



JIM DOYLE
GOVERNOR
STATE OF WISCONSIN

May 26, 2006

Dear Agency Head:

Wisconsin's economy is again on the move, creating jobs and expanding exports. Families are moving to Wisconsin, taking advantage of our highly desirable quality of life, which is the product of top-notch public schools, world-class university and technical college systems, abundant natural resources, an extensive and well-maintained transportation network combined with a below-average cost of living.

Much progress has been made since I took office over three years ago. Inheriting the largest budget deficit in the state's history and a weakened economy, we set priorities and made tough decisions.

First and foremost, we did not raise taxes to offset the excessive spending of prior administrations. In fact, state taxes will be cut by over \$600 million by 2009. Seniors no longer have to pay taxes on social security income, disabled veterans and their families are receiving tax credits to pay all their property taxes, and middle class families have had their taxes reduced to help offset high gas prices, college tuition and health care costs. Targeted business tax cuts, including the single sales factor in the corporate income tax, incentives for venture capital and broadband investment, and tax credits for farmers and manufacturers, have helped spur job creation and economic expansion.

Second, we have worked hard to make state government more cost-effective and responsive. Over the last three years, we have cut almost \$700 million from state agency operations, eliminated nearly 4,000 state positions, eliminated unnecessary contracting and sold 1,000 state cars. We have eliminated regulatory red tape for businesses and improved privacy protections for the public.

Finally, we have made education and health care a priority. SeniorCare and BadgerCare have been protected and improved. Two-thirds funding of schools has been restored, helping to freeze local property taxes. Financial aid for University of Wisconsin students has more than doubled.

While much progress has been made, we need to remain vigilant in the expenditure of public dollars. Continued reductions by the federal government in health care and other services, along with unfunded federal mandates, will place increasing pressure on the state budget. Declining federal support combined with the legacy of

overspending by past administrations and Legislatures will continue to create fiscal constraints. As a consequence, all agencies must continue to be innovative, efficient and effective in managing their programs, delivering services and using technology to lower costs to Wisconsin's taxpayers.

The Major Budget Policies and Budget Instructions call for most agencies to hold their overall fiscal year 2007-08 and fiscal year 2008-09 GPR budgets to fiscal year 2006-07 levels. The same targets will apply to the SEG-funded administrative operations of the Departments of Transportation and Natural Resources, and the Lottery. These targets are necessary to ensure state government lives within its means.

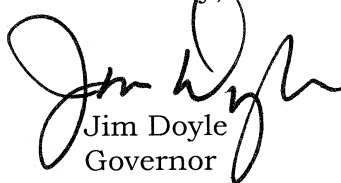
In addition, most agencies will be required to submit plans to reduce all nonfederally-funded state administrative operations appropriations by ten percent. These plans should look to retool and reorganize programs to increase both efficiency and service.

There are no easy solutions to the legacy of unfettered spending – no quick fixes or formulas. We must continue to put prioritizing programs, improving performance and utilizing technology effectively above asking for more funding. And we need to retool programs that are not doing well and consider eliminating programs that are no longer high priorities.

Agency budget requests are due September 15. Please review the Major Budget Policies and Instructions carefully as you prepare and prioritize your requests. Technical budget instructions will not be printed this year, but will be available on the Internet at www.doa.state.wi.us/debf/index.asp.

Before 2003, state government had lost its way. But it's a new day in Wisconsin. Wisconsin is back on track – growing our economy, putting kids first, supporting local services and ensuring cost-effective health care access for all. I am confident that you and your employees will continue to meet these challenges and continue to deliver important services to Wisconsin citizens.

Sincerely,



Jim Doyle
Governor

cc: Agency Budget Contacts

MAJOR BUDGET POLICIES 2007-09

The Governor has identified the following themes as the core concepts for constructing the 2007-09 biennial budget. These themes build upon our state's existing strengths and position Wisconsin to better protect and improve our families, communities, businesses and natural resources.

REDUCE THE TAX BURDEN

One of the Governor's top priorities is to continue reducing the tax burden on Wisconsin's citizens. Due to the Governor's efforts to erase the state's budget deficit without raising taxes, Wisconsin's state tax ranking is out of the top ten, falling to 15 in 2005.

