

STATE OF WISCONSIN

BUDGET IN BRIEF

JIM DOYLE, GOVERNOR



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DIVISION OF
EXECUTIVE BUDGET AND FINANCE
DEPARTMENT OF ADMINISTRATION

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Summary of Governor's Budget Initiatives

I. SUMMARY OF GOVERNOR'S BUDGET INITIATIVES

A. RESTORING FISCAL DISCIPLINE



- No tax increases. No increases in income, sales or corporate taxes. No changes in exemptions or deductions.
- Erase the budget deficit and leave at least a \$40 million balance in fiscal year 2004-05.
- Reduce state general purpose revenue (GPR) spending by \$2.6 billion from agency requested levels by denying \$950 million of agency requests, reducing state operations base funding, including the University of Wisconsin System, by \$380 million, cutting other base funding by \$120 million, increasing Wisconsin's fair share of federal funding and other measures.
- Produce the first decrease in biennial GPR spending in over 30 years.
- Bring long-term spending trends into line with recurring revenues for the first time in 20 years, end fiscal year 2004-05 with no structural deficit and set the stage for a structural surplus of \$322 million by fiscal year 2006-07.
- Fully fund the property tax levy credit for a total of \$938 million in property tax relief for the biennium.
- Limit property tax increases by increasing local school aids, restoring full funding of \$1,040 million for shared revenue in 2003 despite the nearly \$600 million gap created by use of tobacco revenues in the last budget, and retaining the school district revenue limits. Provide \$931 million for shared revenue in 2004, \$70 million less than under current law. The reduction in shared revenue compared with current law is 3.4 percent.
- Secure an equitable agreement with Wisconsin's sovereign tribes on tribal gaming and increase revenues to the state by \$112 million in fiscal year 2003-04 and \$125 million in fiscal year 2004-05.
- Authorize the restructuring of the state's debt, as a last resort only, if revenues significantly decline from current estimates.
- Require the Department of Administration to conduct a comprehensive review of state assets that can be sold and deposit any net proceeds into the Budget Stabilization Fund.
- Employ innovative approaches to maximizing federal Medicaid revenue and use excess proceeds to increase the statutory general fund balance.
- Help control and reduce health care costs by creating a pharmacy benefits purchasing pool for state and local government.

B. GOVERNMENT OPERATIONS AND EFFICIENCY



- Cut GPR state agency administrative operations spending, excluding the University of Wisconsin System, by an average of almost ten percent each year (\$128 million GPR over the biennium).
- Reduce the overall size of the state government work force, excluding certain University of Wisconsin System activities and the University of Wisconsin Hospitals and Clinics Authority, by eliminating 2,800 state positions.
- Reduce administrative overhead, improve services to the public and increase efficiency by eliminating eight agencies, offices, boards and commissions and consolidating other functions throughout state government:
 - Eliminate the Department of Electronic Government and transfer its functions to the Department of Administration.
 - Eliminate the Department of Employment Relations and transfer its core functions and associated staff to the Department of Administration. This consolidation will reduce administrative overhead while improving the state's human resources services.
 - Consolidate state consumer protection functions from the Department of Agriculture, Trade and Consumer Protection into the Department of Justice.
 - Streamline the provision of legal services by transferring attorneys in executive branch agencies, with certain exceptions, to the Department of Administration.
 - Eliminate the Personnel Commission and transfer its functions to the Division of Equal Rights in the Department of Workforce Development and the Wisconsin Employment Relations Commission to improve efficiencies.
 - Eliminate the Higher Educational Aids Board and transfer its functions to the University of Wisconsin System and the Department of Administration.
 - Eliminate the Technology for Educational Achievement in Wisconsin (TEACH) Board and transfer certain functions to the Department of Public Instruction.
 - Eliminate the Adolescent Pregnancy Prevention and Pregnancy Services Board to reduce duplication with existing programs in the Department of Health and Family Services.
 - Repeal the Tobacco Control Board and consolidate its functions with the Department of Health and Family Services public health efforts to discourage use of tobacco products and assist with tobacco cessation programs.
 - Eliminate the Office of the Commissioner of Railroads and transfer its functions to the Departments of Administration and Transportation to consolidate the regulation of railroad crossings and to create operational efficiencies.
 - Transfer the county-tribal law enforcement grant program from the Department of Justice to the Office of Justice Assistance to consolidate all county-tribal law enforcement grants in one agency.

- Transfer the Sentencing Commission to the Department of Corrections to increase efficiency, improve sentencing guidelines and achieve cost-effective alternatives to incarceration.
 - Transfer the Department of Administration's Division of Housing to the Department of Commerce to consolidate government functions and create operational efficiencies.
 - Consolidate employment and training programs for at-risk youth by eliminating the Wisconsin Service Corps and merging the Wisconsin Conservation Corps and Operation Fresh Start into one program in the Department of Workforce Development.
 - Consolidate all milk inspection functions in the Department of Agriculture, Trade and Consumer Protection by transferring the milk certification program from the Department of Health and Family Services.
 - Transfer the brownfields grant program from the Department of Commerce to the Department of Natural Resources to consolidate administration and funding for brownfields remediation and redevelopment activities.
- Maintain a high level of readiness for the National Guard by providing funding to maintain National Guard Tuition Grants at 100 percent reimbursement levels.
 - Set aside funding in the compensation reserve to fully fund the anticipated 2003-05 cost of pay increases in the 2001-03 biennium for represented state employees.
 - Reduce state employee health insurance costs by increasing the employee contribution rate, implementing a more efficient health care purchasing system and developing a prescription drug purchasing pool.
 - Provide \$150,000 in fiscal year 2003-04 and \$25,000 in fiscal year 2004-05 to expand and enhance the Labor Management Cooperation project. The additional resources will refine and increase the use of consensus bargaining techniques.
 - Provide \$40,000 in fiscal year 2003-04 and \$60,000 in fiscal year 2004-05 to create a pilot program to expand human resources services to local governmental units.
 - Provide \$288,000 annually to strengthen recruitment and retention of patient care staff at the veterans' homes.
 - Increase funding by \$130,000 annually for military honors services for deceased veterans.
 - Reduce overhead costs of the Wisconsin Lottery by privatizing its operations.
 - Eliminate the \$45 million set aside in shared revenue for the Consolidation Incentive Program to provide local governments with greater certainty that this funding can be used to fund essential local services.

C. ECONOMIC DEVELOPMENT AND TRANSPORTATION



- Provide economic development opportunities and enhance highway safety by providing \$244 million in the 2003-05 biennium for reconstruction of the Marquette Interchange.
- Maintain priority highway construction and rehabilitation projects despite the loss of over \$90 million in federal highway aid.
- Promote mass transit and economic development in southeastern Wisconsin by providing \$400,000 to match federal funding for preliminary engineering of a commuter rail corridor between the cities of Kenosha, Racine and Milwaukee.
- Preserve funding for Amtrak service from Milwaukee to Chicago.
- Maintain the state highway system and local roads, and stabilize funding of transportation activities by increasing vehicle registration and title transfer fees by \$10 each.
- Enact the .08 blood alcohol limit to help prevent loss of life from accidents caused by drunk drivers, while at the same time ensuring that Wisconsin receives its fair share of federal highway funds. Also adopt federally-required scenic byway advertising restrictions.
- Reduce the number and severity of large vehicle accidents by leveraging \$804,600 in federal funding to update Wisconsin's commercial driver licensing system to ensure that only safe drivers operate commercial motor vehicles.
- Protect Wisconsin's animal agriculture industry and wildlife populations by providing five animal health positions to address critical disease problems, including chronic wasting disease, bovine tuberculosis, and foot and mouth disease.
- Maintain full funding of \$760,000 for the Agricultural Development and Diversification program to support innovative efforts by Wisconsin farmers to diversify their operations.
- Improve access to and participation in rural economic development programs by expanding membership of the Wisconsin Housing and Economic Development Authority Board to include the secretary of the Department of Agriculture, Trade and Consumer Protection.

D. EDUCATION, WORKFORCE AND LOCAL GOVERNMENT



- Increase equalization aids to school districts by \$100 million over the biennium.
- Improve equity for as many as 98 low-spending school districts by increasing the per-student low revenue limit from \$6,900 to \$7,400 in fiscal year 2003-04 and to \$7,800 in fiscal year 2004-05.
- Repeal the qualified economic offer (QEO) to improve our schools' ability to attract and retain quality teachers for our children.

- Improve the equity provisions of the school aid formula by repealing the hold harmless provision for equalization aid allocated to the first \$1,000 of school district spending per pupil.
- Repeal the unfunded requirement for the state to develop and implement a high school graduation test.
- Maintain existing funding levels for all major categorical aid programs, including the Student Achievement Guarantee in Education (SAGE) class-size reduction, special education and bilingual education.
- Modify the Wisconsin Works (W-2) program to provide participants the option to work in wage-paying transitional jobs, pay taxes, and be eligible for the state and federal earned income tax credits, to enable them to move more rapidly into unsubsidized employment.
- Ensure the W-2 program has sufficient resources to deal with emergencies and provide grants and work to low-income parents who cannot find unsubsidized employment.
- Prohibit the University of Wisconsin Board of Regents from increasing resident undergraduate tuition during the 2003-04 and 2004-05 academic years by more than \$350 per semester over the prior year for the doctoral campuses and \$250 per semester over the prior year for the comprehensive campuses and two-year colleges.
- Increase financial aid by \$23.6 million (or nearly 56 percent) over the biennium for University of Wisconsin System students to help offset the effects of higher tuition costs on lower- and middle-income students, the largest ever biennial increase in financial aid.
- Authorize the University of Wisconsin System to charge resident tuition for undocumented persons who meet certain residency requirements.
- Increase the number of graduates in nursing and other health profession programs by creating a new grant program at the Wisconsin Technical College System.

E. ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT



- Protect the wild white-tailed deer herd and preserve Wisconsin's strong hunting tradition by providing \$3 million to continue efforts to eradicate and detect chronic wasting disease in wild deer populations.
- Stabilize funding for the fish and wildlife programs by providing \$1 million from gaming compact revenues and adjusting major resident and nonresident license fees.
- Protect our forests and communities by allocating \$2 million to provide forest fire fighting equipment and meet facility and staffing needs.
- Support cleanup and redevelopment of brownfields by streamlining grant program administration and providing additional funding of \$1 million over the biennium.

- Minimize claim backlogs in the petroleum storage tank cleanup (PECFA) program by authorizing an additional \$115 million in revenue bonds.
- Maintain our state parks as a vacation and tourist attraction by providing \$2.6 million of gaming compact revenues to stabilize funding for Wisconsin state parks.
- Protect the health and improve the accessibility of Wisconsin's southern forests by providing \$845,000 to control harmful invasive species and meet staffing and operational needs.
- Help private forest land owners manage their forests by providing \$1 million over the biennium to assist them in developing forest management plans.
- Protect water quality by providing \$21.2 million in bonding revenues to reduce nonpoint runoff water pollution.
- Protect Wisconsin's abundant water resources by providing \$1 million over the biennium to process waterway and wetland permits and prevent the spread of aquatic invasive species.
- Promote increased safety on all-terrain vehicle trails by providing \$290,000 to continue the all-terrain vehicle safety enhancement grant program and increase local enforcement aids.

F. HUMAN SERVICES



- Preserve eligibility standards for Medical Assistance and BadgerCare to ensure Wisconsin families receive the health care they need.
- Preserve current eligibility standards for SeniorCare to ensure seniors receive the help they need in paying for the rising cost of prescription drugs. Provide financial stability for the program by raising the deductible from \$500 to \$750 for SeniorCare participants with incomes between 200 percent and 240 percent of the federal poverty line, and to \$850 for individuals with incomes greater than 240 percent of the federal poverty line. Also increase the SeniorCare enrollment fee from \$20 to \$25 for individuals with incomes less than 200 percent of the federal poverty line, and to \$30 for individuals with incomes greater than 200 percent of the federal poverty line.
- Supplement funding for Medical Assistance with \$580 million from revenue maximization programs in fiscal year 2003-04. These revenue maximization funds will preserve and protect the current Medical Assistance program. In addition, these funds will support the following program enhancements:
 - Increase the number of slots and the reimbursement rate to counties under the Community Options Program-Waiver (COP-W) and Community Integration Program (CIP).
 - Provide for full implementation of Family Care in Kenosha County in fiscal year 2004-05. Require the Department of Health and Family Services to investigate expanding the Family Care program to two additional counties.

- Transfer \$200 million from the Patients Compensation Fund to a newly created Health Care Provider Availability and Cost Control Fund to avoid a severe reduction in Medicaid provider rates and to improve access for low-income populations and contain health care costs.
- Increase community placements for the developmentally disabled by significantly downsizing Northern Wisconsin Center.
- Reduce excess institutional capacity among nursing homes and intermediate care facilities for the developmentally disabled by providing incentives for facilities to downsize and by creating additional capacity in the community.
- Maintain supplemental funding for county and municipal nursing homes, but reduce the supplements to fiscal year 2000-01 levels.
- Eliminate the GPR subsidy for the Health Insurance Risk-Sharing Program, increasing the insurer and medical provider portion of costs and decreasing policyholder rates.
- Eliminate graduate medical education payments as a means of avoiding deep across the board rate cuts for all hospitals.
- Implement reforms to reduce prescription drug costs in Medical Assistance, BadgerCare and SeniorCare programs, including expanded use of prior authorization, reduced pharmacy reimbursement rates and standardized reimbursement methodologies.
- Implement targeted assessments of medical providers in order to fund rate increases for Medical Assistance providers.
- Align Medical Assistance reimbursement rates with rates used by Medicare, when appropriate, including hospital crossover claims, oxygen and dialysis at free-standing clinics for treating end-stage renal disease.
- Limit autism treatment under the Medical Assistance program to in-school and provider office services due to a federal directive that in-home services are not eligible for reimbursement under the federal Medicaid program.
- Expand the use of managed care to serve Medical Assistance recipients who are eligible for Supplemental Security Income.
- Institute additional efficiencies in Medical Assistance including prior authorization for therapy services, volume purchasing for durable medical equipment and heightened antifraud efforts.
- Provide funding to pilot a comprehensive redesign of long-term care for children to enhance services and provide better wrap-around care options.
- Create a committee to advise the Department of Health and Family Services secretary on how to improve the state-county relationship in delivering human and social services.
- Require governmental units to combine their purchasing power to create a common purchasing pool for pharmacy benefits. After the pool is established, at the Governor's request, extend participation to private employers who meet certain criteria.

- Increase support for Milwaukee County child welfare services to better serve families in need by meeting or exceeding permanency, safety and child well-being standards agreed to by the state and child welfare advocates. Also provide additional support for statewide foster care and adoption assistance payments.
- Increase funding for statewide foster care and adoption assistance payments for children with special needs.
- Increase support for the Wisconsin Statewide Automated Child Welfare Information System (WiSACWIS) to complete implementation. The system provides integrated case management services to child welfare service providers as well as enhanced information management capabilities to local, state and federal stakeholders.
- Streamline medical administration by repealing the requirement that physicians submit patient data to the Bureau of Health Information.

G. JUSTICE



- Slow the growth in prison spending by eliminating nearly 200 primarily middle management, office and administrative positions in the Department of Corrections.
- Increase funding for the Department of Corrections by only 4.7 percent over the biennium, the lowest biennial increase in over a decade.
- Reduce prison costs by expanding the capacity for alternatives to immediate revocation of probation by opening the probation and parole hold facility in Sturtevant. This facility will enhance intensive programming efforts to reform offenders and offer a cost-effective alternative to prison placement.
- Improve the reentry of inmates into the community by providing funding and staff to open two minimum security workhouses, one in Winnebago and one in Sturtevant. The workhouses will provide a variety of employment-focused programming and increase offender employability after release.
- Direct the Sentencing Commission to consider guidelines including alternatives to incarceration and cost-effectiveness measures in ensuring public safety.
- Provide funding and staff to convert the Black River Correctional Center into a boot camp under the Challenge Incarceration Program.
- Provide funding and staff to create a felony drug offender alternative to prison program in Milwaukee County for female offenders.
- Convert the Prairie du Chien Correctional Facility to an adult facility.
- Create an earned release program for certain graduates of the intensive Drug Abuse Correctional Center.
- Avoid reductions to county Youth Aids funding.
- Decrease funding for the Serious Juvenile Offender program to reflect lower populations.

- Provide funding for maintenance of the Highview and New Lisbon facilities. Delay the opening dates for these facilities until the 2005-07 biennium.
- Consolidate the Divisions of Narcotics Enforcement and Criminal Investigation in the Department of Justice to secure operating efficiencies and reduce costs.
- Support expansion of restorative justice efforts by funding restorative justice coordinators in the Milwaukee and Outagamie county district attorney offices.
- Promote drug-free communities by providing funding for an antidrug prosecutor in both the Milwaukee and Dane county district attorney offices.
- Create a State Prosecutors Board, consisting of eight district attorneys, attached to the Department of Administration, to better allocate district attorney staff to meet work load demands throughout the state.
- Increase interpreter reimbursement funding to counties for interpreter services, regardless of indigency, and provide support for training, examination and certification of interpreters through the Supreme Court's Interpreter Program.

