

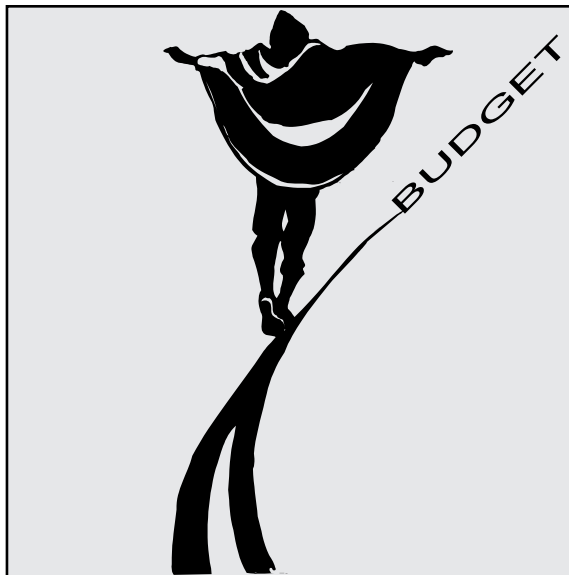
WISCONSIN'S "SUBPRIME" BUDGET PLANNING

CHRISTIAN SCHNEIDER

The recession of 2001 exposed a dark secret in the way Wisconsin plans for economic downturns. It doesn't. Wisconsin is near the bottom in the nation in setting aside money for fiscal emergencies, which makes budgeting during a recession a fiscal high-wire act.

Nearly every state in the U.S. sets aside a portion of their budget in a "rainy day" fund, or mandates a minimum balance to protect themselves from economic downturns. Wisconsin is near the bottom in the nation in both.

As demonstrated in this report, even a mild recession, as was seen in 2001, would cause a budget imbalance of up to \$1.4 billion in the Wisconsin's current biennial budget. Furthermore, the lack of state planning for such a downturn serves as a recipe for more damaging tax increases and detrimental fiscal maneuvers. It appears that despite the pain caused by the last recession, Wisconsin state government has learned nothing. Wisconsin's budget planning is clearly far from ideal; to use a term which has recently become familiar, it can be fairly characterized as "subprime."



The possibility of recession

In early 2008, the American economy presents a mixed picture. On November 19, 2007, the National Association for Business Economics (NBER) released results of a survey showing roughly one in five of its economists figured the risk of a recession was more than 50%.¹

In a speech before Congress in November 2007, Chairman of the Federal Reserve System Ben Bernanke warned of a slowing economy while announcing a quarter-point reduction in the federal discount rate. Bernanke noted that while economic growth in the third quarter of 2007 had been a strong 3.9%, indications were that such strong growth could not be maintained over the remainder of the year.² Bernanke warned that because of the reduced availability of credit, the contraction in housing-related activity would continue to intensify. If the housing market completely bottoms out, it could mean a significant negative effect on other sectors of the economy.

Christian Schneider is a Fellow at the Wisconsin Policy Research Institute.

Some experts go even further in their negative reviews of the economy. In September 2007, University of Wisconsin-Madison economist Donald Nichols said he believed a recession was likely. Nichols based his prediction on the “popping of the risk and housing bubbles” caused by the collapse of the market for subprime mortgages.³

Professor Nichols believes that the spillover effect from this housing crisis may have already begun, and could drive the economy into negative growth. He cites slumping auto and retail sales, as well as a survey that indicates willingness by business leaders to postpone large investment and curtail hiring.

Nouriel Roubini, a professor of economics at New York University, not only believes the American economy is headed toward a recession, but that the impending recession will be worse than the downturn in 2001. Roubini points out that 30% of the employment growth in the past three years was housing industry-related, and a significant downturn in home construction and sales could cause widespread damage throughout the economy.⁴

While nobody knows precisely what direction the economy will take, it is prudent for governments to plan ahead for economic downturns. This is something state governments across the U.S. have figured out—yet Wisconsin still lags well behind most states in recession-readiness.