INVEST IN EDUCATION

The Governor's 2007-09 budget will focus resources on improving Wisconsin's educational system. Success in school and access to higher education for all Wisconsin citizens through the Governor's Wisconsin Covenant will be a top priority for the Governor.

REFORM HEALTH CARE

Wisconsin's economy, like the rest of the nation's, is challenged by increasing health care costs. The Governor's budget will focus on preserving access to home-based care and prescription drugs for Wisconsin's seniors; making health insurance more affordable to families and businesses; containing costs; addressing federal mandates; and streamlining the health care delivery system. These issues will be addressed through the Governor's Family Care Statewide, BadgerCare Plus – Health Insurance for all Kids, eHealth and Healthy Wisconsin initiatives.

GROW WISCONSIN

Major elements of the Governor's Grow Wisconsin plan in support of high-skill, high-wage employment were enacted by the last two sessions of the Legislature. The 2007-09 budget will continue implementation of these initiatives and seek to increase training opportunities for Wisconsin's businesses and work force, as well as support the efforts of entrepreneurs. The Governor was also able to push forward regulatory relief in support of Wisconsin business without compromising Wisconsin's high environmental standards. The 2007-09 budget will focus on further streamlining burdensome regulations while maintaining Wisconsin's pristine environment.

ENERGY EFFICIENCY

The Governor's 2007-09 budget will continue to implement measures to reduce state agency energy consumption and expand research and development efforts in support of alternative energy sources. Energy conservation measures in state buildings and expanded use of alternative fuels generally will help to reduce costs and boost Wisconsin's economy.

CARE FOR WISCONSIN'S KIDS

High educational attainment and the future success of Wisconsin's economy depend on ensuring that our kids are protected and cared for. Continued implementation of the Governor's KidsFirst initiative will be a top priority in the 2007-09 budget.

SUPPORT LOCAL GOVERNMENT

The Governor's 2007-09 budget will continue to protect a fair and equitable shared revenue system for local governments in order to limit property taxes and ensure quality local government services which are critical to Wisconsin's citizens. Efforts to improve cooperation between state and local governments, improve efficiencies in delivery of services, and control property taxes will be top priorities in the budget.

PROTECT WISCONSIN'S CITIZENS

The Governor's 2007-09 budget will continue efforts to decrease the overall cost of incarceration in Wisconsin, while maintaining the safety of our citizens. The budget will also include on-going support for the newly created Office of Privacy Protection. Technology enhancements and improved coordination of state and local law enforcement remain key goals in all of these efforts.

ENHANCE WISCONSIN'S NATURAL RESOURCES

The Governor understands that the success of Wisconsin's economy is tied directly to protecting and enhancing Wisconsin's pristine environment and natural resources. The budget will continue to make the Warren Knowles - Gaylord Nelson Stewardship 2000 Program a priority, along with other measures including Conserve Wisconsin, that ensure natural resource protection and environmental quality.

SECURE FAIR SHARE OF FEDERAL DOLLARS

Federal funds comprise approximately 26 percent of the state budget. The state has a goal of increasing the receipt of federal funds where consistent with state program goals. The Governor will continue to aggressively pursue federal funds so that Wisconsin taxpayers are treated fairly relative to their financial contributions.

STREAMLINE STATE GOVERNMENT

The 2007-09 budget will continue to improve state government efficiency. Through prudent technology investments, co-location of government services and elimination of low-priority programs, services to citizens will be enhanced through efficient use of state resources.