**Development of
the 2003-05 Budget**

II. DEVELOPMENT OF THE 2003-05 BUDGET

A. INTRODUCTION – MAKING UP FOR MISSED OPPORTUNITIES

Wisconsin enjoyed considerable economic prosperity throughout the 1990s. Jobs and personal income increased dramatically. State spending skyrocketed as significant funding commitments were made to highways, schools, prisons and health care for the poor, elderly and disabled. Rosy economic scenarios convinced state leaders that accelerated tax cuts and rebates could be easily absorbed within current revenue growth.

The warning signs were evident. Each budget had a larger structural deficit than its predecessor (see Table 1). As we spent more or gave back more than we took in, the state ran red ink. Our Budget Stabilization Fund consisted of a few hundred dollars. Our bond ratings were first given negative outlooks and then downgraded. We became infamous for having the worst budget of all states under generally accepted accounting principles.

TABLE 1

Second Year Structural Deficits (\$ in millions)								
Fiscal Year	Budgeted Total Revenue	Budgeted Net Expenditures	Structural Balance	Structural Balance As a % of Revenue	Balance Under GAAP Standards	Bond Ratings		
						Moody's	S&P	Fitch
FY81	\$3,439.2	\$3,584.6	-\$145.4	-4.2%				
FY83	4,140.5	4,177.7	-37.2	-0.9%				
FY85	4,525.7	4,602.4	-76.7	-1.7%		Aa	AA	
FY87	4,948.3	5,082.0	-133.7	-2.7%		Aa	AA	
FY89	5,487.0	5,568.2	-81.2	-1.5%		Aa	AA	AA+
FY91	6,200.7	6,345.3	-144.6	-2.3%	-\$1,359.4	Aa	AA	AA+
FY93	6,874.4	6,932.9	-58.5	-0.9%	-1,418.5	Aa	AA	AA+
FY95	7,821.9	7,962.2	-140.3	-1.8%	-1,427.2	Aa	AA	AA+
FY97	8,879.9	9,346.3	-466.3	-5.3%	-1,771.7	Aa	AA	AA+
FY99	9,813.9	10,048.5	-234.6	-2.4%	-1,229.9	Aa2	AA	AA+
FY01	10,596.8	11,071.9	-475.1	-4.5%	-1,588.9	Aa3	AA-	AA
FY03	10,693.2	10,985.4	-292.2	-2.7%	-2,443.3	Aa3	AA-	AA
FY05	11,703.6	11,698.8	+4.8	0.0%	-2,254.9			
FY07	12,761.0	12,438.9	+322.1	2.5%				

Source: Section 20.005(1), Wisconsin Statutes, Complete Annual Fiscal Reports and Budget Bill Condition Statements

The 1990s should have been a time to put our fiscal house in order. Other states chose that path. Michigan increased its share of local school costs at the same time it improved its bond rating and created a sizeable budget stabilization fund. Minnesota has always set aside large reserves for the inevitable rainy day. Unfortunately, Wisconsin chose higher spending over prudent budgeting and was one of only five states not to appropriate funds to its rainy day fund in the 1990s.

As the bubble burst in the stock market and jobs evaporated here at home, the weakness of Wisconsin's finances were exposed. Revenues dropped precipitously while expenditures continued to increase. Because we missed the opportunity presented by the economic prosperity of the 1990s, sharp spending cuts became the only prudent alternative to maintaining a balanced budget in the 2000s.

The state chose to avoid spending cuts and resorted to desperate measures. The tobacco settlement, won through the hard work of states' attorneys general and secured to improve health care for all, was

frittered away to plug the gaping hole in a single year's state budget. The state's debt burden was increased – Wisconsin, in effect, took out a second mortgage on its existing loans. And, in a final act of desperation, local government services, the fundamental link between the governed and their government, were made the scapegoats and unfairly attacked. The state's underlying structural deficit, meanwhile, was left intact. Somehow, someday, someone would need to attend to it.

It's a new day in Wisconsin. Governor Doyle is committed to making up for the missed opportunities of the last several years. In the 2003-05 budget Governor Doyle proposes to:

1. Balance the budget without tax increases.
2. Bring the budget into both short-term and long-term structural balance by matching recurring expenses and revenues (see fiscal year 2004-05 and fiscal year 2006-07 in Table 1).
3. Sharply cut state spending, reduce the size of state government and streamline state bureaucracy.
4. Use one-time revenues in a targeted and prudent manner to offset the one-time fiscal year 2002-03 carry-over deficit.
5. Maintain the state's commitment to the essential services Wisconsin values – K-12 and higher education, public safety, health care, the environment and transportation.
6. Maintain local government services by restoring shared revenue.

Restoring honest and prudent budgeting will be a painful process. But the missed opportunities of the past leave us with no other alternative. The Doyle Administration is committed to restoring integrity to the state's budget. Costs will be reduced, duplicative programs eliminated and priorities met. State government will be downsized through attrition, retirement incentives and other measures that avoid layoffs if at all possible.

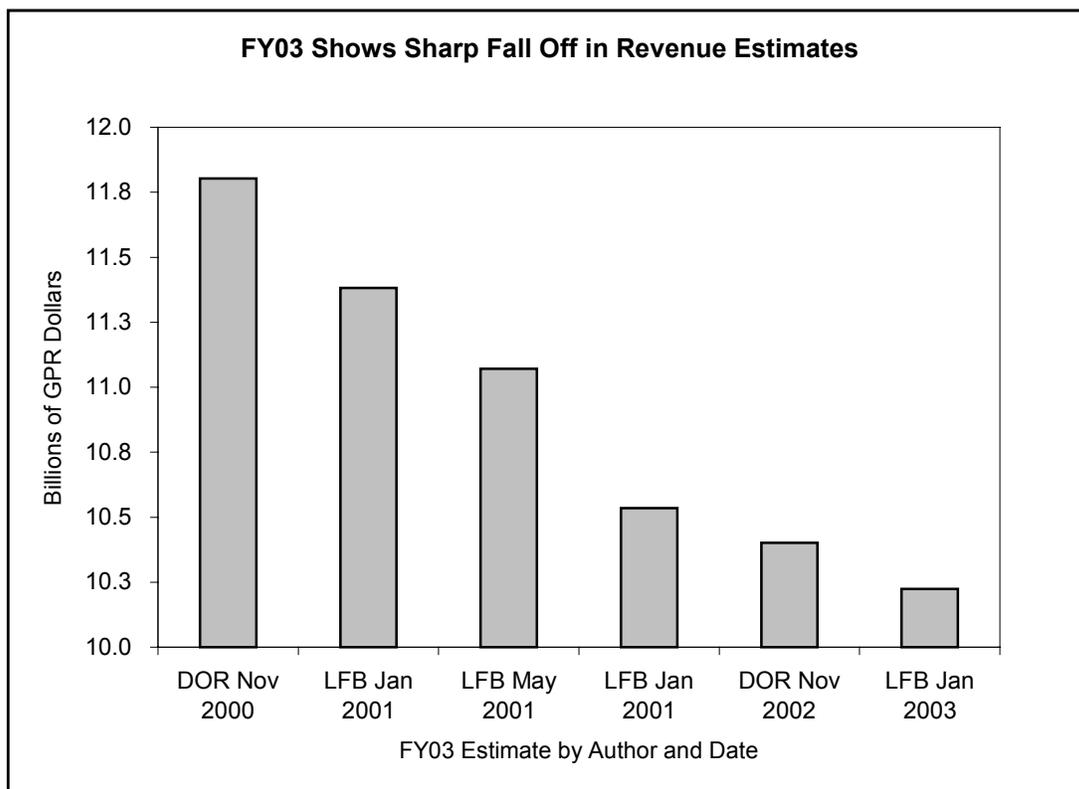
In the short-term, compromises will have to be made in order to protect key programs and maintain a balanced budget. The statutory balance, set to increase to 1.6 percent in fiscal year 2003-04 and to 1.8 percent in fiscal year 2004-05, will have to be reduced and the two percent goal will have to be delayed one year to fiscal year 2006-07. However, the budget is balanced in both years of the biennium, there is no structural deficit and the outlook for the 2005-07 biennium is positive.

With this budget, Wisconsin returns to its historic tradition of careful, prudent and truly balanced budgets.

B. REVENUE AND EXPENDITURE OUTLOOK

Wisconsin's economy has shown signs of both strength and weakness over the last three years. While state unemployment has increased, it continues to track below the national average. Tax revenues, influenced both by the rise in state unemployment and the sell off in the stock market, fell slightly in fiscal year 2001-02 and are expected to experience anemic growth in fiscal year 2002-03. Revenue estimates dropped significantly throughout the 2001-03 biennium (see Chart 1).

CHART 1



New tax revenue estimates released by the Legislative Fiscal Bureau on January 23, 2003, indicate short-term weakness in the state and national economies that are of more concern than those suggested in the estimates released by the Department of Revenue on November 20, 2002, (see Table 2). Consumer spending, fueled by historically low interest rates, continues to prop up the national and state economies. The revenue estimates prepared by both the Department of Revenue and the Legislative Fiscal Bureau rely on federal tax cuts, war expenditures and underlying strength in the economy in predicting revenue growth in excess of five percent in each year of the next biennium on top of two percent growth in the current fiscal year.

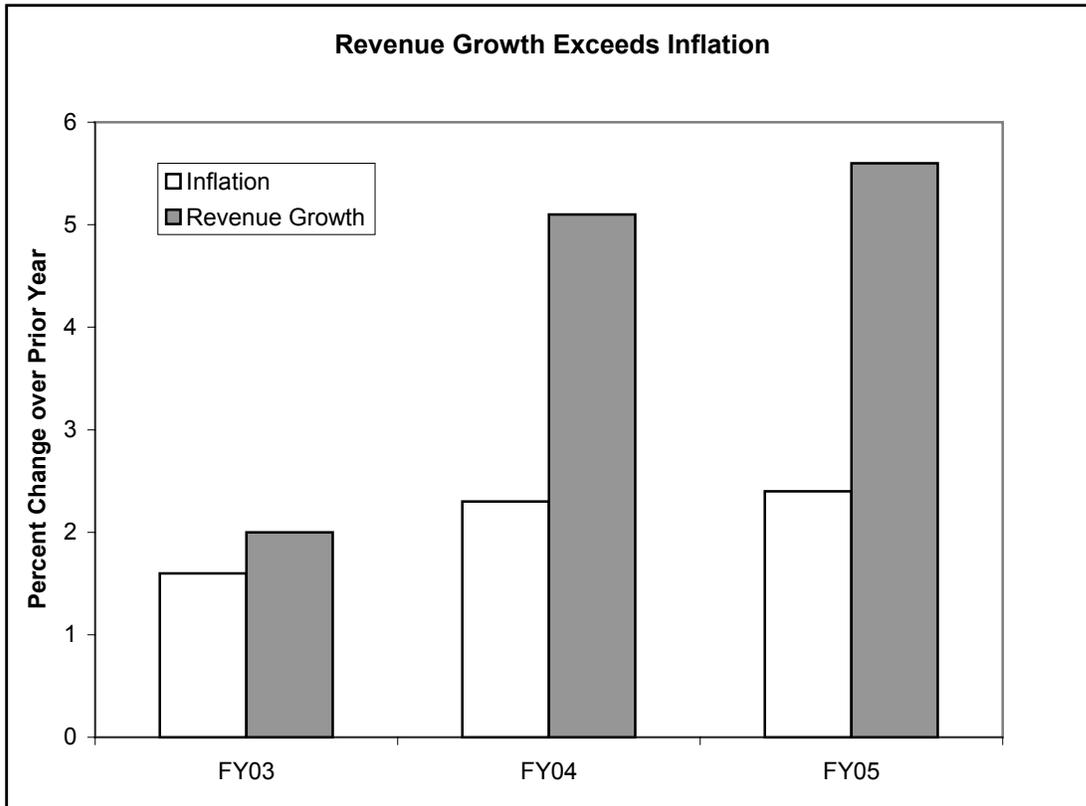
TABLE 2

Change in Revenue Estimates Since November 2002	
(\$ in millions)	
Estimate for FY03	-\$177.4
Estimate for FY04	-214.9
Estimate for FY05	<u>-253.3</u>
TOTAL CHANGE	-\$645.6

The Legislative Fiscal Bureau estimates are more conservative than those prepared by the Department of Revenue. On average over the three-year period from fiscal year 2002-03 through fiscal year 2004-05, the Department of Revenue's estimates assumed growth of 4.9 percent. The Legislative Fiscal Bureau's

estimates assume an average growth of 3.9 percent over the same period. This represents a \$650 million reduction in estimated revenue growth since November 2002. Despite this reduction, revenue growth in fiscal year 2002-03 and the 2003-05 biennium is still expected to exceed inflation (see Chart 2).

CHART 2



Source: Legislative Fiscal Bureau January 23, 2003, revenue estimates.

The overall rate of inflation continues to be low. However, unique circumstances mean that costs in the medical and energy areas are going up much faster than the general rate of inflation. This puts severe pressure on major expense areas such as the Medical Assistance program, state employee health insurance costs, and the costs of paying for fuel and utility expenses for the state's vehicles and buildings.

C. GOALS – WHERE WE WANT TO GO

The overall fiscal goals of the Governor's 2003-05 budget are as follows:

1. Balance the budget without tax increases.
2. Achieve a structural balance by matching recurring expenses and revenue.
3. Make deep cuts in state spending and streamline state government, including the University of Wisconsin System, by cutting over 2,000 positions, cutting most state agency operating budgets by between 3 percent and 63 percent each year, controlling state employee health insurance costs and eliminating duplicative functions and agencies.

4. Restore prudent budgeting by repealing the requirement to pay two-thirds of school costs and limiting property tax increases by maintaining the school district revenue limits.
5. Use debt restructuring as a last resort in the event of additional and significant revenue shortfalls.
6. Comply with full disclosure in budgeting requirements by stating the impact of the proposed budget on future finances.

In addition, the Governor has several important policy goals that guided decisions throughout the development of the 2003-05 budget:

1. Protect and improve K-12 schools in Wisconsin by modifying the school district revenue limits to assist low-spending school districts, repealing the qualified economic offer requirement and allocating Transportation Fund revenues to school aids.
2. Ensure the continued delivery of critical local government services by fully funding the state's 2003 shared revenue commitment to municipalities and counties and maintaining the highest feasible level of state support for shared revenue in future years.
3. Assist low- and middle-income students attending the University of Wisconsin through significant increases in student financial aid.
4. Protect Wisconsin's outdoor and rural economies through funding chronic wasting disease surveillance and eradication efforts.
5. Ensure continued economic growth in Milwaukee and throughout Wisconsin by providing funding for reconstructing the Marquette Interchange while preserving allocations for priority transportation projects throughout the state.
6. Improve the return of federal dollars to Wisconsin and maintain core health care benefits for the poor, elderly and disabled by continuing to seek expanded intergovernmental transfer revenues, creating a new transitional jobs option in W-2 that allows participants to claim the federal earned income tax credit, preserving the SeniorCare program and expanding the number of slots in the Community Options Program.
7. Assist small businesses and farmers by providing funding to implement meaningful health care cost containment measures.
8. Implement prison management measures to reduce the number of out-of-state prison beds, open low-cost correctional facilities and reduce growth in the corrections budget.
9. Improve the delivery of legal services at the state level and law enforcement efforts at both the state and local levels by consolidating most state agency attorneys under the Department of Administration and forming a gubernatorially-appointed board to oversee the allocation of local assistant district attorneys based on work load needs.

D. BALANCING THE 2003-05 BUDGET – ADDRESSING THE DEFICIT

The challenges faced in the 2003-05 budget arise from resorting to unwarranted one-time budget measures in the 2001-03 budget and decisions made in prior budgets that ignored long-term budget trends. The Governor's budget must respond simultaneously to a \$598 million hole created by using the tobacco settlement for shared revenue and leaving the program indefinitely underfunded, an unprecedented budget deficit carried over from fiscal year 2002-03 caused by the general slowdown in the national economy, and major cost pressures in key programs.

Shared Revenue and the Structural Deficit

In order to close the \$1.1 billion deficit that opened in January 2002, the Legislature chose to use the remaining \$598 million from the tobacco endowment to replace GPR funding for shared revenue. At the same time, the Legislature made no change to the state's commitment to pay over \$1 billion in shared revenue to local governments in July and November of 2003. Since cities, counties, villages and towns rely on the state's good faith in building their budgets for the year that began on January 1, 2003, this commitment must be met.

The need to find hundreds of millions of dollars to restore shared revenue is just the start of the 2003-05 deficit. Based on revenue estimates made by the Legislative Fiscal Bureau on January 23, 2003, and cost overruns in the Medical Assistance, BadgerCare and corrections programs, the state is also expected to end this fiscal year with a \$454 million deficit. This enormous carry-over deficit, if left unattended, will become part of the 2003-05 deficit. Governor Doyle has proposed a \$161 million Deficit Reduction Bill as a first step toward reducing this carry-over deficit.

In addition to these deficits, the budget has an operating "structural deficit" in fiscal year 2002-03. Ongoing GPR expenditures exceed ongoing GPR revenues by \$507 million. This means that the first \$507 million in revenue growth between fiscal year 2002-03 and fiscal year 2003-04 must be used just to fund currently authorized spending. It is the first draw on any new revenue.

Currently, each one percent of revenue growth provides about \$102 million in new revenue annually. Since revenues are expected to increase by 5.1 percent in fiscal year 2003-04 over fiscal year 2002-03, the combination of the fiscal year 2002-03 carry-over, structural deficits and the shared revenue commitment exceeds revenue growth by over \$1 billion. And this shortfall excludes meeting cost increases in key programs such as Medical Assistance, SeniorCare and school aids.