The recession of 2001

In order to understand what might await state government finances in the event of a recession, it is instructive to review the most recent downturn in 2001.

According to NBER, the U.S. economy went into recession in November or December of 2000.⁵ This recession was the tenth such recession since World War II and followed a record ten straight years of economic growth. According to NBER, the previous record for uninterrupted economic growth was set in the 1960s, a period of eight years and 10 months lasting from February 1961 to December 1969.

The late 1990s delivered unprecedented economic growth and consumer confidence. The rise in internet-related stocks boosted Wall Street and the economy. Investors in the dot-com boom were making money and spending lavishly. As a result, state treasuries saw large increases in sales and income tax revenues.

In the 1990s, personal income of the average Wisconsinite grew by 57%,⁶ while inflation only grew by 32%.⁷ As a result, state revenues grew from \$5.6 billion in 1990 to \$10.9 billion in 2000, an increase of 94%.

Yale economist Robert Shiller believes that in many ways, the dot-com boom foreshadowed the housing problems of today. Shiller believes that the same irrational exuberance that caused investors to overvalue technology stocks has caused them to put too much faith in the value of their homes. As a result, housing is overvalued, partly driven by lowered credit standards.⁸

Despite this large impact on the budget, many economists believe the 2001 recession was rather mild. According to Curt Hunter, Senior Vice President and Director of Research for the Federal Reserve Bank of Chicago, “the 2001 recession . . . was mild compared with other recessions,”⁹ and was short-lived by comparison. In fact, some believe that without the damaging effects of the September 11, 2001, attacks in New York City, the economic downturn may have been too mild to be considered a recession.¹⁰

This fact may lead one to ask: If the recession was so mild, why did it have such a severe impact on the Wisconsin budget? If a similar recession were to hit in 2007 or 2008, what would the effect be on the current Wisconsin budget? These questions will be addressed in the following sections.

Wisconsin’s history of weak fiscal mismanagement

There are several fiscal management tools used by state governments to mitigate the effects of economic downturns. Nearly every state has minimum statutory balances and budget stabilization funds from which to draw in the event of a shortfall.

In the years of strong revenue growth in the late 1990s, states were experiencing record ending balances (including stabilization funds). According to the National Association of State Budget Officers (NASBO), nationwide ending balances reached 10.4% of expenditures in 2000, and 9.4% in 2001. During the 2001 recession, states were able to draw on \$25.8 billion of reserves to help balance their budgets. As a result, ending balances had been reduced to 3.7% of expenditures. Balances built up over the previous years served to ameliorate many of the budget problems caused by lagging revenue.

Following the recession in 2001, most states have gotten back on track in setting money aside in a budget reserve. In 2006, nationwide ending balances in state budgets had reached \$62.1 billion, or 10.9% of expenditures. Increased revenue due to a growing economy has contributed to these new funds, as states have learned their lesson about the importance of setting aside money for emergencies.

But Wisconsin has not. Wisconsin remains one of only four states which retains a minimum statutory balance under 1% of expenditures. Wisconsin had ending balances of 0.4% of annual spending in 2006 and 0.6% in 2007, and has budgeted a minimum balance of 0.4% in the 2008 budget. This compares to a nationwide average of 8.2% in 2007.¹¹ By the standard set by other states, Wisconsin's government is running on fumes.

In November 2007, Standard and Poor's downgraded the outlook for Wisconsin's bonds from "positive" to "stable" based in large part on the state's lack of reserves. According to S&P analyst Peter Block, "Any variation in revenue performance could produce relatively large funding gaps, which are not easily recoverable given existing

resources." Block added that while the state has taken steps to reduce its structural deficit, "we just don't think they have the budget structure—which is a combination of revenues, tax structure, and level of expenditures—to achieve meaningful surpluses."¹²

The minimum statutory balance in Wisconsin

A minimum statutory balance protects the state from incidental revenue shortfalls or expenditure overruns within the current budget. The Wisconsin Legislature first passed a minimum balance requirement in 1981, requiring a balance of 1% of biennial expenditures. Yet before that legislative session expired, the requirement was lowered to 0.5% of expendi-

tures. This was the first of many adjustments that minimized budget reserves. For the next four years the required balance fluctuated between 0.5% and 1% of expenditures.

