfers required under the bill from the General Fund to the Budget Stabilization Fund or the GAAP Deficit Reduction Fund. This condition occurs when the balance in the General Fund on that date is less than the amount of the required statutory balance. Under this circumstance, the amendment directs the Secretary of the Department of Administration to transfer the entire balance in the General Fund rather than the amount of the required statutory balance. This ensures that the transfer will not cause the General Fund balance after the transfer to be a negative amount. No transfer is required under the amendment if the General Fund balance prior to the transfer is negative.

Legislative History

On July 25, 2003, Representative Friske introduced Assembly Amendment 1 to 2003 Assembly Bill 178. On August 12, 2003, the Assembly Committee on Budget Review introduced Assembly Amendment 2 to Assembly Bill 178. This committee adopted these amendments on separate votes of Ayes, 7; Noes, 0, and recommended passage of Assembly Bill 178, as amended, on a vote of Ayes, 7; Noes, 0 on August 12, 2003.

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