To address these deficits, maintain the state's commitment to local government and provide for cost increases in Medical Assistance, SeniorCare and school aids that should be met, the Governor recommends the following measures (see Table 3):

- Denying most requests for new GPR spending.
- Making deep cuts in state spending by most agencies and in most programs.
- Using transportation revenues to assist with meeting the state's shared revenue commitment to local governments and expanding the use of capital financing for highway projects.

TABLE 3

Totaling Up the Deficits (\$ in millions)	
FY03 Deficit	-\$454
Biennial Structural Deficit	-1,014
One-Time Measures and Other Adjustments in FY03	-589
Biennial Cost to Fully Fund Shared Revenue	<u>-1,178</u>
2003-05 Deficit (Prior to Revenue Growth and Agency Requests)	-\$3,235
Agency Requests (Excluding Full Funding of Shared Revenue)	<u>-1,590</u>
Total Deficit Including Agency Requests	-\$4,825
Legislative Fiscal Bureau Revenue Estimates	<u>1,638</u>
Remaining Deficit After Revenue Estimates	-\$3,187
Governor Doyle's Plan to Balance the Budget	
Governor's FY03 Deficit Reduction Bill	\$161
Denying Agency Requests	949
State Operations Base Reductions (including UW System)	378
Other Base Reductions	119
Federal Intergovernmental Transfer Revenues	408
Use of Patients Compensation Fund Balance for Medical Assistance Provider Payments	200
Transportation Fund Assistance to Schools and Shared Revenue	500
Tribal Gaming Revenues	237
Other Changes	<u>275</u>
Total	\$3,227
FY05 Ending Balance	\$40

There are other alternatives for overcoming these budget deficits. But the alternatives either increase taxes, hurt our credit rating, hurt local governments by reducing aid payments or require deeper cuts in essential state spending. Through the measures recommended by the Governor to limit growth in spending, the deficits are erased and the budget is balanced.

Major Budget Pressures

In addition to addressing the past deficits carried over from fiscal year 2002-03, the state faces a number of other pressures in the 2003-05 budget. These pressures would normally require significant new spending simply to continue existing programs and meet legal commitments. But significant new spending, in most cases, is not an option.

First, the state Medical Assistance program continues to exert a huge budget pressure because it is an entitlement program operated under federal rules and cost containment is difficult without cutting services and limiting eligibility. Increasing costs for pharmaceuticals, higher caseloads and utilization of services, reduced federal financial participation, and provider cost increases all contribute to higher Medical Assistance costs. Additional health-related cost pressures include fully funding the successful BadgerCare health insurance program for low-income working families and the SeniorCare program to make prescription drugs affordable for the elderly.

Second, the Wisconsin Works (W-2) program funded through the Temporary Assistance for Needy Families (TANF) block grant has a structural deficit of \$95 million. Ensuring that the poor have access to training, child care and wage-paying jobs will be a priority in closing this deficit.

Third, the state is now required to meet two-thirds of the statewide cost of K-12 education. School aid represents 40 percent of the state general fund budget. Maintaining the two-thirds commitment would add almost \$500 million to the budget.

Fourth, continued increases in state correctional costs absorb a major portion of the available revenue. Prisoner health care costs continue to rise and modest increases are projected in the prison population. Several facilities are also due to open that were delayed by the Legislature from the 2001-03 biennium.

Fifth, debt service costs have increased due to issuance of previously authorized but unissued debt. Debt service costs, once incurred, must be funded. Thus it is essential that we limit the amount of new debt issued to a level that can be sustained, rather than allow debt to rise to an ever-increasing share of the operating budget.

Sixth, in each budget the state must include funding for the costs of any new positions, new programs or pay increases begun in the last budget but not fully implemented or not funded on a full-year basis. These so-called standard budget adjustments are made to ensure that new budget authority recognizes existing payrolls. Standard budget adjustments are taken for granted by agencies because they are housekeeping items, but they are also a cost that must be met in putting a budget together. The 2003-05 budget includes the added complexity of funding collective bargaining agreements that remain unresolved from the 2001-03 biennium.

Seventh, each budget faces the pressure of funding new settlements that will be reached under collective bargaining agreements with various state employee unions and a companion pay package for nonrepresented employees. This major pressure also includes funding anticipated future cost increases for health care, as well as fully funding the cost of health insurance premium increases which already occurred with 2002 coverage.

Finally, while agencies have been directed to take actions to reduce their energy consumption, a significant increase in funding is needed just to fund existing state facilities under normal weather conditions, even before considering the opening of new facilities.

Balancing the Budget

Raising taxes or borrowing to meet these demands is not an option. The only viable option is to cut overall spending, and then use one-time revenues to create a bridge until ongoing expenses come into line with recurring revenues. The Governor's budget is balanced through measures that cut real spending, use one-time revenues in a targeted and prudent manner, and minimize the impacts on Wisconsin residents and businesses, now and in future budgets. There are no delays in state aid payments to local governments. There are no accounting gimmicks. There is no unwarranted borrowing. Instead, the following actions are proposed:

1. Cut the cost of state agency operations by almost ten percent and eliminate over 2,800 existing positions. In addition to denying \$950 million requested by state agencies, the budget cuts \$378 million GPR over the biennium from the Governor's Office, most state agencies, the University of Wisconsin System, the Legislature and court system. Several agencies and boards will be eliminated, middle management positions reduced and functions consolidated in order to help close the deficit while maintaining services to the public. Another \$30 million GPR will be cut from fiscal year 2002-03 budgets through the Governor's Deficit Reduction Bill to help offset the need for even deeper state agency cuts in the 2003-05 biennium.
2. Utilize debt capacity in the Transportation Fund to support critical major highway and large-scale reconstruction projects. This increased capacity will allow Transportation Fund revenues to be allocated to help restore shared revenue for local governments and assist school districts. Shared revenue will be fully restored in fiscal year 2003-04 through \$230 million from the Transportation

Fund. In fiscal year 2004-05, \$170 million will be provided from the Transportation Fund for shared revenue. Schools will receive \$100 million from the Transportation Fund over the biennium to provide a modest increase in funding for schools. In this time of budget crisis, priorities must be made across the entire budget. Our children's education, local law enforcement and vital local services like fire protection are our highest priorities and must be weighed against the speed of completing highway projects.

3. Protect the current Medical Assistance program and finance the necessary growth in Medical Assistance expenditures by capturing \$547 million of federal revenues through the intergovernmental transfer program by adjusting provider rates to fully reflect costs eligible for federal reimbursement. A portion of these revenues will be invested in additional funding to counties for community options slots and other human service program improvements. The remaining revenues will help close the budget deficit by offsetting GPR costs under the Medical Assistance program.
4. Allocate \$200 million in fiscal year 2003-04 from the Patients Compensation Fund via the new Health Care Provider Availability and Cost Control Fund to avoid severe rate cuts to Medicaid providers and maintain core health care services to the poor, elderly and disabled. This fund was established to share risk among medical providers related to malpractice lawsuits. Over the last few years, the fund has built up a surplus of \$550 million through payments from providers and interest earnings. This funding will be used on a one-time basis. Past trends and existing caps to malpractice damages provide assurance that the transfer from the Patients Compensation Fund will leave a sufficient balance in the fund to protect patients, their lawyers and doctors.
5. Repeal the formula that requires payment of two-thirds of statewide K-12 school costs. The budget crisis does not allow the state to provide the estimated \$500 million necessary over the biennium to keep pace with local school costs. Property taxpayers will continue to be protected through the school district revenue limits and school board accountability for approving budgets.
6. Prohibit the University of Wisconsin Board of Regents from increasing resident undergraduate tuition during the 2003-04 and 2004-05 academic years by more than \$350 per semester over the prior year for the doctoral campuses and \$250 per semester over the prior year for the comprehensive campuses and two-year colleges. General purpose revenue (GPR) funding for the University of Wisconsin System will be reduced by \$110 million in fiscal year 2003-04 and \$140 million in fiscal year 2004-05, with the Board of Regents given the discretion to adjust tuition within these caps. Student financial aid will be increased by \$23.6 million over the biennium – the largest increase ever – to ensure continued access for students from families with financial needs.
7. Authorize a reduction in the state's contribution to state employee health insurance and add measures to ensure cost-effective delivery of services by providers of health care to state employees.
8. Reduce the state's required budget balance in fiscal year 2003-04 to \$35 million and in fiscal year 2004-05 to \$40 million. The statutory balance will increase to \$75 million in fiscal year 2005-06 and reach the goal of two percent of gross appropriations and compensation reserves in fiscal year 2006-07. While the required budget balance must be reduced in light of the budget crisis, the Governor recommends using any excess federal maximization revenues to increase the statutory balance. Revenue raised through the sale of low-priority state assets will also be added to the state's rainy day fund. In addition, restructuring of the state's debt is authorized in the event that revenues drop significantly below estimates used in developing the budget.

State Budget Overview

III. STATE BUDGET OVERVIEW

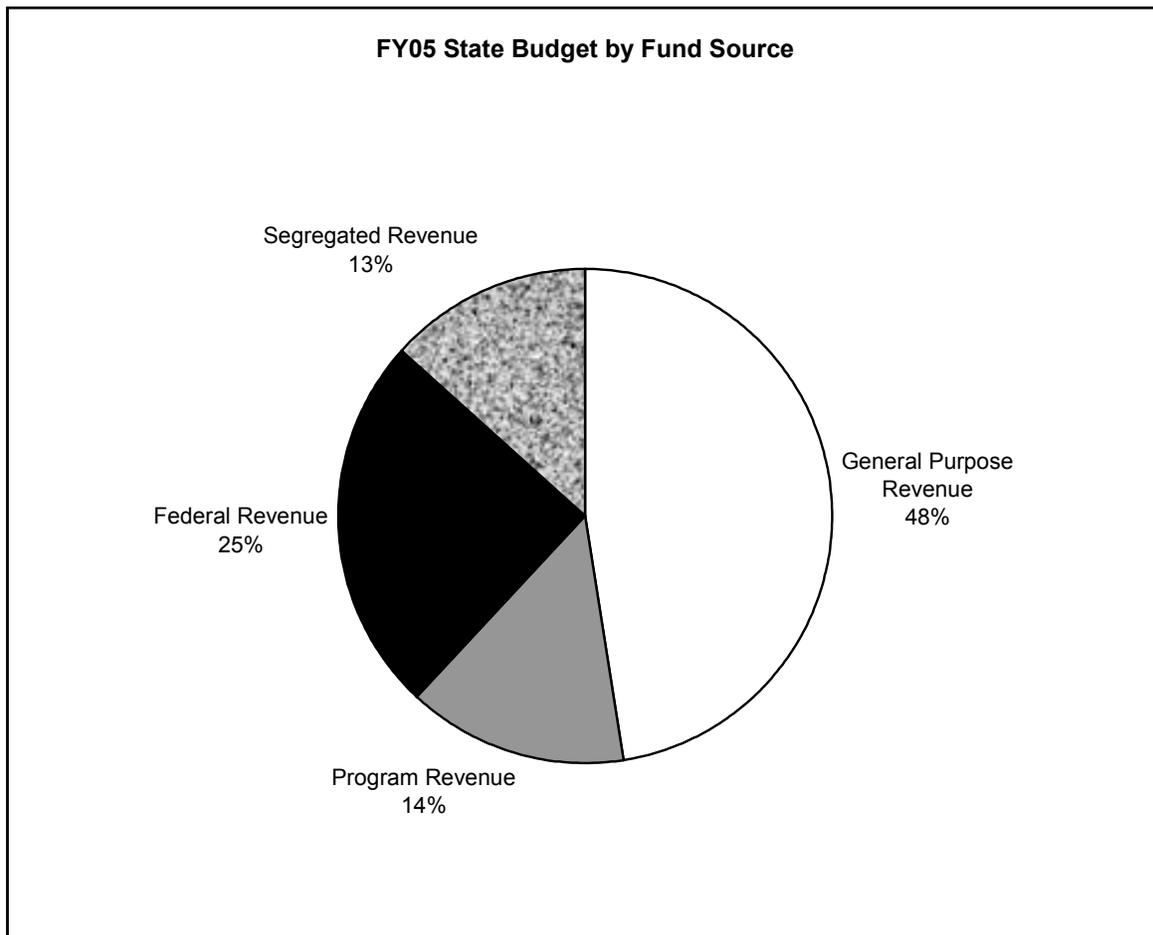
A. PRESENTATION OF THE GOVERNOR'S 2003-05 BUDGET

The Governor's proposed budget for the 2003-05 biennium is presented in its customary components. The operating budget for all agencies and their programs is submitted to the Legislature in the budget bill, the Executive Budget Book and this Budget in Brief. The capital budget will be submitted as a budget amendment, after the State Building Commission has approved a recommended building program for the 2003-05 biennium.

B. EXPENDITURES

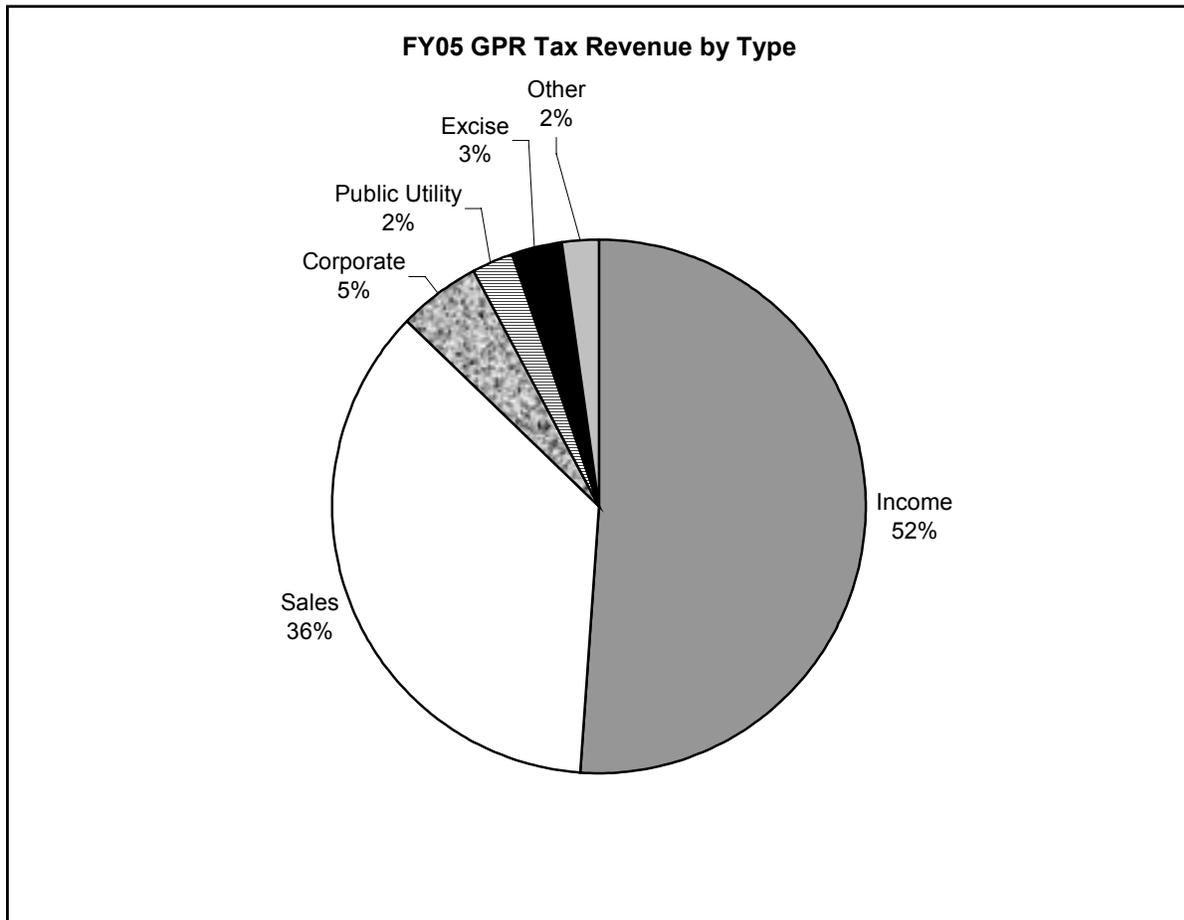
The Governor recommends an operating budget of \$24.276 billion in fiscal year 2003-04 and \$24.519 billion in fiscal year 2004-05. These figures include all four major funding sources and all state agencies and programs (see Chart 3). On an annual basis the Governor's all funds budget for fiscal year 2003-04 represents an increase of \$643 million (2.7 percent) over the fiscal year 2002-03 adjusted base, and the budget for fiscal year 2004-05 represents an increase of \$242 million (one percent) over fiscal year 2003-04. The large increase in fiscal year 2003-04 reflects the use of one-time funding measures, including appropriations from federal and segregated fund revenues, to address the carry-over deficit and fully fund the 2003 shared revenue commitment to local governments.

CHART 3



The largest portion of the state budget is funded from general purpose revenue (GPR), which includes the individual income tax, the state sales tax, the corporate income tax and various other taxes (see Chart 4). The GPR portion is funded from general state taxes and is directly linked to the state's overall economic performance.