In 1987-89 the minimum statutory balance was set at 1% of annual general purpose appropriations, where it remained until with minimal changes for a number of years. In the 1999-01 budget bill, Governor

Tommy Thompson proposed a new graduated scale whereby the minimum balance would gradually be increased from 1% of annual expenditures to 2% over a period of five years. In the final version of the budget, the Legislature slightly altered the schedule, and completely eliminated the minimum percentage for 2001-02.¹³ Fiscal management could not compete with other legislative priorities.

With enactment of the 2003-05 biennial budget, the scheduled minimum balances on a percentage basis were eliminated by Governor Doyle and the Legislature. They crossed out the targets of 1.6% and 1.8% for 2004 and 2005 and replaced them with flat amounts of \$35 million in 2004 and \$40 million in 2005. These

Wisconsin remains one of only four states which retains a minimum statutory balance under 1% of expenditures.

TABLE 1

Year	Amount (Millions)	Requirement
1984-85	\$86.3	1% of biennial gross appropriations
1985-86	\$0.0	No requirement for first fiscal year of the biennium
1986-87	\$72.9	Set dollar amount
1987-88	\$53.0	1% of annual gross appropriations
1988-89	\$55.5	1% of annual gross appropriations
1989-90	\$58.1	1% of annual gross appropriations
1990-91	\$62.9	1% of annual gross appropriations
1991-92	\$66.6	1% of annual gross appropriations
1992-93	\$69.6	1% of annual gross appropriations
1993-94	\$73.6	1% of annual gross appropriations
1994-95	\$78.8	1% of annual gross appropriations
1995-96	\$82.6	1% of annual gross appropriations and compensation reserves
1996-97	\$92.0	1% of annual gross appropriations and compensation reserves
1997-98	\$98.1	1% of annual gross appropriations and compensation reserves
1998-99	\$99.4	1% of annual gross appropriations and compensation reserves
1999-00	\$113.9	1% of annual gross appropriations and compensation reserves
2000-01	\$134.3	1.2% of annual gross appropriations and compensation reserves
2001-02	\$0.0	No requirement
2002-03	\$134.4	1.2% of annual gross appropriations and compensation reserves
2003-04	\$35.0	Set dollar amount
2004-05	\$40.0	Set dollar amount
2005-06	\$65.0	Set dollar amount
2006-07	\$65.0	Set dollar amount
2007-08	\$65.0	Set dollar amount
2008-09		Set dollar amount
2009-10		Set dollar amount
2010-11		Set dollar amount
2011-12		2% of annual gross appropriations and compensation reserves

Source: Wisconsin Legislative Fiscal Bureau 2007 Informational Paper #72, "Budget Stabilization Fund and the General Fund Reserve Requirement," and LFB Summary of Budget Provisions, 2007 Wisconsin Act 30, December 2007.

balances were well below 1%. In the subsequent budget, the minimum balance was increased to \$65 million through 2008-09 after

which it was scheduled to become 2% of annual spending. Finally, the 2007-09 budget bill extended the \$65 million figure for two more

years, through 2010-11, and set the amount at 2% of annual spending thereafter. Through the years, budget reserves have been regarded as a luxury that governors and legislatures did not think they could afford.

It should be noted that the \$65 million ending balance figure for 2008-09, at the end of the current biennium, equates to about 0.45% of annual appropriations, or roughly 0.23% of biennial appropriations. Hence, in the 28 years from 1981-82 to 2008-09 the ending balance requirement has gone from the initial 1% of biennial appropriations to effectively less than one-quarter of 1% of biennial appropriations. It's somewhat depressing to realize that over the past quarter century the state's required budget reserve has actually dwindled.

