

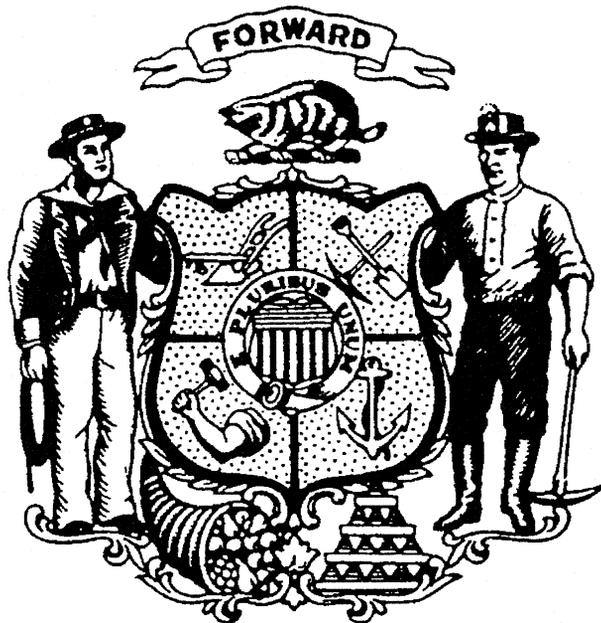
STATE OF WISCONSIN

PROTECTING TAXPAYERS

INVESTING IN PRIORITIES

2005-07 Wisconsin Act 25

JIM DOYLE, GOVERNOR



JULY 2005

DIVISION OF
EXECUTIVE BUDGET AND FINANCE
DEPARTMENT OF ADMINISTRATION

2005-07 Budget Goals

The Governor's fiscal goals have been met:

- \$1.6 billion deficit erased without any tax increases.
- Taxes are cut by \$325 million over the next four years, including making Social Security benefits exempt from state taxes, increasing tax relief for military families and veterans, providing tax relief for the costs of health insurance, expanding the college tuition tax deduction, and reducing the gas tax by 1 cent.
- Property taxes on an average value home are frozen this year and reduced next year.
- Adopts responsible levy limits for local governments concurrent with the state fiscal biennium.
- Keeps in place current law school revenue limits and funds nearly two-thirds (66.1 percent) of local school costs.
- State agency spending is reduced by over \$300 million, through program cuts, procurement reform, consolidating human resources management and better use of information technology. Through these efficiencies, the state work force is reduced by almost 1,900 positions over the biennium, for a four-year reduction of nearly 3,900 positions.

The Governor's major program goals have been met:

- Freezes Property Taxes and Adequately Funds Schools

Freezes property taxes on the average value home for each of the next two years.

Increases school aids by \$861 million, returning state support to the goal of two-thirds (66.1 percent) of local school costs by FY07, including an additional \$124 million in direct reductions on the property tax bill through an expansion of the school levy tax credit.

Treats all parts of Wisconsin more fairly by allowing local governments to increase the levy by a minimum of 2% or their local rate of growth.

- Invests in Priorities

Expands access to the University of Wisconsin System by adding \$15 million for UW student financial aid. Since taking office, the Governor has doubled the state's investment in financial aid for UW students.

Restores \$8 million in child care quality improvement funds. Rejects a \$500 increase in child care costs for working families.

Maintains eligibility and benefits in the Medical Assistance, BadgerCare and SeniorCare programs.

Expands business tax credits, tourism promotion funding and bioindustry development grants.

Increases highway and other transportation investments by 16%.