CHART 4



Federal revenues (PR-F or SEG-F) are the second largest source of funds in the state budget. The amounts budgeted represent state agency estimates of the various federal program grants expected to be received. Corresponding state matching dollars, where applicable, are budgeted in the other state funding sources. Since it is not possible to predict future congressional budget action, the Governor's budget generally assumes no changes in federal funding except where noted.

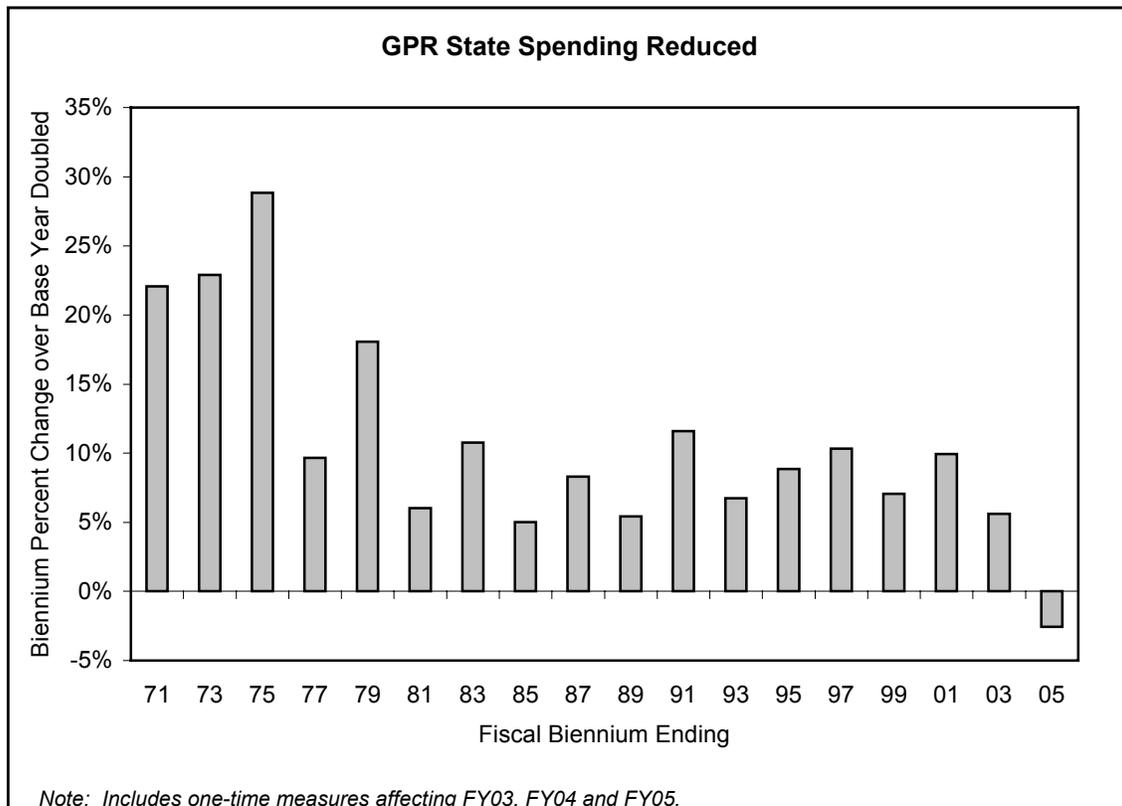
Program revenue (PR-O) is received from user fees that finance specific activities such as public utility regulation, agricultural commodity inspections and State Fair Park admissions. Program revenue is generally budgeted to reflect the anticipated demand for these activities.

Segregated revenues (SEG-O) include revenues from such sources as the motor fuel tax, hunting and fishing license fees, and lottery ticket sales. These revenues are deposited in segregated funds such as the Transportation Fund, the Conservation Fund and the Lottery Fund, which are credited with any interest they earn. Segregated revenues can only be used for specific purposes and are not general revenues of the state, but segregated revenue fund balances have historically been lapsed to the general fund.

The Governor recommends a GPR budget of \$10.784 billion in fiscal year 2003-04 and \$11.679 billion in fiscal year 2004-05. On an annual basis the Governor's GPR budget for fiscal year 2003-04 is a spending decrease of \$370 million (-3.3 percent) over the fiscal year 2002-03 base, and for fiscal year 2004-05 is a spending increase of \$895 million (8.3 percent) over fiscal year 2003-04. The GPR budget increases during the biennium are allocated predominantly to just a few items, correcting the carry-over deficit from fiscal year 2002-03, restoring shared revenue, addressing the entering structural deficit, complying with the GPR spending limit and fulfilling the Governor's commitment to balance the budget without tax increases.

Adjusting for one-time measures in the 2001-03 and 2003-05 biennia, the Governor's budget results in the first decrease in biennial GPR spending in over 30 years (see Chart 5).

CHART 5



State budget instructions to agencies emphasized reallocating resources to higher priority needs, instead of asking for more resources. Most agencies were very conscientious in restraining their budget requests.

However, with weak revenue growth, the Governor insisted that cabinet agencies resubmit their budgets to meet the available revenues and that they be lower than the base year. The Governor's budget proposes a number of modifications as resubmitted by agencies as well as many more not formally requested by agencies. Funding recommendations vary from agency to agency and from program to program within agencies. This is due to changing demographics and demand for specific public services, previous legislative spending commitments, state and federal legislative requirements, evolving needs, and overall spending priorities.

Appendices 1-4 present the Governor's budget recommendations by agency, on an all funds basis and for GPR only. Appendix 3 indicates that more than half of all GPR-funded agencies will receive less money in fiscal year 2003-04 than they receive at present.

The ten largest programs funded by GPR continue to represent a disproportionately large share of GPR spending (see Table 4). Because of their sheer size, any increase in funding for these programs tends to drive state spending, particularly if the increase is greater than overall state revenue growth. Collectively these ten programs constitute more than 87 percent of the fiscal year 2004-05 budget.

TABLE 4

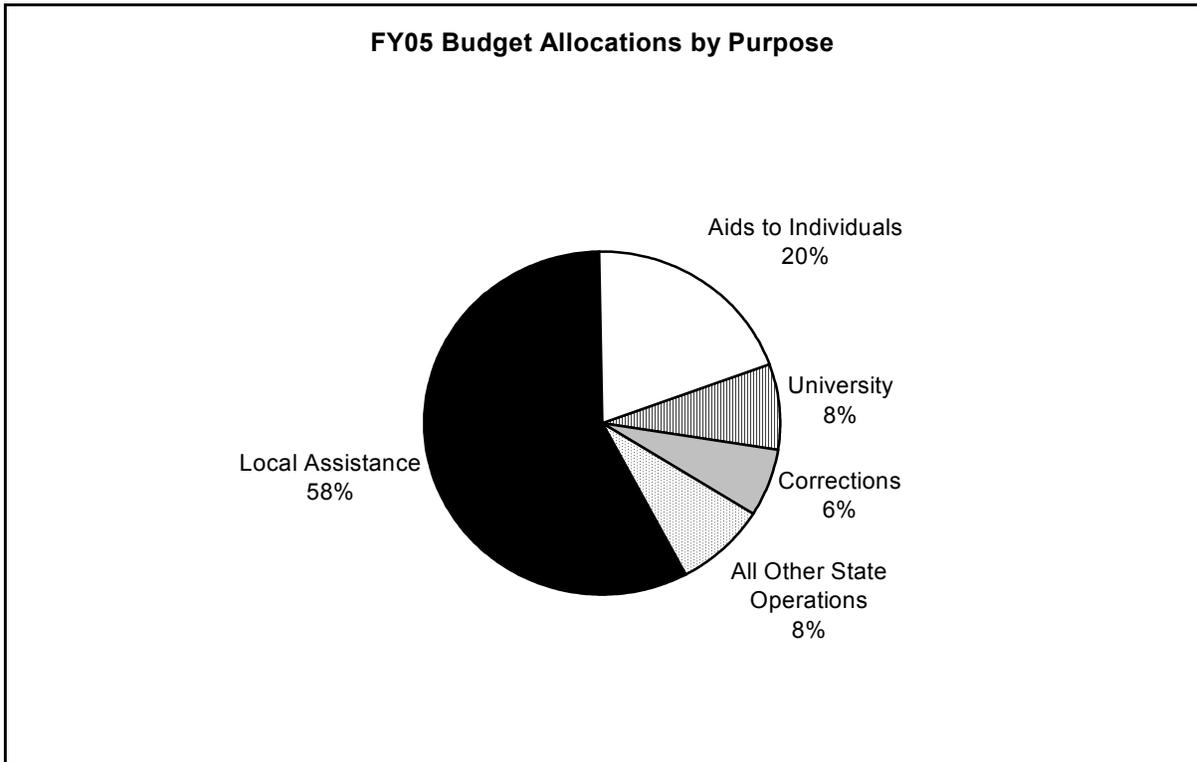
Ten Largest General Purpose Revenue Programs (\$ in millions)			
	<u>FY05 Budgeted</u>	<u>Percent of Total</u>	<u>Cumulative Percent</u>
General and Categorical School Aids	\$4,699.6	40.2%	40.2%
Medical Assistance and Related Programs	1,491.1	12.8%	53.0%
Shared Revenues and Tax Relief	960.0	8.2%	61.2%
University of Wisconsin	830.7	7.1%	68.3%
Corrections	791.7	6.8%	75.1%
State Property Tax Credits	469.3	4.0%	79.1%
Debt Service	413.5	3.5%	82.7%
Community and Social Service Aids	305.9	2.6%	85.3%
Wisconsin Works and Economic Support	154.2	1.3%	86.6%
Wisconsin Technical College System Aids	<u>136.8</u>	<u>1.2%</u>	<u>87.8%</u>
Top Ten Program Total	\$10,252.9	87.8%	87.8%
All Other Programs	1,426.0	12.2%	100.0%
GPR Total	\$11,678.9		

In fiscal year 2004-05, 58 percent of total GPR spending will be for local assistance, i.e., state payments made directly to or on behalf of local units of government (K-12 school districts, cities, villages, towns, counties and technical college districts). In fiscal year 1999-2000, the last year for which data is available, Wisconsin ranked eighth among the states in the amount of aid provided to local governments on a per capita basis. The large percentage of the state budget returned to local governments is a major reason state taxes in Wisconsin are higher on average than in other states and underscores the need for local spending restraints.

The second largest GPR budget component provides financial assistance to individuals. Approximately 20 percent of the GPR budget in fiscal year 2004-05 is for state payments made directly to or on behalf of individuals, through programs such as Medical Assistance, Wisconsin Works (W-2), student financial aid and various state property tax credits.

The remaining GPR budget components are for the operations of the University of Wisconsin System, Department of Corrections and all other state agencies. None of these components receives more than eight percent of the state budget. See Chart 6.

CHART 6



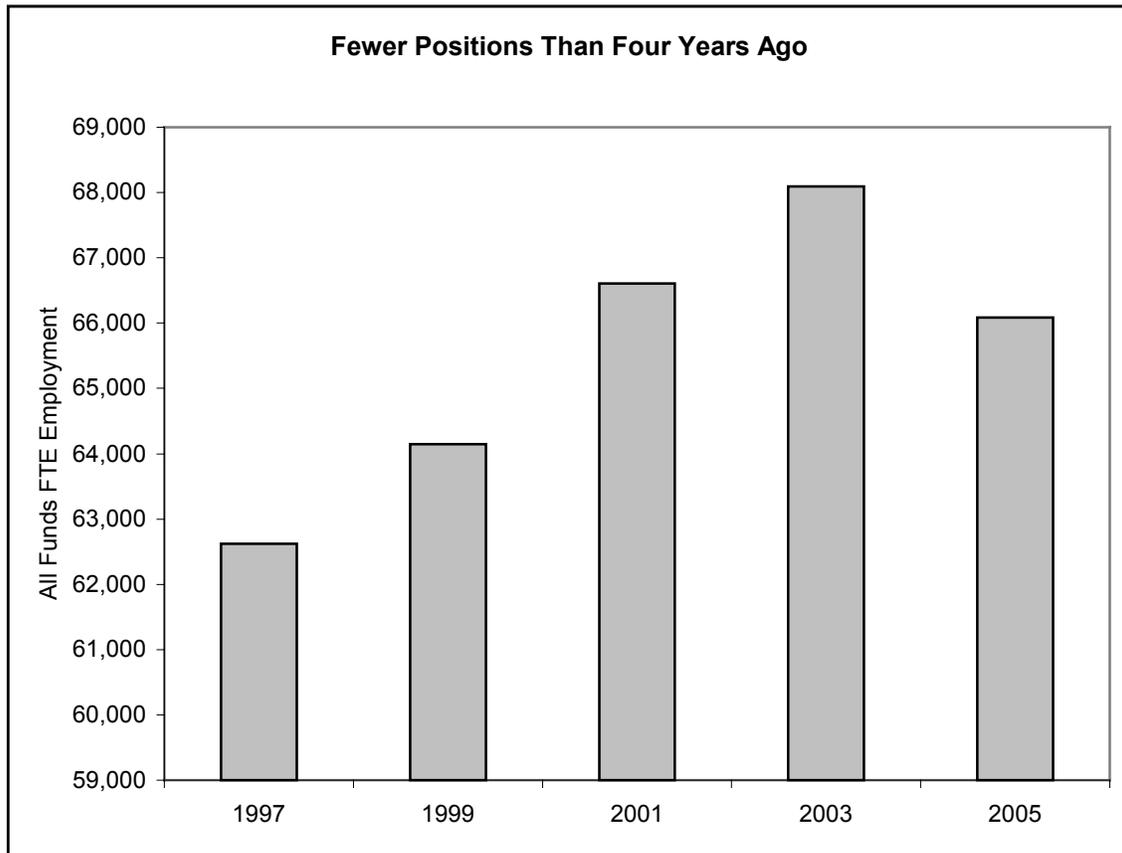
C. POSITIONS

The Governor's budget recommendations include authorization for 66,089 full-time equivalent (FTE) state positions from all fund sources by the end of the next biennium (fiscal year 2004-05). This represents a decrease of 2,003 (three percent) compared with the fiscal year 2002-03 adjusted base of 68,092. From GPR funds the budget provides for 34,709 FTE positions, a decrease of 1,126 (three percent) from the fiscal year 2002-03 adjusted base of 35,835.

The total position reductions in fiscal year 2004-05 are the largest reductions on record. The prior record was a technical decrease of 1,072 positions resulting from converting University of Wisconsin Hospitals and Clinics to an authority. Overall position count will be lower in fiscal year 2004-05 than four years ago (see Chart 7).

In context, the position reduction is even more remarkable. This budget does not create a new quasi-public authority to remove positions. It must also absorb increases in positions due to staffing new correctional facilities, the creation of new positions by a University of Wisconsin System that is legally permitted to create positions without the Governor's or Legislature's approval, and the creation of additional positions by the University of Wisconsin Hospitals and Clinics Authority without review or approval. In fiscal year 2004-05, nearly all agencies will have fewer positions compared with fiscal year 2002-03.

CHART 7



The state position count reflects a number of historic compromises. First and foremost, the University of Wisconsin Hospitals and Clinics Authority is a quasi-public authority that was spun off from the state in 1996, after a conversion that initially decreased the state employee count, and has been authorized ever since to add positions without gubernatorial or legislative approval to allow its employees to enjoy state benefits. In the 2003-05 budget, over 350 FTE positions must be added due to this compromise.

Second, the University of Wisconsin System, in operating as an institution of learning and research, carries out many research functions that are entrepreneurial in nature. The university's research work is based on its ability to secure federal and private sector grants. Often, the receipt of these grants leads to the creation of new positions, each of which is added to the state position count. To enable the University of Wisconsin System to bring millions of federal, foundation and other grants home to Wisconsin, the system is free to create new positions without external approval.

In response to these compromises and in order to more appropriately account for the total number of state positions, the Governor recommends that any presentation of state positions distinguish between the positions of the University of Wisconsin Hospitals and Clinics Authority, positions funded from auxiliaries enterprises, gifts, grants and federal revenues in the University of Wisconsin System, and the remaining positions in state government (see Table 5).

TABLE 5

State FTE Positions				
	FY03	FY05	Change From Base	Percent Change
University of Wisconsin – Gifts, Grants, Federal	9,636.4	10,203.3	566.9	5.9%
University of Wisconsin Hospital and Clinics Authority	1,887.2	2,240.1	352.9	18.7%
State Positions	<u>56,568.3</u>	<u>53,645.3</u>	<u>-2,923.0</u>	<u>-5.2%</u>
Total State	68,091.9	66,088.7	-2,003.2	-2.9%

Under any measure, the Governor's budget includes a dramatic reduction in state positions and reflects the state agency operating efficiencies necessary to balance the budget without tax increases.

D. BUDGET BALANCE

The Governor's proposed budget as presented under the state's customary budget accounting practices is balanced in both fiscal years of the next biennium and the succeeding biennium (see Table 6). As required by the constitution and state statute, the Governor's budget is balanced in both the short- and long-term. Due to the combined magnitude of the budget deficits and shared revenue commitment, the required statutory balance will be set at \$35 million in fiscal year 2003-04, \$40 million in fiscal year 2004-05, \$75 million in fiscal year 2005-06 and two percent of gross appropriations and compensation reserves in fiscal year 2006-07. General purpose revenue (GPR) funding lapsed as a result of excess federal Medicaid revenue will be used to increase the statutory balance. Revenues from the sale of state assets will be deposited in the Budget Stabilization Fund. Restructuring of the state's debt has also been authorized on a conditional basis in the event of declining revenues.