As can be seen above, the 2003 fiscal year was the last year in which the percentage balance standard was applied. Since then, minimum balances have been applied as a fixed dollar amount, which fall well short of 1% of gross appropriations. In fact, it is worth noting that *the current \$65 million minimum statutory balance is actually less than it was in 1984 when the balance was first enacted.*

Budget stabilization fund

While minimum statutory balances protect states from short-term downturns, budget stabilization funds cushion governments from long-term revenue loss. According to NASBO, 47 states have some form of a budget stabilization fund. Nearly three-fifths of those states limit the size of their stabilization funds, usually setting them between 3% and 10% of appropriations. In most states, the fund is set up statutorily; however, in seven states the stabilization fund is mandated by the state constitution.¹⁴ Furthermore, putting money in stabilization is automatic and is not reliant on legislative

action. In most states there are heightened restrictions on how state legislatures may use the funds, such as requiring legislative super-majorities for appropriation.¹⁵

In 1985, Wisconsin's budget stabilization fund was created to "provide state revenue stability during periods of below-normal economic activity when actual state revenues are lower than estimated revenues."¹⁶ However, no funds were deposited in the fund until 1998, when State Representative Doris Hanson and Mr. Nathan Henry donated \$10 and \$2, respectively, to the fund.¹⁷

Governor Scott McCallum's 2001 budget, introduced during the last recession, created a mechanism for funding the budget stabilization fund. Under McCallum's budget, 50% of tax collections in excess of anticipated revenues were required to be deposited in the stabilization fund.

Under the new law, the moneys in the stabilization fund could only be used during a fiscal emergency. According to Wisconsin state law, a "fiscal emergency" occurs when "authorized expenditures will exceed revenues in the current or forthcoming fiscal year by more than one-half of 1% of the estimated general purpose revenue appropriations for that fiscal year."¹⁸

The first transfer of money to the stabilization fund under this new law was made in September 2007, when the Department of Administration transferred \$55.6 million to the fund. This is half of the revenue collected above the level anticipated when the 2005-07 budget was enacted.

When the \$55.6 million stabilization fund and the \$65 million minimum statutory balance are combined, Wisconsin's budget still has total reserves of only \$120.6 million, less than 1% of general fund appropriations.

Budget stabilization funds cushion governments from long-term revenue loss.

There are several negative consequences resulting from carrying one of the lowest budget reserves in the nation. First, having no surplus leaves little margin for fluctuations in revenues or spending estimates. As has been the case over the last three budgets, the governor and legislature have had to take drastic actions to balance the budget, including fund transfers, delayed payments, and one-time funding. Each of these budget maneuvers exacerbates the state's structural deficit.¹⁹

While views of budget experts vary, an informal standard of 5% of general fund appropriations is generally seen as an adequate fiscal cushion for economic downturns.²⁰ If Wisconsin were to reach the 5% standard, it would need to set aside \$691 million in 2007-08 and have \$710 million in reserve in 2008-09.²¹ According to the 2007 Wisconsin Annual Fiscal Report, that would make the stabilization fund the sixth-largest single state appropriation, behind school aids (\$5.2 billion), medical assistance (\$1.7 billion), the University of Wisconsin System (\$1 billion), corrections (\$1 billion), and aids to local governments (\$944 million).²²

Between 2003 and 2007, insufficient revenue growth in the general fund prompted the governor and legislature to transfer \$1.1 billion out of the state's transportation fund and into the general fund. The resulting shortfall in the transportation fund was then replaced by bonding, which will cost state taxpayers more in the long term. Had the budget stabilization fund been funded adequately, this transfer and the related borrowing would not have been necessary.

Bond rating agencies consider budget reserves as an important indicator when rating the state's debt. The combined effect of a high structural deficit and low surplus revenues may indicate financial difficulties to a bond rating agency. While the cost of borrowing for a state is largely driven by conditions in the bond market, a state's rating can affect the price the state receives. The lower the rating, the more the state may have to pay for the bonds over the life of the term.

Is Wisconsin well prepared for a recession?