BUDGET TARGETS

- Agencies should prepare their 2007-09 biennial budget requests based on 100 percent of their fiscal year 2006-07 adjusted base level.
- The 2007-09 biennium will present many fiscal challenges. Addressing these challenges will be the overriding factor in GPR spending decisions for the next budget. As such, there will need to be restraint in most GPR appropriations in the next budget.
 - Agencies should assume there will be zero growth in overall GPR appropriations in each fiscal year during the 2007-09 biennium, and specific program needs should be managed within this general constraint.
 - Exceptions will occur only for K-12 school aids; required cost-to-continue needs for the state's institutions, i.e., the Department of Corrections and the Department of Health and Family Services institutions; entitlement and related assistance programs in the Departments of Health and Family Services (e.g., Medical Assistance) and the Department of Workforce Development's Division of Vocational Rehabilitation; the University of Wisconsin System instruction and research activities that are focused on economic growth; and housekeeping adjustments like standard budget adjustments, fuel and utilities, and debt service.
- The zero growth policy will also apply to the SEG-funded administrative operations appropriations of the Department of Transportation, Department of Natural Resources and Lottery.
- Funding requests for other types of appropriations and other funding sources in both years should be limited to revenue availability and prioritized programmatic needs.
- Except for standard budget adjustments, routine budget items should be handled in agencies' base budgets regardless of fund source. Consistent with overall targets, agencies should limit requests to spending items associated with significant policy and operational changes.
- Proposals that transfer functions or programs, including related costs and staff, between agencies should result in zero growth in overall state appropriations (i.e., the transferring agency should have lower overall appropriations to offset the increase at the receiving agency). All agencies involved in the transfer should notify the State Budget Office of any such proposal to facilitate review of the request and allocation of any projected savings between the agencies.

PLANNING FOR OPERATIONS REDUCTIONS

- Agencies with state operations administrative appropriations, including the administrative activities of the University of Wisconsin System, should prepare plans to absorb a ten percent permanent base cut. This reduction should equal ten percent of all non-FED sum certain state operations administrative appropriations in an agency, excluding debt service and fuel and utilities appropriations.
- Reduced base budget plans are due Monday, November 13, 2006.

- To prepare for these cuts, agencies should look beyond trying to absorb the reduction as an across-the-board appropriation cut. This should not be an exercise to tweak the status quo, instead you should use this exercise to fundamentally review your agency's missions and priorities, exploring opportunities to reallocate resources, integrate programs and consolidate functions.
- Where reductions and efficiencies in state operations result in reductions in positions, agencies should plan to accomplish this reduction without layoffs.
- Any areas needing additional staff must be met through base reallocations.
- Agencies should not include decision items related to new or expanded enterprisewide administrative initiatives in budget requests or budget reduction plans. Savings and required investments related to these efforts will be incorporated into the Governor's budget.

Note: Agencies must receive approval from the State Budget Office before proposing to use funding sources in another agency to stay within budget targets, to absorb operations' reductions or to fund any new initiatives.

BASE BUDGET REVIEW

The Department of Administration secretary is required under s. 16.423, Wisconsin Statutes, to select one-third of all state agencies each biennium and require those agencies to provide a description of each programmatic activity performed by the agency and the expenditure, by revenue source, for each activity area. Expenditures must be reported for the last three fiscal years, with detailed breakouts of expenditures occurring in the third and fourth quarters of those fiscal years. Agencies not selected in the last two biennia will need to meet this requirement this biennium.

Agencies' Chapter 20 appropriation schedules will be used to identify programmatic activity areas and to categorize the expenditure information. Agencies required to report for the 2007-09 biennium must submit their reports no later than Monday, September 18, 2006. The State Budget Office will provide selected agencies with the base expenditure information and a standard format for agencies to describe their programmatic activity and spending patterns.

PERFORMANCE MEASUREMENTS IN BUDGETING

- Agencies are asked to continue to report on the performance measures they identified for previous biennial budgets. These measures should relate to agencies' broad Chapter 20 budget programs. If needed to capture significant shifts in agency function, additional measures could be added; however, only a few measures should be presented so there is a clear focus on results.
- For the 2007-09 budget, agencies need to report actual outcome measures through fiscal year 2004-05 and fiscal year 2005-06. Planned outcome measures should be listed for fiscal year 2006-07, fiscal year 2007-08 and fiscal year 2008-09. Agencies should track and maintain data going forward to present actual performance data for a fiscal year compared to planned performance. (A calendar year may be used if data is collected on that basis. Please note where calendar years are used.)