TABLE 6

General Fund Condition Under Governor's Budget and FY03 Deficit Reduction Bill					
(\$ in millions)					
	2003-05 Governor's Budget			2005-07 Estimates	
	<u>FY03</u>	<u>FY04</u>	<u>FY05</u>	<u>FY06</u>	<u>FY07</u>
OPENING BALANCE, JULY 1	\$53.8	-\$292.2	\$35.4	\$40.2	\$75.3
REVENUES AND TRANSFERS					
Taxes	\$10,223.5	\$10,746.9	\$11,350.9	\$11,873.0	\$12,419.2
Departmental Revenues	415.9	218.8	227.7	192.8	192.8
New Tribal Gaming Revenues	<u>0.0</u>	<u>112.0</u>	<u>125.0</u>	<u>137.0</u>	<u>149.0</u>
Total Available	\$10,693.2	\$10,785.6	\$11,738.9	\$12,243.0	\$12,836.3
APPROPRIATIONS, TRANSFERS AND RESERVES					
Gross Appropriations	\$11,107.3	\$10,783.7	\$11,678.9	\$12,263.9	\$12,487.6
Compensation Reserves	79.8	115.8	176.4	20.0	80.0
Transfer to Tobacco Control Fund	15.3	15.3	15.3	15.3	15.3
Less Estimated Lapses	<u>-217.1</u>	<u>-164.6</u>	<u>-171.9</u>	<u>-131.6</u>	<u>-144.0</u>
Total Expenditures	\$10,985.4	\$10,750.2	\$11,698.8	\$12,167.7	\$12,438.9
BALANCES					
Gross Balance	-\$292.2	\$35.4	\$40.2	\$75.3	\$397.4
Less Required Statutory Balance	<u>-134.2</u>	<u>-35.0</u>	<u>-40.0</u>	<u>-75.0</u>	<u>-251.4</u>
Net Balance, June 30	-\$426.4	\$0.4	\$0.2	\$0.3	\$146.0
Structural Balance	-\$346.0	\$327.5	\$4.8	\$35.1	\$322.1

Detail may not add due to rounding.

The projection for the 2005-07 biennium is based on the calculation methodology set forth under state law. Revenues are projected to grow at 4.6 percent annually, which represents the average growth, excluding tax law changes, over the previous ten fiscal years. New tribal gaming revenues are presumed to increase at approximately the same pace as in the 2003-05 biennium. Departmental revenues have been adjusted for one-time transfers (e.g., lapses from program revenue and segregated revenue state operations appropriations to the general fund).

The calculation methodology for projecting changes in state spending focuses on five major areas:

- School Equalization Aids
- Medical Assistance
- Corrections
- Debt Service
- Compensation Reserves

Equalization aids, Medical Assistance, corrections and debt service were increased by the rate of growth in those programs between the 2001-03 biennium and the amounts recommended by the Governor for the 2003-05 biennium. Compensation reserves were increased based on the same pay plan assumptions used for 2003-05 biennium. Compensation reserves from the 2003-05 biennium were allocated to gross appropriations to reflect the inclusion of these costs in the base for the 2005-07 biennium. Overall gross appropriations and lapses have been adjusted for one-time measures in the 2003-05 biennium (e.g., use of Transportation Fund revenues for shared revenue).

State statute also requires showing the impact of the Governor's budget on the state's budget balance under generally accepted accounting principles (GAAP). These principles require that revenues and expenditures be accounted for when they occur. The state has a GAAP deficit because of decisions over the last 20 years to delay local assistance payments as a means of balancing the budget. The Governor's budget does not delay any payments to address the budget deficit and reduces the state's GAAP deficit by almost \$190 million over the biennium (see Table 7).

TABLE 7

Estimated General Fund Condition Summary According to Generally Accepted Accounting Principles (\$ in millions)			
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>
Opening Balance	-\$1,877.3	-\$2,443.3	-\$2,176.5
Revenue			
Estimated Taxes	\$10,223.5	\$10,746.9	\$11,350.9
Departmental Revenues and Transfers	415.9	218.8	227.7
Tribal Gaming Revenue	0.0	112.0	125.0
Total Revenue	\$10,639.4	\$11,077.7	\$11,703.6
Total Available	\$8,762.1	\$8,634.4	\$9,527.1
Total Appropriation (Net)	\$10,985.4	\$10,750.2	\$11,698.8
Balance Before Change in Adjustments to GAAP	-\$2,223.3	-\$2,115.8	-\$2,171.7
Net Contribution to Balance Adjustments in GAAP (change from prior year)			
County and Municipal Aids	-196.5	-17.8	-25.6
Accrue/Defer Tax Revenues	-23.5	-42.9	-57.6
Estimated Closing Balance	-\$2,443.3	-\$2,176.5	-\$2,254.9

Balance is the unreserved, undesignated balance of the general fund.

Due to the Governor's commitment to putting the state's fiscal house in order without tax increases, through spending cuts and pursuit of innovative financing mechanisms, fiscal year 2006-07 is projected to have a sizeable surplus. This surplus is a testament to the Governor's commitment to common sense budgeting and a willingness to confront the missed opportunities of the past.

E. DEBT MANAGEMENT

Authorized Bonds and Estimated Debt Service

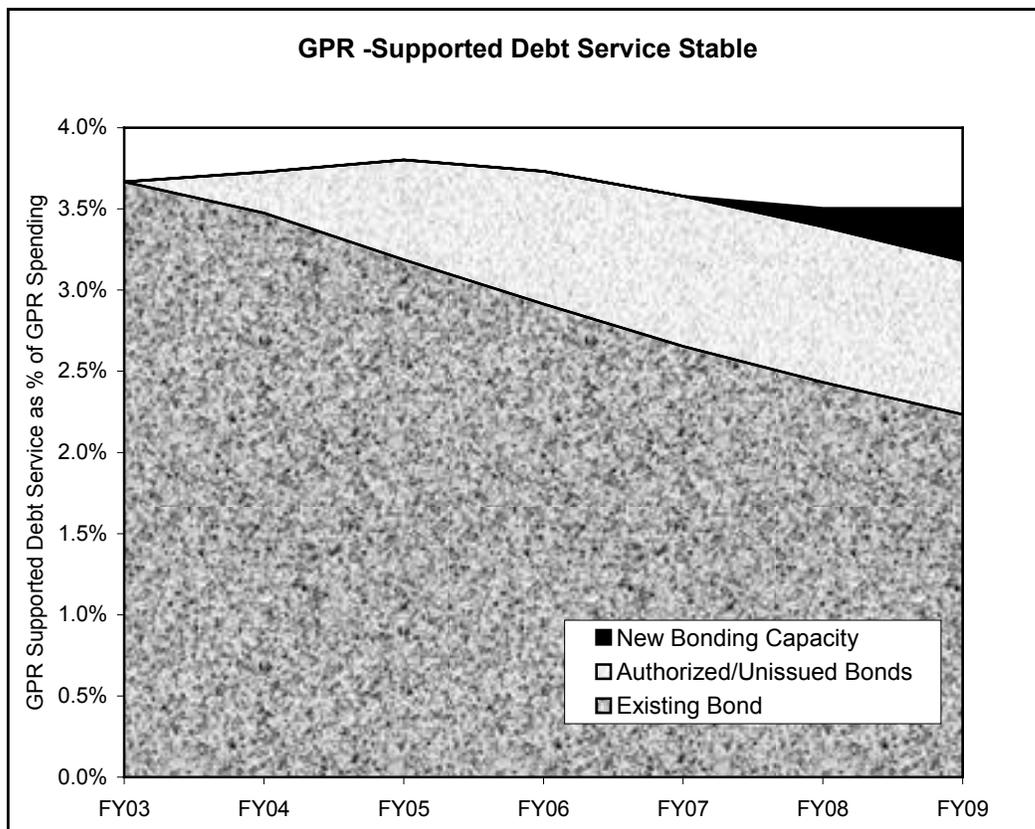
State debt management is necessary to ensure that long-term capital needs can be met at an affordable level. State debt management is geared to maintaining GPR debt service at no more than four percent of GPR, with a target GPR debt service between three and four percent of GPR. This standard is a self-imposed limitation consistent with sound debt management to ensure that debt service does not consume an increasing share of the state's budget. This policy provides a yardstick against which requests for new bonding authority are considered. The debt management policies reflected in the budget are based on three important assumptions.

First, new bonding authorizations, together with the timing of new bond issues, should not cause GPR debt service to rise above 3.8 percent of GPR by fiscal year 2004-05. This outcome is higher than

projected two years ago because of under performance of revenue, not because borrowing costs have been higher than estimated. Specific bonding recommendations for the building program will be included in the capital budget amendment, which will be submitted later.

Second, previously authorized but unissued debt will push debt service costs higher for the biennium, but this will be offset in large part by old debt being retired. Currently authorized but unissued general obligation bonding authority for GPR-supported programs amounts to \$1,618.3 million. This authorized unissued bond authority breaks down to \$873.1 million for environmental and water programs and \$745.3 million for building and other programs. Both of these general categories include large amounts of bonds that are multiyear authorizations that require issuance of the bonds over several years. Issuance of approximately \$860 million of GPR-supported bonds during the next biennium will result in debt service rising to about 3.8 percent of GPR revenue from a current level of 3.7 percent, assuming the revenue estimates on which this budget is based (see Chart 8). The absolute cost of new debt service during the past two years has been significantly ameliorated by historic low interest rates. Economic projections at this time point to modest increases in interest rates, but remaining near historic low levels.

CHART 8



Third, the state's market access and bond ratings will not continue to deteriorate. The state has suffered its first bond rating downgrades since the early 1980s and the state remains under negative outlook for further downgrades. Fortunately, low interest rates have caused "credit compression" which means that the increased interest cost of those downgrades is not material at current market levels. A return to more normal higher interest rates will cause the state's lower bond ratings to result in higher borrowing costs. The state's most recent long-term 20-year general obligation bond issue sold at a true interest rate of 4.13 percent. This compares to a 5.38 percent interest rate two years ago.

Wisconsin's bonds are still received favorably by the investment community but are being given much closer scrutiny. Many investment managers of bond funds owning State of Wisconsin general obligation bonds are very concerned about the possibility of a further rating downgrade that will cause a loss of market value for the bonds they manage. This status can be maintained by carefully limiting the uses and amounts of new debt authorizations, by active management of the timing and structure of new bond issues, and, most importantly, by resolving Wisconsin's basic structural financial problems.

Wisconsin's continued access to bond markets is threatened by the bond rating agencies' concern regarding the state's inadequate budget reserves, large GAAP deficit and continued projection of a structural deficit. Wisconsin's debt service and issuance levels are considered moderate by the rating agencies. However, continued fiscal policies that do not provide protection against economic downturns will, sooner or later, result in bond rating downgrades which will damage the state's ability to sell bonds in the amounts and at the interest rates assumed in this budget.

New Capital Financing Initiatives

A guiding principle in developing this budget is to avoid the use of financing strategies to shift current liabilities into future years. Much of the state's current problems have been caused by decisions similar to the use of proceeds from the tobacco securitization transaction for operating purposes, leaving behind a structural budget imbalance for every dollar that was raised. A number of financing initiatives are proposed in this budget, however, that produce true economic savings, not merely the forestalling of current expenses.

Pension Obligation Bonds. One of these financing opportunities is to refinance the state's unamortized accrued actuarial liability (UAAL). The State of Wisconsin retirement system is funded by contributions from public employers and employees to pay for benefits determined by public policy and calculated according to actuarial standards. Part of the payment made to the system by the state is an amount equal to slightly more than one percent of payroll (out of a total of about eight percent total payment to the retirement system) to pay for previous underfunding of state employees' prior service. The state's obligation is carried on the books of the retirement system at an assumed interest rate of eight percent and is amortized over a 40-year period that began in 1989. The state can issue taxable bonds at about six percent in today's market and use the proceeds to pay off the prior service liability of about \$730 million, replacing the eight percent obligation the state has been paying since 1989 with a new six percent obligation. This transaction will generate true economic savings without creating costs or liabilities greater than those the state is already obligated to pay during the remainder of the 40-year amortization period.

Tobacco Bonds Repurchase Program. Bonds sold by Badger Tobacco Asset Securitization Corporation (BTASC) to purchase the right to receive the tobacco settlement revenues from the state were, like a number of other similar transactions, at market interest rates significantly higher than the general market for tax-exempt bonds. The reason for this "interest penalty" is the fact that there is a general projection that per capita cigarette consumption is declining, creating uncertainty as to the timing of payments to be made by the four major cigarette manufacturers pursuant to the Master Settlement Agreement between those manufacturers and the State of Wisconsin. It is believed that the State of Wisconsin can issue bonds, backed by the moral obligation of the state, and use the proceeds to purchase BTASC bonds from investors in the open market at a significantly lower interest rate. The state's bonds would be paid off at the same rate as the higher interest rate BTASC bonds are repaid under the original terms of their sale. Each year this program should yield net income resulting from the difference between the higher interest rate on the BTASC bonds and the lower interest rate on the state's bonds. The budget directs that this difference will be used for funding tobacco cessation programs and to help increase the general fund balance.

Structural Refunding Bonds. Contributing to the structural deficit left by the current budget was the structural refunding of general obligation bond principal due in fiscal year 2001-02 and fiscal year 2002-03. In fiscal year 2001-02, \$75 million of GPR-supported general obligation bond principal that was due was refunded and rescheduled over future years. Also in fiscal year 2001-02, \$25 million of GPR-supported general obligation commercial paper was similarly rescheduled and another \$25 million will be rescheduled in the current fiscal year. The Governor is committed to using structural refunding

only as a last resort in response to unanticipated financial problems. The Governor's budget authorizes the issuance of up to \$350 million of GPR-supported structural refunding bonds. However, this budget does not anticipate the use of such bonds to balance the budget and permits the use of this authority only in the event the Department of Administration determines that revenues will be significantly less than initially estimated.

Other Financing Initiatives. This budget includes provisions to clarify the use of existing authority for the State Building Commission to enter into interest rate exchange agreements. This clarification will allow the synthetic refunding of general obligation bonds that, for technical tax law and market reasons, cannot be currently refunded for debt service savings. Additionally, the Clean Water Program uses both proceeds of revenue bonds and GPR-supported general obligation bonds. This budget anticipates replacement of certain reserves in the program with insurance sureties, allowing the released funds to be used for GPR debt service related to the program.

The Governor's budget reflects a lapse to the general fund balance of \$52 million in fiscal year 2003-04 and \$50 million in fiscal year 2004-05 to reflect debt service savings associated with pension obligation bonds, synthetic refunding and changes to the Clean Water Program.

F. CASH MANAGEMENT

While this budget is balanced as required by state law, differences in the timing of cash receipts and payments within the fiscal year, as well as fundamental differences between the "statutory/budgetary basis" on which the budget is constructed and the "cash basis" on which the state must pay its bills, cause severe cash shortfalls at different times of the year. The need for annual borrowing, in the form of operating notes, was unnecessary in fiscal year 2002-03 due to the availability of tobacco securitization proceeds to make some general fund payments.

Operating notes will be issued as in past years to most effectively manage the state's cash flow. The budget assumes operating notes of \$750 million in fiscal year 2003-04 and \$900 million in fiscal year 2004-05. By statute, operating notes are limited to ten percent of GPR and PR appropriations. During the coming biennium, the anticipated notes will be well below this statutory maximum.

Major Budget Initiatives

IV. MAJOR BUDGET INITIATIVES

A. RESTORING FISCAL DISCIPLINE

Introduction

For over 20 years, Wisconsin has had a significant gap between ongoing expenditures and recurring revenues. That gap is manifest in the perennial deficit that we must disclose under generally accepted accounting principles (GAAP). These principles represent "truth-in-budgeting." They also shine a bright light on the many tricks used to portray a "balanced" state budget over the last 20 years. These tricks range from shifting the entire shared revenue payment from one fiscal year to the next in the early 1980s to the school aid payment shifts made in the mid-1990s in order to fund two-thirds of school costs.

Wisconsin has also had a Budget Stabilization ("rainy day") Fund on the books since the last series of budget crises in the mid-1980s. Building such a fund requires strong financial discipline. Unfortunately, no legislative action has ever been taken to divert actual monies into the fund.

Recent History

The economic boom of the 1990s masked these underlying structural problems in the state's budget. Decisions on addressing these problems were deferred as decision-makers became convinced that the economic cycle only pointed up. Ironically, the surpluses created during the boom years could have been used to shore up these weaknesses in the state budget. By the time the boom became a bust, the surpluses had been spent and the structural weaknesses remained.

The last two years have witnessed a considerable decline in state revenue estimates. Between the Department of Revenue estimates issued in November 2000 and the estimates made by the Legislative Fiscal Bureau in January 2003, state revenue estimates for the 2001-03 biennium have fallen by over \$1.6 billion. Since January 2002, revenue estimates for fiscal year 2002-03 have been reduced by over \$360 million. With no meaningful Budget Stabilization Fund, the Legislature turned to a series of one-time measures to prop up spending levels in the short-term. Unfortunately, this short-term approach leaves the budget severely out of balance as we enter the 2003-05 biennium.