Given Wisconsin's razor-thin margin for budgeting, an economic slowdown could cause significant problems for the state's general fund. To estimate the impact of a recession on the Wisconsin budget, let's examine how an economic slowdown similar to the 2001 recession would affect state revenue collections. State general fund revenues grew as follows during and immediately after the recession (after factoring out law changes which altered state tax collections):

2000-01:	0.1%
2001-02:	-0.1%
2002-03:	1.9%
2003-04:	4.9%

These revenue growth numbers can then be applied to the 2007-08 base year revenues.

First, let's examine state government's estimates for the next four years. Table 2 shows the revenues expected in the current budget and growth of 4.7% and 4.5% in the subsequent years as projected by Governor Doyle's budget. Similarly, expenditures in Table 2 are the actual amounts budgeted for the current biennium and increases of 5.3% and 2.2% as projected in the Governor's budget. Table 2 shows that in each year, the state budget would close the year with a positive balance.

Now let's apply the recession scenario to these budget years. With revenue growth constrained as it was in the 2001 recession, the budget is quickly thrown out of balance. In this exercise, the hypothetical recession takes place in the 2008 fiscal year.

Table 3 shows what would happen if general fund revenues were to drop as they did in the recession of 2001.²³ By the end of the current biennium, only eighteen months away, the state would face a shortfall of about \$1 billion. By 2011, even if the deficits that arose each year were addressed, estimated expenditures would still outpace revenues by more than \$1.3 billion.

**TABLE 2 BUDGETED REVENUES VS. APPROPRIATIONS, 2007-11,
USING ASSUMPTIONS IN THE BUDGET BILL ADOPTED IN 2007**

In Thousands	FY07	FY08	FY09	FY10	FY11
Adjusted Opening Balance	\$92,396.0	\$66,288.0	\$68,136.0	\$132,100.0	\$139,000.0
Revenues					
Taxes	\$12,617,997.0	\$13,101,075.0	\$13,627,200.0	\$14,267,678.4	\$14,909,723.9
Departmental Revenues	\$549,103.0	\$524,909.3	\$481,219.5	\$445,800.0	\$445,800.0
Total Available	\$13,259,496.0	\$13,692,272.3	\$14,176,555.5	\$14,845,578.4	\$15,494,523.9
Appropriations					
Gross Appropriations	\$13,253,767.0	\$13,823,813.2	\$14,211,949.0	\$14,965,182.3	\$15,294,416.3
Compensation Reserves	\$178,303.0	\$62,759.6	\$156,617.9	\$67,800.0	\$172,500.0
Transfers	\$80,999.0				
Lapses	(\$319,861.0)	(\$262,436.9)	(\$262,022.3)	(\$218,800.0)	(\$218,800.0)
Net Appropriations	\$13,193,208.0	\$13,624,135.9	\$14,106,544.6	\$14,814,182.3	\$15,248,116.3
Ending Balance	\$66,288.0	\$68,136.4	\$70,010.9	\$31,396.1	\$246,407.6

TABLE 3 HYPOTHETICAL RECESSION REVENUES VS. APPROPRIATIONS, 2007-11

	FY07	FY08	FY09	FY10	FY11
Adjusted Opening Balance	\$92,396.0	\$66,288.0	\$0.0	\$0.0	\$0.0
Revenues					
Taxes	\$12,617,997.0	\$12,630,615.0	\$12,617,984.4	\$12,857,726.1	\$13,487,754.7
Departmental Revenues	\$549,103.0	\$524,909.3	\$481,219.5	\$445,800.0	\$445,800.0
Stabilization Fund		\$50,000.0			
Total Available	\$13,259,496.0	\$13,271,812.3	\$13,099,203.9	\$13,303,526.1	\$13,933,554.7
Appropriations					
Gross Appropriations	\$13,253,767.0	\$13,823,813.2	\$14,211,949.0	\$14,965,182.3	\$15,294,416.3
Compensation Reserves	\$178,303.0	\$62,759.6	\$156,617.9	\$67,800.0	\$172,500.0
Transfers	\$80,999.0				
Lapses	(\$319,861.0)	(\$262,436.9)	(\$262,022.3)	(\$218,800.0)	(\$218,800.0)
Net Appropriations	\$13,193,208.0	\$13,624,135.9	\$14,106,544.6	\$14,814,182.3	\$15,248,116.3
Ending Balance	\$66,288.0	(\$352,323.6)	(\$1,007,340.7)	(\$1,510,656.2)	(\$1,314,561.6)