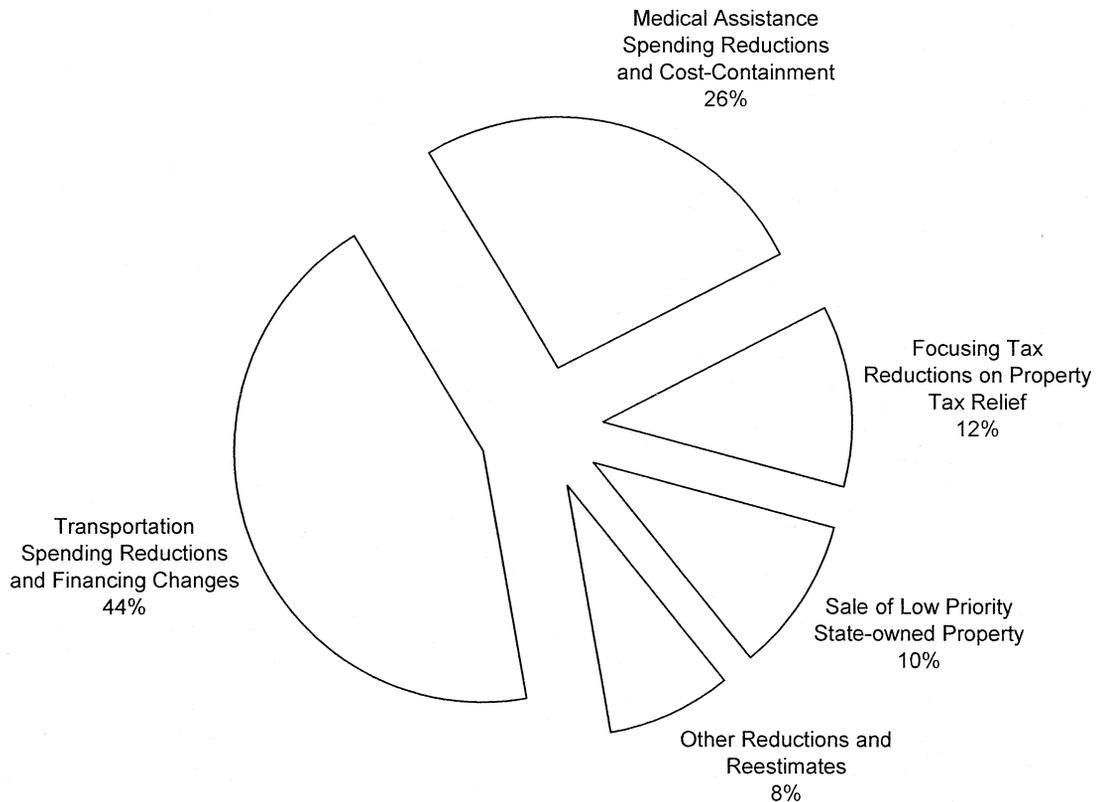
Key Budget Information

- The Governor is vetoing 139 items from the budget bill.
- The budget includes total net biennial spending from GPR of \$25.8 billion.
 - ✓ FY06 GPR spending is \$12.7 billion.
 - ✓ FY07 GPR spending is \$13.1 billion.
 - ✓ Average annual percent increase is 5%.
- The budget includes total biennial spending from all fund sources of \$52.8 billion:
 - ✓ FY06 all funds spending is \$26.0 billion.
 - ✓ FY07 all funds spending is \$26.8 billion.
 - ✓ Average annual percent increase is 4%.
 - ✓ Total spending is \$115 million less than the budget adopted by the Legislature.
- Positions decrease by an estimated 1,858 (including full restoration of power plant positions), for a total reduction of approximately 3,900 over 4 years.

Governor Protects Taxpayers and Invests in Priorities

The Governor increased the general fund balance by nearly \$360 million to support adequate funding for schools and freeze property taxes:

- Transportation spending cuts and financing changes – \$159 million.
- Medical Assistance spending cuts and cost-containment – \$94 million.
- Focusing tax relief on property taxpayers – \$41 million.
- Sale of low-priority state buildings – \$36 million.
- Other reductions and reestimates – \$29 million.



Governor Protects Taxpayers and Invests in Priorities

2005-07 Act 25 General Fund Condition (\$ in millions)

	<u>FY06</u>	<u>FY07</u>
OPENING BALANCE, JULY 1	\$5.9	\$66.3
 REVENUES AND TRANSFERS		
Taxes	\$11,957.9	\$12,506.0
Departmental Revenues		
Other	674.8	513.6
Tribal Gaming	<u>118.6</u>	<u>86.3</u>
Total Available	\$12,757.1	\$13,172.3
 APPROPRIATIONS, TRANSFERS AND RESERVES		
Appropriations	\$12,681.7	\$13,178.1
Compensation Reserves	90.1	178.3
Transfer to Budget Stabilization Fund	0.0	0.0
Transfer to MA Trust Fund	235.4	0.0
Estimated Lapses	<u>-\$316.4</u>	<u>-\$254.4</u>
Total Expenditures	\$12,690.8	\$13,101.9
 BALANCES		
Gross Balance	\$66.3	\$70.4
Less Required Statutory Balance	<u>-65.0</u>	<u>-65.0</u>
Net Balance, June 30	\$1.3	\$5.4

The general fund condition reflects the following transfers:

1. \$338.4 million in FY06 and \$88.6 million in FY07 from the transportation fund to the general fund.
2. \$155 million in FY06 and \$175 million in FY07 from the general fund balance to the Department of Public Instruction school equalization aid appropriation.
3. \$235.5 million in FY06 from the general fund to the Medical Assistance trust fund.