Addressing the Deficit

The state is currently facing a \$3.2 billion deficit that can be directly attributed to the general slowdown in the economy and the structural weaknesses in the state budget. There are theoretically two general options for closing the revenue and spending gap – increase taxes or cut spending. But there is only one real option – cut spending.

Solving the deficit through higher taxes would require a permanent increase of 21 percent in the state's income tax and an additional 16 percent income tax surcharge in fiscal year 2003-04. The top marginal rate would rise from 6.75 percent in fiscal year 2002-03 to 9.24 percent in fiscal year 2003-04. If sales taxes were increased, the rate would top out at 7.6 percent in fiscal year 2003-04. These increases would solve the deficit by taking more income from Wisconsin citizens and damage Wisconsin's economy.

Bringing the budget into balance through indiscriminate spending cuts is not an answer either. This approach would require an across the board reduction of over ten percent in fiscal year 2003-04. Across the board cuts ignore Wisconsin's policy and quality of life priorities. For example, a ten percent cut in school aids would require immediate cuts in school district spending and increase the property tax levy by over seven percent beyond normal growth. A ten percent cut to social services programs, such as BadgerCare and SeniorCare, would result in the loss of over \$75 million in federal matching funds for these programs. The working and elderly poor would lose access to affordable health care services.

The Governor's budget avoids both higher taxes and indiscriminate spending cuts by setting priorities across the entire state budget and continuing the pursuit of a fair share of federal aid. Wisconsin's priorities must be delivering a high-quality education system, ensuring the provision of basic local services, providing health care for the poor, elderly and disabled, protecting our environment, and maintaining a positive tax climate. Those priorities are protected, as much as possible, in the face of this budget threat by continuing to leverage federal Medicaid funding through the intergovernmental transfer program, allocating more transportation revenues to meet critical local government services through the expansion of capital financing for highway projects, leveraging surpluses in other funding sources, and reducing the size of state government.

Tribal Gaming Revenue

A critical element in balancing the budget is seeking to maximize nonstate tax revenues, including federal receipts and tribal gaming revenues. Wisconsin currently receives \$24.5 million in fees paid by Native American tribes under the gaming compacts. This is less than two percent of total gaming receipts.

Many other states receive considerably more in fees under the gaming compacts. The state of Michigan imposes fees ranging from 2 percent to 10 percent. Connecticut and New York levy fees that range up to 25 percent. California receives up to 13 percent. New Mexico receives 8 percent of gaming revenue.

Surrounding states with commercial casinos receive considerably more in revenue. In Illinois, commercial casinos pay between 15 percent to 35 percent of receipts to the state. In Iowa, the amounts range from 5 percent to 20 percent. In Michigan, commercial casinos pay 18 percent of receipts to the state.

As it now stands, the amounts remitted to the state under most of the compacts have not changed even while total gaming receipts have grown substantially. Clearly, based on comparable agreements with other states, Wisconsin can improve the amounts received under the gaming compacts. Even based on the low end of comparable experience in other states, Wisconsin should be able to increase its receipts in the range of \$110 million to \$150 million annually.

With the current tribal gaming compacts requiring negotiation over the next several months, Wisconsin has the opportunity to secure a larger percentage of tribal gaming revenue through equitable agreements with Wisconsin's sovereign tribes. Based on preliminary discussions on new tribal gaming compacts, the Governor's budget assumes increased revenue of \$112 million in fiscal year 2003-04 and \$125 million in fiscal year 2004-05.

B. GOVERNMENT OPERATIONS AND EFFICIENCY

The Governor recommends a variety of initiatives aimed at improving the efficiency of agency operations. Among these initiatives are: (a) an overall reduction in GPR funding for state agency operations of over nine percent; (b) a lapse of PR-O and SEG funding for state operations; (c) a reduction of more than 2,800 FTE positions from all funding sources; (d) consolidation of certain agency functions to improve management and efficiency; and (e) eliminating several boards. These actions will generally affect all state agencies.

State Agency Operating Budget and Position Cuts

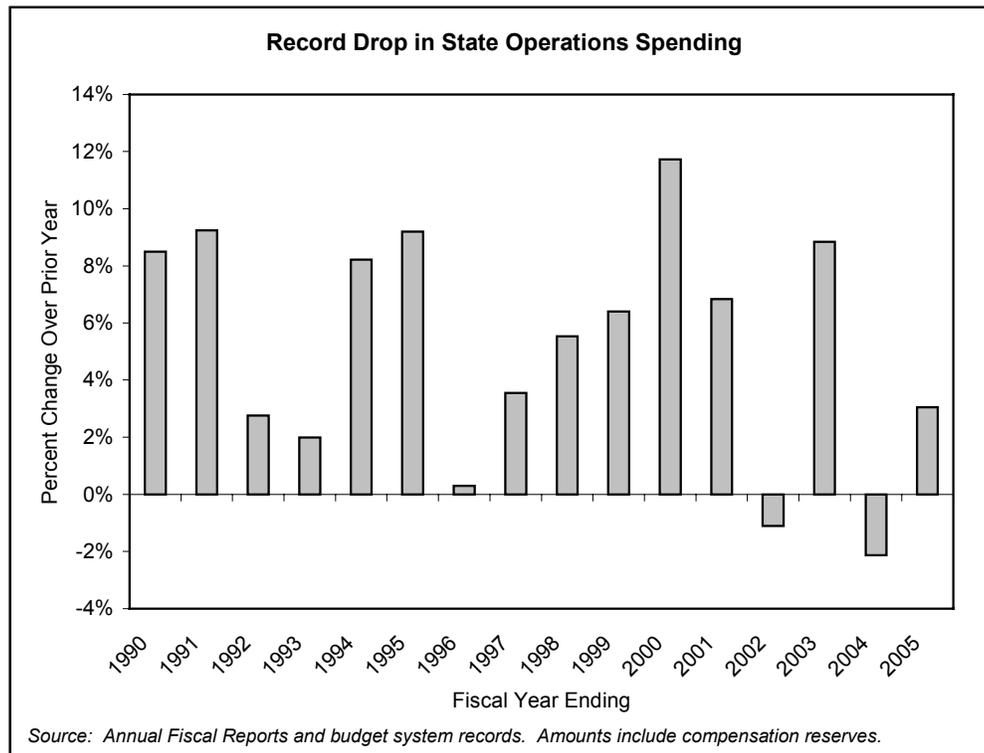
State agency operating budgets, excluding debt service, are being reduced by an average of 9.2 percent (see Table 8).

TABLE 8

Deep Cuts in State Agency Budgets and Positions (\$ in thousands)						
Agency	GPR State Ops Reductions		PR/SEG State Ops Lapses		All Funds FTE Position Reduction	FY05 GPR State Ops Cuts as % of FY03 Base
	FY04	FY05	FY04	FY05		
Administration (includes DER & DEG)	\$3,062	\$3,062	\$3,600	\$3,600	146.1	18%
Adolescent Preg Prev Bd					2.0	
Aging and Long Term Care Board	37	37			1.0	5%
Agriculture, Trade & Consumer Protection	1,888	1,888	426	426	52.0	10%
Appeals Court						
Arts Board	66	66			1.0	20%
Board of Commissioners of Public Lands					1.5	
Child Abuse Prevention Board			17	17		
Circuit Courts	250	250				0%
Commerce	1,129	1,129	5,306	5,306	54.7	16%
Corrections	9,700	9,700			200.0	21%
District Attorneys	900	900			15.0	2%
Educational Communications Board	1,028	1,028			17.8	20%
Elections Board	46	46			1.0	5%
Employee Trust Funds						
Employment Relations Commission	400	400			4.0	16%
Ethics Board	14	14			0.5	6%
Financial Institutions			825	848	15.5	
Governors Office	667	667	8	8	8.0	19%
Health and Family Services	3,500	6,700	488	488	538.0	7%
Higher Educational Aids Board	80	470			8.0	63%
Historical Society	1,500	1,500			30.0	16%
Insurance Commissioner			1,445	1,445	5.0	
Investment Board						
Judicial Commission						
Justice	5,000	5,000	162	162	40.0	15%
Legislature	5,920	5,920			60.0	10%
Lieutenant Governors Office	180	180			4.0	34%
Lower WI State Riverway Board						
Medical College of Wisconsin						
Military Affairs	198	198			3.0	3%
Natural Resources	7,879	7,879	1,625	1,625	142.0	19%
Personnel Commission	810	810			9.0	100%
Public Defender Board	3,500	3,500			16.0	5%
Public Instruction	2,582	2,582			25.0	10%
Public Service Commission					13.0	
Regulation & Licensing			1,970	1,970	10.0	
Revenue	3,967	3,967			151.0	5%
Secretary of State						
State Fair Park					15.0	
Supreme Court	500	500				5%
TEACH Wisconsin Board	606	606			9.0	94%
Tech College System	350	350			6.0	11%
Tobacco Control Board					3.0	
Tourism	2,179	2,179			7.5	20%
Transportation			15,000	15,000	300.5	
Treasurer					1.0	
UW Hospitals & Clinics						
UW System					650.0	
Veterans Affairs	100	100	900	900	18.0	14%
Workforce Development	<u>4,000</u>	<u>4,000</u>	<u> </u>	<u> </u>	<u>219.0</u>	<u>21%</u>
Totals	\$62,038	\$65,628	\$31,771	\$31,794	2,803.1	9.2%

The result of these agency budget reductions and other cuts in spending is the largest drop in overall GPR state operations spending on record. The drop is remarkable in that it occurs without gimmicks. On the contrary, the drop occurs even in the face of paying bills that were put off until this biennium, including delayed pay plan adjustments, the payment holiday for the state employee sick leave conversion program and one-time savings from restructuring the state's general obligation debt (see Chart 9).

CHART 9



Measures to Assist State Employees as Work Force is Reduced

In order to help state agencies minimize the number of layoffs that are expected to result from these reductions, the Governor is recommending several statutory language changes that will facilitate voluntary retirements and reductions to less than full-time status. These changes include:

- Allowing Wisconsin Retirement System employee participants to purchase additional service credits with funds from certain tax deferred plans. Providing this feature will offer state and local government employees additional flexibility in planning for retirement at a minimal cost to government employers.
- Removing the 30-day break-in-service requirement for certain Wisconsin Retirement System employee participants. Removal of this restriction will offer state and local government employees additional flexibility to transition into retirement. Employees will be able to begin part-time employment with any Wisconsin Retirement System employer immediately after retiring from their career positions.

- Providing additional flexibility to state employees regarding the utilization of accumulated sick leave credits used to purchase post-employment health insurance. These provisions will allow state employees with at least 20 years of service to escrow their accumulated sick leave credits without being eligible for an immediate annuity from the Wisconsin Retirement System. In addition, employees will have their accumulated sick leave credits valued at their highest rate of pay instead of the rate in effect immediately prior to retirement.

These new features will offer state employees additional flexibility in transitioning into retirement. Agencies will also be using current and future vacancies as a tool in managing these position reductions. While not always in the corresponding functional area or agency as that of state employees whose positions will be eliminated, there are currently over 3,100 FTE vacant positions in all funding sources throughout state government.

Reorganizations and Consolidations

In the course of reviewing the budget of every state agency, the Governor identified several boards and programs that could be eliminated. This budget also includes the reorganization of specific agency functions where it was clear that operational efficiencies could be obtained.

These reorganizations and consolidations are fundamental to the Governor's goal of balancing the budget without tax increases. Reaching this goal requires significant reductions in the state work force. Programs must be streamlined and administrative layers removed in order to accomplish these reductions without reducing services to the public.

The Governor's budget eliminates eight agencies, boards and commissions in order to streamline government operations. The functions of these organizations have been distributed to other agencies with similar programs or sufficient economies of scale to deliver high-quality programs at a lower cost. Additional functions have been downsized and transferred between agencies to further streamline government operations, improve service delivery and balance the budget.

Agencies Eliminated

- Adolescent Pregnancy Prevention and Pregnancy Service Board
- Electronic Government
- Employment Relations
- Higher Educational Aids Board
- Personnel Commission
- Office of the Commissioner of Railroads
- Technology for Educational Achievement in Wisconsin Board
- Tobacco Control Board

Agencies Reorganized

<i>Agency</i>	<i>Functions Added</i>	<i>Functions Transferred</i>
Administration	Statewide information technology Statewide human resources Agency legal services Private school and technical college student financial aid Railroad hearings and appeals County-tribal law enforcement grants (Office of Justice Assistance)	Housing Operation Fresh Start Sentencing Commission
Agriculture, Trade and Consumer Protection	Milk certification	Consumer protection
Commerce	Housing	Brownfields grants
Corrections	Sentencing Commission	
Health and Family Services	Tobacco control Adolescent pregnancy prevention and pregnancy services	Milk certification
Justice	Consumer protection	County-tribal law enforcement grants
Natural Resources	Brownfields grants	
Transportation	Railroad regulation	
University of Wisconsin System	Student financial aid	
Workforce Development	State employee personnel hearings and appeals	Operation Fresh Start

In one reorganization that will affect virtually all executive branch agencies, the Attorney Consolidation Initiative, the Governor recommends streamlining the provision of legal services by transferring attorneys in executive branch agencies, with certain exceptions, to the Department of Administration. This initiative will result in operational efficiencies by allowing attorneys to be assigned to agencies based on need and work load (see Table 9).

TABLE 9

Attorney Consolidation Initiative		
State Agency	FTE Reduction	FTE Transferred
Administration*	1.00	1.00
Aging and Long-term Care	1.00	0.00
Agriculture, Trade and Consumer Protection	2.00	4.50
Commerce	1.00	2.00
Corrections	2.00	4.80
Employee Trust Funds	0.00	1.00
Employment Relations	0.00	1.00
Financial Institutions	1.00	5.00
Health and Family Services	4.20	13.15
Insurance	1.00	3.00
Military Affairs	1.00	0.00
Natural Resources	4.00	14.00
Public Instruction	0.00	2.00
Revenue	3.00	9.00
Tourism	1.00	0.00
Transportation	2.00	7.00
Veterans Affairs	0.00	1.00
Wisconsin Technical College System	1.00	0.00
Workforce Development	<u>2.00</u>	<u>1.00</u>
Totals	27.20	69.45

**1.0 FTE attorney position transferred to new legal services appropriation.*

State Health Insurance Costs

Rapidly increasing health insurance costs are a concern to all employers, including state government. The state has experienced rate increases averaging 16.6 percent per year since 2000. Due to the current plan structure that encourages employees to switch to lower cost plans, the actual cost increase has averaged 13.3 percent per year during that same period. The current contribution formula provides an employer contribution of the lower of 90 percent of the standard plan (a traditional indemnity plan) or 105 percent of the lowest cost-qualified plan available to each employee.

For 2003, it is estimated that the state's share of employee health insurance premiums will exceed \$575 million. Experts expect the trend of double-digit increases to continue for at least the next several years. In response to increasing costs, the Governor recommends strengthening the ability of the Group Insurance Board to create a more efficient and cost-effective purchasing strategy. These recommendations include:

- Placing each health plan into one of three tiers (low cost, medium cost and high cost) based on the risk-adjusted cost.
- Replacing the current 90 percent/105 percent statutory contribution formula with one that requires the state to pay not less than 80 percent of the cost of the plans in the lowest cost tier.

- Providing additional flexibility to allow modification of the standard plan to make it more cost-efficient and compatible with the tiering approach.

These changes will enhance the state's approach of encouraging employees to select lower cost plans via the premium contribution formula. These changes will not affect any existing collective bargaining agreements and health insurance costs will continue to be the subject of future collective bargaining negotiations and agreements.

The addition of adjusting for risk in assigning plans to tiers will reward the more efficient providers of health care and encourage less efficient plans to improve their performance. Under the current system, an efficient health care provider may be penalized simply because they serve a sicker population. For example, a highly efficient provider may cost more than an inefficient plan because they tend to serve a population that is older than the average (age is one of the most significant predictors of health services utilization). Adjusting for risk, and assigning efficient plans to the lowest cost tier, will continue the state's long-standing policy of encouraging employees to choose the most efficient and cost-effective health plan.

The standard plan, as currently designed, is experiencing adverse selection. Group Insurance Board members and staff believe that it will not be possible to maintain the plan as it is currently designed. The Governor's recommendations will allow the board to make the necessary changes to improve this option while preserving flexibility and access that make this an attractive option to participants.

These recommendations will allow the state to continue to explore and implement creative cost containment initiatives such as developing a prescription drug purchasing pool with other public and private entities and strategies to improve the quality of care provided.

Department of Revenue

Decisions affecting the Department of Revenue illustrate a prime method of increasing government efficiency – focus on the core mission. The core mission for the Department of Revenue is to collect taxes. Any resources used in any activity outside the core mission should be reevaluated. In this budget there are two such reevaluations – manufacturing property assessment and operating the state lottery.

Property assessment is the first step in property taxation. In Wisconsin, the property tax is essentially a local tax. Yet since 1975, the state has been assessing manufacturing property for local governments at no cost to them. Since that time, property assessment standards have improved, assessor certification has been implemented and property assessment has become a full-time profession. Recognizing the improvements in assessment at the local level and in the private sector, the Governor recommends that manufacturing property be assessed by local governments as are all other forms of property. While the state would not assess the property, it will continue to establish assessment practices standards and set assessor qualification standards.