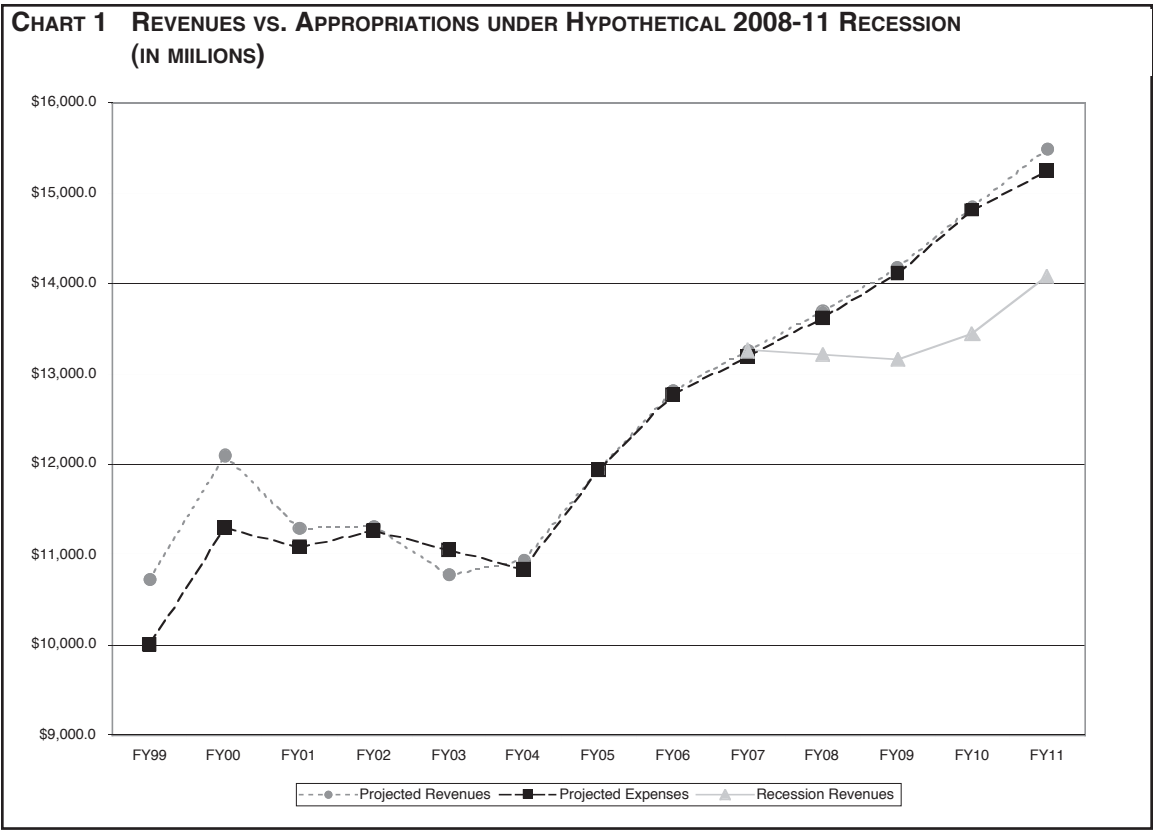


Chart 1 graphically shows the gap between revenues expected for the next four years versus what those revenues would be if there was a recession of the depth of the 2001 recession.

As demonstrated in this exercise, even a mild recession could send the state’s finances into a substantial deficit. The disparity between revenues and appropriation would balloon to nearly \$1.5 billion in fiscal year 2010, before closing slightly to \$1.3 billion in 2011. The \$50 million from the budget stabilization fund would barely dent the deficit.