Governor Protects Taxpayers and Invests in Priorities

The Governor has implemented a property tax freeze, provided adequate revenues to schools and restored investments in priority programs.

Impact of Budget Vetoes (\$ in millions)

	<u>FY06</u>	<u>FY07</u>	<u>2005-07</u>
Veto Savings that Improve General Fund Balance	\$136.5	\$222.3	\$358.8
Increase in 2007 School Levy Tax Credit	<u>0.0</u>	<u>73.7</u>	<u>73.7</u>
	\$136.5	\$296.0	\$432.5

Cost of Protecting Taxpayers and Investing in Priorities

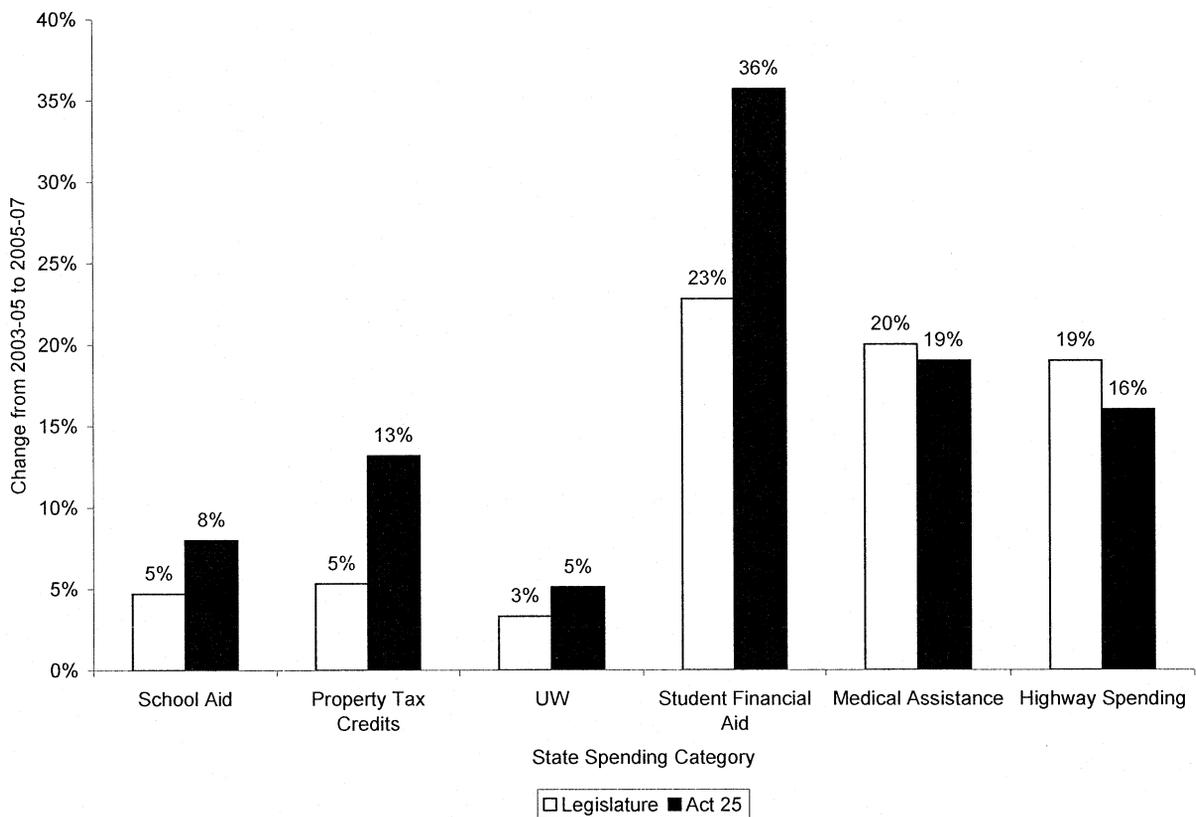
Responsible Property Tax Freeze	\$153.9	\$249.8	\$403.7
School Equalization Aid / Current Law Revenue Limits	\$155.0	\$175.0	\$330.0
School Levy Tax Credit	\$0.0	\$73.7	\$73.7
Property Tax Relief Payment Reestimates	-\$1.1	\$1.1	\$0.0
Choice / Charter Payments	\$1.7	\$1.9	3.7
Student Financial Aid	8.0	0.0	8.0
Quality Child Care	4.0	4.0	8.0
Grants for Local Comprehensive Planning	2.0	2.0	4.0
Other Changes	<u>0.4</u>	<u>2.0</u>	<u>2.5</u>
	\$170.0	\$259.8	\$429.8
Net Change in General Fund Balance	-\$33.6	\$36.2	\$2.7