The state lottery is effectively a consumer business, not one that is related to the department's core mission. The lottery now operates in part with state employees and in part through private vendors. Private retailers are the distribution network. In lieu of having the state supply this consumer business, the Governor recommends evaluating private sector options for the state lottery retail trade and limiting the state's role to auditing and contract compliance. Positions related to the lottery would be eliminated in fiscal year 2004-05. Bids for private supply of the lottery would be completed and evaluated before the end of fiscal year 2003-04. If, after evaluating the bids, state operation of the program remains the most cost-effective means of delivery, the lottery positions could be restored.

Other Issues

- Eliminate staff of the Waste Facilities Siting Board.
- Reduce the number of commissioners and support staff of the Tax Appeals Commission.

- Establish a permanent six-week program to train new and retain existing certified nursing assistant employees at the Veterans Home at King (\$183,000 PR in each year).
- Provide additional funding (\$355,500 SEG in fiscal year 2003-04 and \$843,800 SEG in fiscal year 2004-05) for veterans tuition and fee reimbursement grants and for part-time study grants to fund anticipated increases in tuition and to maintain an 85 percent reimbursement rate.

C. ECONOMIC DEVELOPMENT AND TRANSPORTATION

Transportation Funding and Highway Programs

Wisconsin has an extensive highway system to provide access to and between population centers, tourism locations, and agricultural and timber production areas. The efficient movement of people and goods is essential to economic development and the well-being of Wisconsin's citizens and visitors. The Governor's budget aims to preserve Wisconsin's highway infrastructure by ensuring that existing highway construction projects are completed and providing sufficient funding to rehabilitate and maintain highways and bridges statewide.

In particular, funding is budgeted to begin reconstruction of the Marquette Interchange. Scheduled to be completed in 2008, the reconstruction would occur over four years and take place in stages, as identified through the public involvement process, to minimize disruption in the City of Milwaukee. The interchange is a major factor in improving the economic condition of the state. Located in the heart of the state's largest population center, the interchange serves people and goods traveling from Illinois and southeastern Wisconsin to the rest of the state and from all areas of the state to the City of Milwaukee and southeastern Wisconsin.

To date, Wisconsin has relied on revenue from vehicle registration fees to support transportation revenue bonds, the proceeds of which have been used to construct major highway projects. These bonds have enjoyed a strong bond rating. However, to help ensure that future transportation bonds retain the competitive interest rates associated with those ratings, additional revenues must be pledged to support the debt service paid on the bonds. The Governor's budget recommends that additional revenues be generated through a \$10 increase in the automobile registration fee and through the pledge of various other motor vehicle fees, including the title transfer fee, to be available to pay debt service on transportation revenue bonds. The title transfer fee will also be increased by \$10 to further assist in supporting debt service and other program costs.

The additional pledge will allow the state to continue to meet state highway program needs by using bonding to offset a portion of an expected \$90 million reduction in federal aid for the state highway program by fiscal year 2004-05 (see Table 10). The loss of federal revenue is further exacerbated by the lack of federal funding dedicated to the Marquette Interchange project, requiring the state to pick up the majority of the costs of reconstructing this hub in the federal Interstate Highway system. In addition to the Marquette Interchange, many other portions of the Interstate and U.S. Highway systems are reaching the end of their useful life and need either complete reconstruction or substantial rehabilitation.

TABLE 10

Highway Funding Reduced Due to Federal Aid Shortfalls (\$ in millions)			
	<u>FY03</u>	<u>FY05</u>	<u>Change from FY03 to FY05</u>
Federal Funding	\$481	\$391	-\$90
State Funding	638	676	38
Total Highway Funding	\$1,119	\$1,067	-\$52

When the Interstate Highway system was initially constructed, the federal government paid 80 percent to 90 percent of cost. Unfortunately for Wisconsin taxpayers, the federal government is no longer providing sufficient federal dollars to cover a high percentage of the costs of reconstructing and rehabilitating Wisconsin's portion of the federal highway system. In order to preserve Wisconsin's highway infrastructure, transportation revenue bond proceeds will be expanded to support capital development costs in the state highway rehabilitation program and Marquette Interchange project, in addition to the major highway program.

While Transportation Fund revenues could cover a portion of these additional capital expenditures, a decision to make such an allocation would require either doubling fee levels (e.g., a registration fee increase of \$45 rather than \$10) or reallocating funding away from priorities that cannot be funded by federal highway aids or bond proceeds, such as local transportation aids, state patrol operations, and vehicle registration and licensing activities. In addition, during this budget crisis, it is important to look beyond traditional boundaries and set priorities across all funding sources and areas of government. Reducing the amount of Transportation Fund revenues used to cover capital expenditures in the state highway program allows the reallocation of those monies on a one-time basis to support local government transportation costs through the shared revenue formula.

Department of Transportation Initiatives

- Increase funding for the General Transportation Aid, Local Road Improvement and Transit Aid programs by 2.5 percent in fiscal year 2003-04 and fiscal year 2004-05 over the prior year to maintain local transportation systems.
- Provide \$18,761,800 SEG over the biennium to meet State Highway Maintenance Program needs and transfer the costs of certain activities to the State Highway Rehabilitation Program to consolidate capital expenditures and create administrative efficiencies.
- Provide \$400,000 SEG in fiscal year 2004-05 to match federal funding for preliminary engineering of a commuter rail corridor between the cities of Kenosha, Racine and Milwaukee.
- Lower the prohibited blood alcohol concentration from 0.1 percent to 0.08 percent for first and second operating a motor vehicle while intoxicated offenses to conform to federal requirements and avoid loss of federal aid.
- Modify outdoor advertising restrictions along scenic byways to comply with federal requirements.
- Provide \$201,200 SEG in fiscal year 2004-05 to match \$804,600 of federal funding to implement federal motor carrier safety provisions.

Economic Development Initiatives

- Promote redevelopment of idle property in the City of Milwaukee by extending Canal Street and by expanding the Board of Commissioners of Public Lands investment authority. The board would be able to purchase land as investment property, in addition to its current authority to make loans to municipalities.
- Streamline administration and increase flexibility to meet needs in the brownfields grant program by consolidating various grant programs and increasing funding by \$1 million SEG over the biennium.
- Maximize funding available to communities and school districts from the Board of Commissioners of Public Lands by allowing diversification of investments and management of the funds by the State of Wisconsin Investment Board.
- Ensure continued development of the rural economy by preserving funding for the Agricultural Development and Diversification Grant program at \$760,000 over the biennium.
- Improve service to the business community by providing \$242,000 PR in fiscal year 2004-05 to develop an Internet-based system through which mortgage banking and financial services entities could apply, renew and pay for licenses; update information and complete annual reports.

D. EDUCATION, WORKFORCE AND LOCAL GOVERNMENT

Elementary and Secondary Education

Wisconsin's future economic and cultural vitality depends on the quality of its public school system. Over 85 percent of Wisconsin's school-age children are educated in Wisconsin public schools. Despite the difficult decisions required by the current budget deficit, the state must make every effort to ensure that educating its children remains a top priority. To prevent deficits of this magnitude from occurring again, Wisconsin must continue to commit the resources needed to ensure that its citizens have the knowledge and skills to successfully address future challenges.

Fortunately, Wisconsin has a strong base from which to build. Wisconsin students continue to be among the nation's leaders in academic performance. Wisconsin again led the nation in 2002 on the composite score for the ACT college entrance exam.

Historically, Wisconsin's citizens have shown a strong willingness to commit their tax dollars to building and maintaining a high-quality public education system. Elementary and secondary school aids, including the school levy tax credit, remain the single largest expenditure of state general fund resources, comprising almost 49 percent of general fund revenues, more than four times the next largest expenditure.

However, there is room for improvement. While the total amount of state and local resources devoted to public education may be adequate, these resources can be distributed more equitably. The current revenue limits make it difficult for many low-spending school districts to invest in the activities they believe are necessary to ensure that their students receive a sound education. Some of the state's most affluent school districts receive equalization aid payments because of modifications that have made the distribution formula less equitable, not because these districts have a demonstrated need for state assistance. While the Governor's Task Force on School Finance will provide Wisconsin's citizens and decision makers with a forum for a broader public discussion on how the school finance system should be restructured, steps can be taken to improve equity beginning in fiscal year 2003-04.

In addition, to maintain the excellence of Wisconsin's teachers, there needs to be greater parity at the collective bargaining table. Existing statute allowing school boards to unilaterally invoke a qualified economic offer based on an arbitrary percentage increase in compensation does not serve the state's interest in encouraging Wisconsin's best and brightest to consider or remain in public school teaching

careers. There is no compelling reason why teachers, alone among public sector employees, should be placed under collective bargaining restrictions.

Unfortunately, since funding public education is the biggest single expenditure in the state budget, public education will also have to contribute to addressing the state's budget deficit. Given the extraordinary size of the deficit, it will not be possible to continue the state's commitment to support two-thirds of school expenditures. To keep the promise not to raise state taxes and to maintain services to Wisconsin's most vulnerable populations, it is necessary to move away from an absolute commitment to aid a specific percentage of school costs. It is also important that this action be balanced by sparing public education from budget reductions which would jeopardize Wisconsin's future. It will require taking a more flexible view of which funding sources are tapped to support public schools. It is also the opportunity to begin to inject more equity into how school aid is distributed.

To address these challenges, Governor Doyle proposes the following initiatives:

- Create a new equalization aid supplemental appropriation funded with segregated revenue from the Transportation Fund. Provide \$40 million SEG in fiscal year 2003-04 and another \$20 million SEG in fiscal year 2004-05, for a total biennial increase of \$100 million. School districts spend over \$300 million annually on pupil transportation, which results in over \$200 million being added to the equalization aid appropriation related to these expenditures. Therefore, it is reasonable to make use of the Transportation Fund to help subsidize the state's commitment to public education. The additional \$100 million represents a one percent increase in equalization aid in fiscal year 2003-04 and a one-half percent increase in fiscal year 2004-05.
- To assist low-spending school districts, increase the low revenue exemption, above which school boards can increase per pupil expenditures only by obtaining voter approval in a referendum, from the current \$6,900 per pupil to \$7,400 per pupil in fiscal year 2003-04 and \$7,800 in fiscal year 2004-05. The existing exemption, even with previous annual adjustments, is set too low to benefit more than one or two school districts each year. It is estimated that setting the exemption at the above levels could benefit up to 98 school districts.
- Repeal the hold harmless provision for equalization aid paid on the first \$1,000 of per pupil spending. Under current law, all school districts with per pupil property values under \$1,930,000, which is more than five times the statewide average of \$353,000, cannot lose any of the state aid received on the first \$1,000 they spend per pupil. This provision was originally implemented to ensure that all school districts, including those with the highest property values per pupil, receive some aid under the equalization aid formula. Without the hold harmless provision, districts with very high property values would have been ineligible to receive aid under the formula. Since the budget deficit has severely limited the amount of additional state aid that can be allocated to schools, every effort should be made to distribute that aid to districts with more limited property tax capacity.
- Repeal provisions requiring the Department of Administration, the Department of Public Instruction and the Legislative Fiscal Bureau to report to the Joint Committee on Finance on the cost to fund two-thirds of partial school revenues and the authority of the Joint Committee on Finance to set the appropriation level for general equalization aids in odd-numbered fiscal years. This request, in effect, repeals the state's statutory requirement to fund two-thirds of partial school revenues and provides the state more flexibility to establish school aid levels that are consistent with the state's ability to pay.
- Repeal the qualified economic offer (QEO) provisions related to teacher collective bargaining. Through this action, teachers will no longer be constrained by an artificial limit in terms of their ability to bargain compensation increases. Teachers will be able to collectively bargain under essentially the same parameters as other represented public employees. In addition, the QEO repeal will:
 - Require arbitrators, in making decisions regarding school district teacher contracts, to consider whether the final offers of the parties promote an equal opportunity for a sound basic education. This new factor in the arbitration process is necessary to reduce the significance of where a family lives, or can afford to live, in ensuring that their children receive adequate educational

opportunities. This change is also consistent with the standard set by the state Supreme Court under Vincent v. Voight.

- Include district education policies as required subjects of bargaining, but prohibit these policies from being subjects of interest arbitration without the agreement of both parties. Bargaining on educational issues is necessary to ensure that all issues relevant to the education of Wisconsin's children be discussed, explored and acted upon as determined in the bargaining process. Failure to address policy issues limits the ability of schools to ensure that their resources improve the quality of education.
- For collective bargaining agreements submitted for arbitration, authorize the teachers' bargaining unit to include, in its final offer, proposals to meet pupil performance expectations if the school board proposes to relate teacher compensation or performance expectations to pupil performance. This recommendation ensures that as the emphasis on student performance increases, the needs of teachers in ensuring student success are addressed. Retaining high-quality teachers demands that they be provided with the tools necessary to meet state and federal expectations for what students should know.
- Repeal provisions related to guaranteeing a minimum 3.8 percent compensation increase to school district nonrepresented employees, which includes district and school building administrators. With the repeal of the QEO for teachers, the rationale for a statutorily guaranteed compensation increase for school administrators, which does not exist for any other class of public employees, no longer exists.

In addition, the Governor proposes to:

- Repeal the independent Technology for Educational Achievement (TEACH) Wisconsin Board and the TEACH block grant and training and technical assistance grants programs. The budget retains the telecommunications access grants and transfer responsibility for administering these grants to the Department of Public Instruction. In addition, expand eligibility for access grants to public museums. Access grants are currently provided to public and private schools, private colleges, technical colleges, libraries and juvenile correctional facilities.

The TEACH block and training grants programs have met their goal to introduce and expand the use of information technology in public schools. While the state should continue to provide access subsidies that reduce the cost of distance education, addressing the budget deficit must take priority over continuation of the other TEACH grant programs.

- Repeal the requirement that the Department of Public Instruction implement a high school graduation test beginning in the 2004-05 school year. In 2001 Wisconsin Act 109, all remaining state funding to complete the development of the high school graduation test was deleted. Under the current budget deficit, there is insufficient revenue to restore funding for the development effort. Furthermore, the state already has comprehensive student testing in grades 4, 8 and 10 and, under the federal No Child Left Behind Act, will soon be required to add testing in grades 3, 5, 6 and 7. Given the budget deficit and the testing that is already required or being added, a state-funded high school graduation test is not a state priority.

University of Wisconsin System

Wisconsin can be justly proud of its public university system. It is clearly one of the finest in the world, in terms of both its accessibility and affordability, the quality of its instruction, and its research contributions. According to the National Center for Education Statistics, compared to other states, Wisconsin ranks fourth in providing access for resident high school graduates to its public universities. Within respective peer groups, University of Wisconsin campuses rank among the lowest-priced, with tuition and fees averaging between \$800 and \$1,300 below peer group midpoints. In research expenditures, the University of Wisconsin-Madison consistently ranks in the top three among public universities and the top

five in its ability to attract federal research funds. Every \$1 of state general fund revenue support to the University of Wisconsin System generates more than \$2 in other revenue.

Maintaining the quality of this important resource is one of the Governor's priorities. However, to address the budget deficit, the University of Wisconsin System, like other state-supported operations, will need to make sacrifices. The University of Wisconsin System ranks as the fourth largest expenditure of general fund revenues. Eliminating the budget deficit cannot be achieved without requiring the University of Wisconsin System to reduce its GPR expenditures.

It is also not possible to maintain the overall quality of the system without requiring students to help offset some of this reduction by contributing more to the cost of their education. The Governor recognizes the burden higher tuition will place on lower- and middle-income families and recommends balancing potential tuition increases with a 56 percent increase in the state's major financial aid programs for University of Wisconsin System students, the largest since these programs were created.