The table and the related chart above show a negative balance at the end of fiscal year 2008. For the purposes of projecting the impact of a recession, it is assumed that the Governor and Legislature would act to eliminate the deficit each year—either by reducing spending or raising taxes. Thus, the negative balance is not carried forward from year to year. (Since it can’t be assumed that any positive balance would be created, no opening balance is shown for future years.) If the negative bal-

ances were carried forward, the resulting fiscal imbalance would be significantly greater.²⁴

The total magnitude of the problem the state would face in the event of a mild recession can be determined by adding together the deficit figures for all the years that would be affected by the recession. In the current biennium, the state would have to figure out how to cope with a total deficit of \$1.359 billion—\$352 million in the first year of the biennium, and \$1.007 billion in the second year. Over the course of a four-year period, the deficit problem would total a whopping \$4.185 billion. Table 4 details the cumulative problem if negative balances were carried over from year to year.

In the event this happens, the state has several options: it can raise taxes, cut programs, or continue the fiscal shell games that have produced structural deficits for the last decade. None of these choices are especially appealing. Yet the lack of any significant rainy day fund makes them inevitable.

TABLE 4 CUMULATIVE BUDGET DEFICITS UNDER A HYPOTHETICAL RECESSION

	FY07	FY08	FY09	FY10	FY11
Adjusted Opening Balance	\$92,396.0	\$66,288.0	(\$352,323.6)	(\$1,359,664.3)	(\$2,870,320.5)
Revenues					
Taxes	\$12,617,997.0	\$12,630,615.0	\$12,617,984.4	\$12,857,726.1	\$13,487,754.7
Departmental Revenues	\$549,103.0	\$524,909.3	\$481,219.5	\$445,800.0	\$445,800.0
Stabilization Fund		\$50,000.0			
Total Available	\$13,259,496.0	\$13,271,812.3	\$12,746,880.3	\$11,943,861.8	\$11,063,234.1
Appropriations					
Gross Appropriations	\$13,253,767.0	\$13,823,813.2	\$14,211,949.0	\$14,965,182.3	\$15,294,416.3
Compensation Reserves	\$178,303.0	\$62,759.6	\$156,617.9	\$67,800.0	\$172,500.0
Transfers	\$80,999.0				
Lapses	(\$319,861.0)	(\$262,436.9)	(\$262,022.3)	(\$218,800.0)	(\$218,800.0)
Net Appropriations	\$13,193,208.0	\$13,624,135.9	\$14,106,544.6	\$14,814,182.3	\$15,248,116.3
Ending Balance	\$66,288.0	(\$352,323.6)	(\$1,359,664.3)	(\$2,870,320.5)	(\$4,184,882.2)

Conclusion/recommendations

As demonstrated above, Wisconsin could be in serious trouble in the event of an economic slowdown. The state's lack of a fiscal cushion is a recipe for tax increases and budget tricks in the event of hard economic times.

The state could take several steps towards fiscal responsibility in order to protect itself against declining revenue. Among them:

- Phase in greater minimum statutory balance levels, ending with a balance of 2% of gross annual appropriations. For instance, start with a 1% balance one year, 1.2% the next year, 1.4% the next, until the balance reaches 2%. Under currently budgeted numbers, that would require setting minimum balances of \$138.2 million in 2008 and \$170 million in 2009.
- Phase in a requirement that the state fund the stabilization fund up to 5% of gross appropriations. Require that the stabilization fund be the first draw on general fund revenue growth to the state.
- Require that all unanticipated revenues be deposited in the state's budget stabilization fund, until the fund reaches 5% of gross appropriations and compensation reserves. Current law only requires 50% of these revenues to be deposited in the stabilization fund.
- Continue the requirement that the Governor introduce a bill to spend the stabilization fund and the minimum balance in the event of a fiscal emergency. Require a two-thirds majority of both the Senate and Assembly to appropriate these funds, to ensure that they don't merely become easily accessible pools of money.
- Initiate legislative action to make these requirements constitutional. As has been seen recently, statutory minimum balance and stabilization fund requirements are only as enduring as the commitment to prudent fiscal management. The Governor and Legislature have routinely suspended these requirements.