Property tax freeze is achieved by adequately funding schools and delivering a direct reduction on the property tax bill:

- School equalization aid increased by \$330 million. This additional aid also increases payments under current law to Milwaukee private school choice and Milwaukee and Racine charter schools by \$3.7 million.
- School levy tax credit is increased by \$73.7 million on the December 2006 property tax bills. This amount will be paid to local taxing jurisdictions in FY08.

Governor Protects Taxpayers and Invests in Priorities

- Governor's veto savings allow shift of funding to meet higher priority goals of funding two-thirds of school costs (66.1%) and the property tax freeze.
- Access to higher education is improved by focusing additional resources on UW student financial aid.
- Investments in Medical Assistance and highway development remain robust.



Protects Taxpayers

The budget signed by the Governor:

- Addresses the \$1.6 billion deficit with no increases in income, sales, excise or corporate taxes.
- Freezes property taxes over two years on an average home, and helps businesses avoid a \$270 million property tax increase.
- Eliminates tax on Social Security benefits.
- Implements tax deductions for health care costs.
- Reduces gas tax by one cent.
- Makes college tuition tax deductible.
- Cuts taxes for veterans and their families.

GPR and Fuel Tax Reductions (\$ in millions)

	FY06	FY07	FY08	FY09
Individual Income				
<i>Exclusion for Social Security Benefits</i>			-45.90	-99.70
<i>Deduction for Health Insurance Premiums</i>		-2.00	-7.80	-13.70
<i>Increase for Military Income Credit</i>		-0.50	-0.50	-0.50
<i>College Tuition Deduction</i>	-4.90	-5.30	-5.30	-5.30
<i>Expand Dairy Modernization Credit</i>		-1.64	-1.64	-1.64
Utility Taxes				
<i>Reduce Car Line Tax Rate</i>	-0.14	-0.14	-0.14	-0.14
Corporate Income Tax				
<i>Expand Dairy Modernization Tax Credit</i>		-0.26	-0.26	-0.26
Cigarette				
<i>Bad Debt Reduction</i>	-0.18	-0.21	-0.21	-0.21
Motor Fuel				
<i>Reduce Petroleum Inspection Fee</i>	-6.50	-40.00	-40.00	-40.00
Total Annual Effect	-11.72	-50.05	-101.75	-161.45
Four Year Tax Reduction				-324.97

Protects Taxpayers

The budget signed by the Governor freezes property taxes:

- A real property tax freeze for the average homeowner.

	Current Law Estimates			2005 Act 25			Savings
	Net Property Tax Bill for Median Value Home	Increase Over Prior Year		Net Property Tax Bill for Median Value Home	Increase Over Prior Year		
		Amount	Percent Change		Amount	Percent Change	
December 2004	2,711			2,711			
December 2005	2,833	122	4.5%	2,711	0	0.0%	122
December 2006	2,957	124	4.4%	2,706	-5	-0.2%	251
Governor's Property Tax Freeze--Two Year Savings on Median Value Home							374

(figures may not add due to rounding)

- A freeze which is based on funding local services.
 - Fully fund shared revenue.
 - Restore goal of two-thirds funding of education.
- A freeze that does not cut education spending.
 - Prevents a \$350 million cut.
 - Allows 3% increase, not just 1%.
 - Preserves bipartisan revenue limits in place for over a decade.
- Freeze allows municipalities and counties to increase levies by the greater of:
 - Minimum of 2% (about inflation), or
 - Local rate of growth.
- Modifications treat communities more fairly.
 - Quality of services eroded by inflation.
 - Slower growing urban and rural areas are disadvantaged by using only a growth factor.