The State Budget Office will include performance measures developed by an agency in the Executive Budget Book, and agencies should reference measures in decision items, where relevant. The information that needs to be presented for each broad Chapter 20 budget program where measures are reported includes:

- The key goals and objectives for each program.
- The outcome measure(s) selected for the program, including past actual outcomes and the planned outcomes over the next two years.
- Statewide data can be presented, as well as comparing different regions. Data showing that one region is lagging behind other regions in Wisconsin, for example, may suggest a geographical reallocation is appropriate. The agency should also identify what external factors may influence program outcomes, since many factors can impact program success. Finally, the agency should be prepared to address how it could adjust programming to improve results.
- Because many factors enter into budget decisions, the traditional program budget decision information and format will continue to be presented. However, outcome measures can provide a rationale to add, reduce or reallocate budget resources. Measures should be taken into consideration when funding decisions are made. They should be cross-referenced in decision items, where applicable, but the agency should not rely on requests for new funding to reach a planned outcome goal. Better alternatives may include reallocating existing base funding, consolidating similar programs or identifying other means to improve outcomes within current program funding.
- Agency descriptions and performance measures will be E-mailed to each agency budget contact for updating. It is important for agencies to follow the prescribed format to ensure consistency and compatibility. The information should be submitted electronically in Microsoft Word software format, to facilitate inserting the information into the Executive Budget Book.

BUDGETING FOR INFORMATION TECHNOLOGY

Requests for funding of information technology projects should identify the link between the project and the state's business goals and provide specific information about each project. Consistent with information technology strategic planning, project definitions must include a standard return on investment (ROI) calculation.

BUDGETING FOR DEPARTMENT OF ADMINISTRATION RATE CHANGES

Agencies should not reflect anticipated rate changes, including any charges related to the Integrated Business Information System (IBIS), from the various divisions within the Department of Administration in their 2007-09 budget requests. Forecasting of rates and impacts on individual agency budgets will be addressed by the Department of Administration in developing the Governor's 2007-09 budget.

INCREASING FEDERAL FUNDS

Federal funds comprise approximately 26 percent of the state's resources. The state has a goal of increasing the receipt of federal funds where the use of federal funding is consistent with state program goals. In order to increase the amount of federal funds received, agencies should conduct the following review:

- Examine existing grant awards to ensure that they are fully utilized and consistent with agency priorities. If unexpended grant authority is available, the agency should reallocate the funds to other activities to the extent possible under state and federal rules.
- Agencies may also identify, in the form of a policy paper submitted on September 15, additional federal grant opportunities that were not included in the agency's request. Such opportunities may be considered for funding by the State Budget Office during budget deliberations.

The Department of Administration's Division of Intergovernmental Relations will work with agencies to develop current issues to be included in the Governor's Federal Issue Agenda to increase the receipt of federal funds.

STATUTORY LANGUAGE GUIDELINES

- Agencies should seek to limit policy items unrelated to appropriation changes for inclusion in the Governor's budget.

Note: Please contact your State Budget Office analyst to discuss whether a particular initiative is appropriate for submission as a budget request.

- Agencies should not submit extensive lists of technical or housekeeping changes for inclusion in the Governor's budget. Proposed changes for separate nonbudget legislation can be submitted to the Department of Administration for review and approval, separate from the budget request.

Note: Please contact your State Budget Office analyst if these types of changes are sought.

- As in past budgets, prior to September 15, agencies may work directly with the Legislative Reference Bureau in preparing statutory language items related to the budget. After September 15, all drafting and redrafting requests related to the budget must come from the State Budget Office.
- The Legislative Reference Bureau strongly discourages agencies from submitting budget bill drafts that agencies have drafted. Instead, agencies should submit memoranda identifying what they are seeking to accomplish.
- The detailed budget instructions will provide more information on statutory language submittal requirements.

BUDGET SUBMITTAL DUE DATES AND PROCEDURES

- Formal budget requests, including statutory language related to decision items, are due Friday, September 15, 2006. Send four (4) copies to the State Budget Office and two (2) copies directly to the Legislative Fiscal Bureau.
- Agency budget directors will be required to include with their budget submittals a signed Budget Checklist of budget elements completed. This will help ensure all required materials have been included in the budget. The formal instructions for 2007-09 will include this checklist.
- State Budget Office staff will also meet with individual agencies to explain budget policies and procedures and discuss any agency concerns.

INFORMATION ON THE WEB

- The Budget Instructions, along with various budget forms, will only be available on the State Budget Office Web site at <http://www.doa.state.wi.us/debf/index.asp>.
 - Periodic information updates will be posted to this Web site so agencies should check it regularly.