Sound financial practices should not be a partisan issue. Democrats should applaud having a fiscal cushion, because it will avoid sudden and drastic cuts in funding for core services in the event of a downturn. Republicans should be equally supportive, since rainy day funds avoid the pressure for increasing taxes and fees during a recession. Rainy day funds would also lessen the need for transfers from segregated funds.

It is time for Wisconsin to join the rest of the nation in planning for fiscal downturns. Wisconsin's lack of foresight has led to a vicious cycle of bad budgeting practices and acrimonious budget sessions in recent years, and threatens to do so in the future should revenues recede.

Notes

1. Rick Barrett, "Risk of Recession Jolts Wall Street," *Milwaukee Journal Sentinel*, November 19, 2007.
2. Ben S. Bernanke, Chairman of the Board of Governors of the Federal Reserve System, testimony before the Joint Economic Congress, November 8, 2007.
3. Donald A. Nichols, "Economic Outlook for Late 2007 and 2008: Recession Likely," Prepared for the Economic Outlook Conference: The Management Institute, School of Business, UW-Madison, September 14, 2007.
4. Nouriel Roubini, "The Biggest Slump in US Housing in the Last 40 Years...or 53 Years?," *RGE Monitor*, August 23, 2006.
<http://www.rgemonitor.com/blog/roubini/142759/>
5. Initially, NBER declared the recession to have begun in March of 2001, but later revised that estimate to extend it retroactively into 2000.
6. U.S. Department of Commerce, Bureau of Economic Analysis.
7. U.S. Department of Labor, Bureau of Labor Statistics.
8. Barron's, "The Bubble's New Home," by Jonathan R. Laing, June 20, 2005.
9. William C. Hunter, Senior Vice President and Director of Research, Federal Reserve Bank of Chicago, Speech at the America Club Annual Economic Outlook Luncheon, January 10, 2002.
10. Quote from NBER, *Business Week*, "Good News: Mild Recession: Bad News: Mild Recovery" December 10, 2001.
11. National Association of State Budget Officers, "The Fiscal Survey of States," June 2007, p. 21.
12. Yvette Shields, "Wisconsin Loses S&P's Positive Outlook As It Readies \$150 million GO Offering," *The Bond Buyer*, November 15, 2007.
13. The Governor's initial budget proposed minimum balances of 1% in 1999-00, 1.1% in 2000-01, 1.2% in 2001-02, 1.4% in 2002-03, 1.6% in 2003-04, 1.8% in 2004-05, and 2% in 2005-06 and thereafter. The budget as passed by the Legislature required minimum balances of 1% in 1999-00, 1.2% in 2000-01, no requirement in 2001-02, 1.4% in 2002-03, 1.6% in 2003-04, 1.8% in 2004-05, and 2% in 2005-06 and thereafter.
14. Legislative Fiscal Bureau Budget Paper #240, "Required General Fund Statutory Balance," June 7, 1999.
15. <http://www.ncsl.org/programs/fiscal/rdfaxa.htm>
16. LFB, "Required General Fund Statutory Balance."
17. Ibid.
18. Wis. Stat. 16.50(7).
19. Wisconsin's Constitution requires budgets to be balanced on a cash basis; however, there is often an imbalance between ongoing revenues and ongoing spending commitments in future biennia. This is known as the "structural deficit."
20. National Association of State Budget Officers, "The Fiscal Survey of States," June 2007, p. 21.
21. According to the state budget passed in October 2007, gross general fund appropriations will be \$13.8 billion in 2007-08 and \$14.2 billion in 2008-09.
22. Wisconsin Department of Administration, "2007 Annual Fiscal Report," p. 9.
23. For a full explanation of the calculation of the 2001 recession see the full version of this paper, *Wisconsin's Subprime Budget Management* at www.wpri.org.
24. If the negative ending balances were carried forward from year to year, the gap between available revenue and spending would be \$4.2 billion at the end of fiscal year 2011.