Makes State Government More Efficient

The budget signed by the Governor:

- Reduces the size of the state work force by 1,900 positions – a total of 3,900 over the first two budgets.
- Reduces spending for state operations by \$272 million.
- Consolidates procurement and computer servers to increase efficiency and save taxpayers nearly \$150 million over 4 years.
- Sells \$36 million of low-priority state property through improved use of state-owned space.

These initiatives build on progress already made:

- Reforming of contracting resulted in saving as much as \$93 million on Medicaid contract.
- Sold 1,000 state cars.
- Reforming state employee health care including leveraging the state's buying power to hold cost growth to less than one-half the national average and instituting a pharmacy-benefits manager. Over \$50 million in savings and avoided costs have been achieved in one year.

Puts KidsFirst

The budget signed by the Governor:

- Provides \$404 million more than the Legislature's budget in additional funding for schools.
 - \$330 million in added equalization aid.
 - \$74 million in additional levy credit tax relief.
- Ensures a total biennial additional commitment to K-12 education of \$861 million.
- Increases funding for special education by \$15 million in FY07, including \$3 million for high-cost, low-incidence and \$12 million for special education categorical aid.
- Provides \$12.7 million increase in school transportation.
- Increases bilingual aid by \$2.4 million.
- Provides \$1.3 million for mentors to aid new teachers.
- Vetoes efforts to weaken the SAGE small class size program.
- Vetoes \$15 million tax break for private education.
- Restores, through veto, \$8 million for programs to improve child care quality.
- Vetoes 15% increase in child care fees.
- Accelerates, through veto, 5% rate increase for foster parents.

Grows Wisconsin

The budget signed by the Governor:

Economic Development

- Expands the number of enterprise development zones from 79 to 98.
- Establishes \$2 million job skill training program at technical colleges.
- Adds \$3.8 million for tourism promotion.
- Increases transportation spending by 16%.
- Invests \$1.4 million for Green Bay redevelopment.
- Provides \$1 million for Madison brownfields.

Higher Education

- Restores \$34 million Senate cut to University of Wisconsin System.
- Adds, through veto, \$8 million to financial aid for UW students, doubling the investment over 4 years.
- Provides funding for the Institute of Discovery.
- Provides \$5 million to retain star faculty.
- Invests \$2.5 million for Alzheimer research.
- Directs \$500,000 for University of Wisconsin-Milwaukee biotechnology program.
- Vetoed 1.5% required pension contribution for nonrepresented state employees, affecting primarily University of Wisconsin faculty and academic staff.

Agriculture

- Invests \$1 million in biofuels development initiative.
- Institutes livestock modernization tax credit.
- Reduced fertilizer surcharge from 86 cents to 63 cents.
- Provides \$2 million for nonpoint reduction efforts.

Protects Health Care

The budget signed by the Governor:

- Maintains recipients eligibility and benefits for Medical Assistance, BadgerCare and SeniorCare.
- Expands tax relief for health insurance premiums paid by the self-employed and unemployed.
- Implements long-term care reform to reduce nursing home population by 25% in 8 years by providing 1,400 new community placements.
- Allows broader discussion toward an improved proposal for privatizing the Health Insurance Risk-Sharing Program (HIRSP).
- Deletes funding for nursing home rate increases, pharmacy reimbursements and outpatient hospital reimbursements to balance the budget and freeze property taxes.

Addresses Other Key Priorities

The budget signed by the Governor:

Justice

- Expands the AODA programs in the state's correctional institutions and provides grants to local governments for AODA treatment programs to help divert offenders from prisons and reduce overall costs.
- Reforms the probation system to allow more resources to be allocated toward better integrating offenders into society.
- Provides additional funding for DNA analysis.
- Funds anti-methamphetamine efforts.

Environment

- Protects the Warren Knowles-Gaylord Nelson Stewardship 2000 Program by vetoing proposal to use its resources to purchase land the state already owns.
- Restores Smart Growth program and comprehensive planning grants to local governments.
- Removes incentives to increase dumping of out-of-state waste in Wisconsin landfills and increases in property taxes by vetoing cut to recycling tipping fees.
- Increases fishing and hunting fees to support critical fish, game and habitat projects.