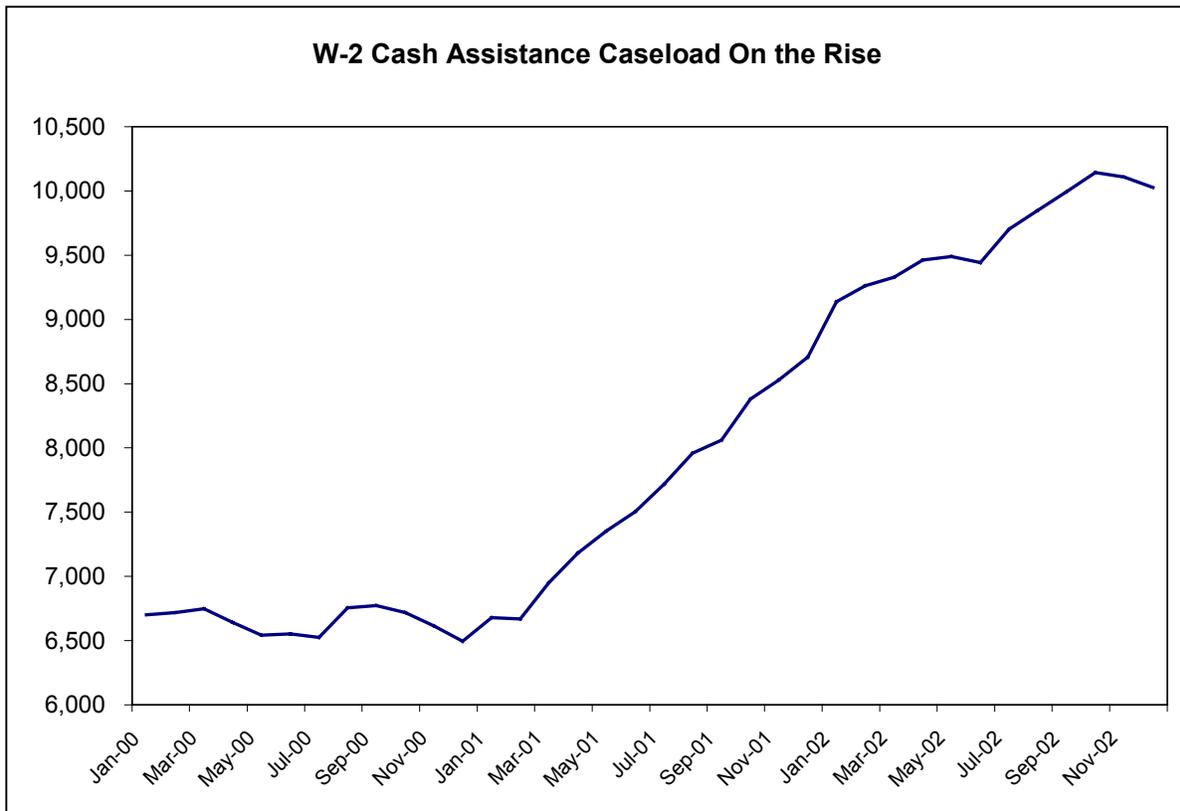
The Governor's budget incorporates the following major recommendations to address these issues:

- Provide \$23.6 million over the biennium in additional financial aid funded by revenues from University of Wisconsin System's auxiliary enterprises to the following programs:
 - Increase the Wisconsin Higher Education Grant program for University of Wisconsin System students by \$5.4 million (24.5 percent) in fiscal year 2003-04 and \$13.1 million (28.5 percent) in fiscal year 2004-05.
 - Increase the Lawton Minority Undergraduates Grant program by \$761,500 (24.7 percent) in fiscal year 2003-04 and \$1,842,000 (28.1 percent) in fiscal year 2004-05.
 - Increase the funding for the Advanced Opportunity Program (for minority graduate students) by \$825,000 annually (16.8 percent in fiscal year 2003-04 and 14.4 percent in fiscal year 2004-05).
- Repeal the current \$1,800 maximum per student grant authorized under the WHEG-UW program. This change will permit an increase in the maximum award to those with the greatest financial need.
- Prohibit the University of Wisconsin Board of Regents from increasing resident undergraduate tuition during the 2003-04 and 2004-05 academic years by more than \$350 per semester over the prior year for the doctoral campuses and \$250 per semester over the prior year for the comprehensive campuses and two-year colleges. Even with these increases, academic fees should remain below respective peer group midpoints, given the likely tuition increases in other states.
- Transfer all existing aid programs currently administered by the Higher Educational Aids Board and 2.0 FTE positions to the University of Wisconsin System and eliminate the board. The transferred programs will continue to serve the same student groups as under current law. The University of Wisconsin System has the economies of scale and the information technology capabilities to effectively administer these programs at a lower cost than the board. To ensure that the needs of technical college and private college students are met, the Governor also recommends that 2.0 FTE positions be transferred from the board to the Department of Administration to provide independent oversight of program operations.

Wisconsin Works (W-2) and Temporary Assistance for Needy Families (TANF)

Wisconsin Works was first implemented in September 1997. Since that time, the cash-assistance caseload has decreased from 34,500 to approximately 10,000 as of December 2002. Wisconsin Works has been successful in moving thousands of individuals from dependence on government assistance to independence in private sector employment. However, there remain individuals for whom that transition has not been successfully achieved. In addition, the economic downturn has increased the number of individuals seeking assistance from the W-2 program. Caseloads are up from a monthly average of 6,650 in 2000 to slightly above 10,000 at the end of 2002 (see Chart 10).

CHART 10



When the state's economy was strong and caseloads were low, the Temporary Assistance for Needy Families (TANF) federal block grant and other TANF budget revenues were more than adequate to support the core W-2 program as well as a number of related programs that provided services or assistance to low-income families. In fact, the TANF budget was generating a surplus, which reached \$284 million by the close of fiscal year 2000-01. Previous administrations and the Legislature made use of the surplus to either replace GPR or expand funding for other activities related to assisting low-income families, such as expanding child care eligibility, replacing the majority of GPR funding for the state earned income tax credit program, replacing 50 percent of the GPR support for Head Start programs, and creating new programs like Early Childhood Excellence grants and the Workforce Attachment and Advancement program.

While most of these programs provide valuable services, ongoing funding cannot sustain these spending levels, especially with the existing budget deficit. By the end of fiscal year 2002-03, ongoing expenditures will exceed ongoing revenues, exclusive of the estimated \$83 million fiscal year 2002-03 carry-over surplus, by \$95 million. Like the state budget in general, the TANF budget is running a structural deficit. To bring the program into balance, it will be necessary to reduce or eliminate the funding of some programs and seek greater management efficiencies in others.

Beyond the increased caseload, over which the program has limited control, other concerns exist. For its cash benefit caseload, the W-2 program primarily makes use of a cash grant model, where participants receive monthly cash grants in return for participation in community service jobs, other work activities, or education and skills training. The effectiveness of this cash grant model is limited, in part, because it is not an accurate representation of how employment is compensated in the workplace, where employees receive an hourly wage, take deductions for taxes and social security, and lose wages if the work is not performed. Furthermore, by not having a wage-paying employment option, W-2 participants forgo the ability to earn the state and federal earned income tax credit, which would boost their compensation

above what they receive under the current cash grant option. Estimates for 2002 indicate that, when the earned income tax credit and homestead tax credit are considered, a single parent with two children could receive approximately \$4,000 more annually under a wage-paying option than under the cash grant model.

In light of these concerns and to address other needs in the 2003-05 biennium, the Governor proposes the following:

- Continue to provide sufficient funding, based on caseload reestimates, for W-2 grants and work activity for persons facing barriers that make employment in the private sector problematic.
- Reduce overall funding to W-2 agency contracts for administration and services from \$104.8 million in fiscal year 2002-03 to \$77.9 million in fiscal year 2004-05 to address the structural deficit in the TANF program and streamline administrative operations.
- Expand the caretaker of a newborn infant placement from three to six months to give new parents additional time to care for their new child and make arrangements for child care when they return to or find employment. In addition, the expansion will result in an estimated \$4.2 million net savings in the TANF budget, which limits the need to take further cuts in other TANF-funded programs.
- Retain funding for programs that support low-income families, including Head Start, early childhood excellence centers, Workforce Attachment and Advancement, emergency assistance, domestic abuse, child abuse and neglect, job access loans, English as a Second Language for Southeast Asian Children, and key programs administered by the Department of Health and Family Services such as the TANF transfer to Community Aids, Milwaukee child welfare, kinship care, Supplemental Security Income caretaker supplement and Wisconsin Statewide Automated Child Welfare Information System.
- Create a wage-paying, subsidized private-sector transitional job option as another employment tool in the W-2 program. This option is intended to be an additional way to reach the overall goal of W-2 which is to help low-income adults secure permanent unsubsidized employment in the private sector and increase their earnings. Studies demonstrate that transitional jobs tend to be more effective than current models in moving families from dependence on government assistance to self-sufficiency. Individuals in subsidized transitional jobs would be required to seek unsubsidized, private sector employment while they are working in transitional jobs, would be limited to six months employment in any one transitional job slot, and would include education and training opportunities.

Shared Revenue

The use of tobacco securitization as a one-time strategy to address the 2001-03 biennial budget deficit and the slowdown in the state's economy have made funding the shared revenue program in the 2003-05 biennium a difficult challenge. Under 2001 Wisconsin Act 109, fiscal year 2002-03 GPR funding for shared revenue was reduced by nearly \$600 million. While tobacco securitization proceeds were used to supplant GPR in fiscal year 2002-03, these funds are no longer available to fund shared revenue (or anything else) in the future. Continued funding of shared revenue in the 2003-05 biennium requires either growth in general fund tax revenues far exceeding current estimates, identification of new revenue sources or a reallocation of funds from other GPR-funded programs.

Since the shared revenue payments on which counties and municipalities based their 2003 calendar year property tax levies will not be budgeted by the state until fiscal year 2003-04, timing considerations place significant constraints on how funding the program is addressed. To help counties and municipalities set their 2003 budgets, they were given estimates of fiscal year 2003-04 shared revenue amounts in the fall of 2002. Consequently, fiscal year 2003-04 shared revenue cannot be reduced without the state reversing its previous commitment to localities, thereby requiring them to reduce their spending halfway through 2003.

The Governor's budget fulfills the state's pledge to fully fund shared revenue in fiscal year 2003-04. The Expenditure Restraint Program and shared revenue utility payments are also maintained. To ensure that the state may claim all of the federal revenue to which it is entitled, however, some redistribution of expected shared revenue payments will occur. While still providing the same amount of aid to local governments, \$10 million will be expended through the Medical Assistance program rather than shared revenues beginning in fiscal year 2003-04.

Unfortunately, to resolve the state's budget deficit it will not be possible to fully fund the shared revenue program at the current level in fiscal year 2004-05. The Governor recognizes that the reduction should be at a level that does not overly burden local property taxpayers. To address the simultaneous challenges of balancing the state budget, continuing to fund the shared revenue program and avoiding excessive pressure on local officials to raise property taxes, the Governor proposes the following:

- Appropriate \$931 million in fiscal year 2004-05, including \$10 million through federal Medicaid revenue maximization efforts, for shared revenue. To preserve most of the state's equalization efforts, the reduction will be made on a per capita basis and be applied to municipalities only. Since counties essentially have only equalization dollars remaining within their fiscal year 2004-05 shared revenue payments as a result of 2001 Wisconsin Act 109, they are excluded from this additional reduction.
- To avoid even more substantial reductions to shared revenue, reallocate revenues from the Transportation Fund and Utility Public Benefits Fund to support shared revenue during the 2003-05 biennium. Shared revenue helps support local governments' transportation expenditures not funded by aid programs administered by the Department of Transportation. Shared revenue is also directed toward lower value communities and contributes to local energy conservation efforts. In addition, it compensates local governments for the exemption of utility property from the local property tax base to meet the demands on municipal services created by these properties. Therefore, it is reasonable that the Transportation Fund and Utility Public Benefits Fund contribute to shared revenue until sufficient economic growth allows the shared revenue funding gap to be closed solely by GPR. The Transportation Fund will support \$230 million of shared revenue in fiscal year 2003-04 and \$170 million in fiscal year 2004-05. The Utility Public Benefits Fund will support \$20 million of shared revenue in fiscal year 2004-05.
- Repeal the Consolidation Incentive Program established under 2001 Wisconsin Act 109 and set to begin in fiscal year 2004-05. Under this program, up to \$45 million would have been removed from shared revenue payments to be redistributed based on claims of consolidation savings. The Governor recommends the repeal of this program because localities need stability, rather than uncertainty, to address their own challenging budget circumstances. The Governor also recommends repeal of this program because it ignores savings generated by existing intergovernmental agreements. As such, the program would have the unintended effect of penalizing local governments who have been leaders in achieving consolidation savings and only reward those who waited to undertake cooperative efforts beginning in 2004. Finally, the grants provide only one-time funding to municipalities. Therefore, the funds cannot be used for ongoing operational expenditures without identifying future funding sources at the local level.

Technical College Health Care Education Grants

Wisconsin is experiencing significant staffing shortages in the health care industry. The Department of Workforce Development projects that between 1998 and 2008, the number of health care jobs will increase by approximately 46,000 or 20 percent. At the same time, there will be an additional 55,000 vacancies due to retirements and attrition. It is clear that, as Wisconsin's population ages, the need for health care workers must be addressed more intensively.

To begin that effort, the Governor proposes to consolidate the existing grant programs for capacity building and additional course sections, and reallocate \$1 million from the Incentive Grant Program to create a new Health Care Education Grant Program. The program will be funded at \$4,340,000 in fiscal year 2003-04 and \$5,450,000 in fiscal year 2004-05. Grants from this appropriation will be awarded by

the Wisconsin Technical College System Board to individual technical college districts to expand enrollment in health care programs.

Youth Employment Projects

The budget establishes a new Youth Employment Projects program within the Department of Workforce Development through the consolidation of the Wisconsin Conservation Corps and Operation Fresh Start. The Operation Fresh Start model, which has traditionally focused on building and repairing houses and provides more comprehensive support services, is proving to have a high success rate while concerns exist that the conservation corps model has not been successful in retaining participants long enough to complete a full program.

The new program will allocate grants to community-based nonprofit organizations to provide employment for youths between ages 14 and 21 throughout Wisconsin. In addition, the jobs that are created will encourage and develop employment and life skills, discipline, and cooperation in participants by combining meaningful work experience with training and educational opportunities. These jobs will pay not less than the minimum wage and focus on work that enhances Wisconsin's natural resources and promotes the social well-being of children, the elderly, persons with disabilities and persons with low incomes through the provision of housing.

E. ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT

Control of Chronic Wasting Disease

In February 2002, Wisconsin discovered the first known case of chronic wasting disease east of the Mississippi River. Since then, staff in the Department of Natural Resources, Department of Agriculture, Trade and Consumer Protection, Department of Health and Family Services, and the University of Wisconsin-Veterinary Diagnostic Laboratory have sought to understand the disease, how it entered the state, how widely it has spread, and its potential impact on humans, wildlife populations, and our critically important agricultural animal populations. To attempt to eradicate the disease and collect samples to trace the disease and determine the extent of infection, the state has enlisted the aid of hunters and private landowners in southwestern Wisconsin and across the state.

The Governor supports continued cooperative efforts to contain and eradicate the disease to ensure that Wisconsin's strong hunting tradition is preserved for generations to come. The Department of Natural Resources will continue to lead the efforts to monitor and eradicate the disease from the wild white-tailed deer herd and will receive more than \$3 million and a veterinary specialist position to support costs of surveying the herd, processing samples from deer carcasses and providing additional law enforcement during special hunts. In addition, a portion of the funding will cover charges from the University of Wisconsin-Veterinary Diagnostic Laboratory for testing the samples.

The Department of Agriculture, Trade and Consumer Protection will monitor captive white-tailed deer herds and investigate suspected movements of diseased animals into the state and among captive herds. As authority over captive herds was recently transferred to the department, the Governor is providing \$700,000 GPR to support 5.0 FTE GPR positions to inspect deer farms, identify and trace diseased animals, and educate deer farmers and the public about the disease.

Water Quality Initiatives

- Provide \$21.2 million in additional general obligation bonding authority to continue funding for urban and rural nonpoint source pollution cleanup and prevention projects and implementation of county land and water resource management plans.
- Provide \$550,000 PR for additional LTE staff to speed the processing of waterway and wetland permits in the Department of Natural Resources' regional offices.

- Provide \$500,000 SEG to support more aggressive measures to control and eradicate invasive aquatic plant species that threaten our lakes and rivers, and reduce fishing and other recreational opportunities.

Environmental Repair and Remediation

- Stabilize funding for environmental programs including cleanup of contaminated sites by repealing the sunset of the environmental impact fee and increasing the fee from \$9 to \$10.50.
- Provide \$6 million in SEG-supported general obligation bonding authority to fund investigations and cleanup activities at contaminated sites with no viable responsible party.
- Authorize an additional \$115 million in revenue bonds to minimize the claims backlog under the PECFA program.

Forestry Initiatives

- Provide an additional \$1 million SEG to contract with private foresters to assist private forest land owners with developing and implementing managed forest law plans.
- Provide \$1,033,800 SEG in fiscal year 2003-04 and \$966,300 SEG in fiscal year 2004-05 to support forest fire control efforts, including replacement of firefighting equipment, meeting staffing needs and providing aerial surveillance to detect and fight forest fires.
- Provide \$2,600,100 SEG in fiscal year 2003-04 and \$1,431,000 SEG in fiscal year 2004-05 in one-time funding to replace two ranger stations and improve state forest nursery facilities.
- Provide \$91,800 SEG in fiscal year 2003-04 and \$84,600 SEG in fiscal year 2004-05 to implement the Karner Blue butterfly habitat conservation plan to protect this endangered species and allow continued harvest of forest products and other management activities throughout much of central Wisconsin.

State Parks and Southern Forests

- Provide \$2.6 million PR-S on a one-time basis from gaming compact revenues to maintain the quality and accessibility of our state parks system for residents and tourists.
- Provide \$140,000 SEG annually to control and eradicate invasive species that threaten the habitat in the Kettle Moraine State Forest.
- Provide \$282,500 SEG annually to staff new and expanded facilities and cover increased ongoing operating costs in the southern forests.

Land Use Planning

- Enhance local land use planning efforts by reallocating funding to preserve state support for comprehensive planning.
- Extend the sunset of the Wisconsin Land Council and Land Information Board until 2005.

Fish and Wildlife Initiatives

- Provide an additional \$1 million from gaming compact revenues to increase nonlicense fee revenue support of fish and wildlife activities and reflect the general benefits received from conservation programs.

- Increase major resident license fee types by \$6 to \$12 and nonresident license fee types by \$6 to \$25 to support critical fish, game and habitat projects.
- Provide \$503,100 SEG in fiscal year 2003-04 and \$447,400 SEG in fiscal year 2004-05 to continue operation of the automated license issuance system.

Kickapoo Valley Reserve

- Provide \$100,500 SEG in fiscal year 2003-04 and \$115,700 SEG in fiscal year 2004-05 to operate the new Kickapoo Valley Reserve visitor center and manage the reserve's 8,569 acres of land.

Department of Natural Resources Initiatives

- Provide \$130,000 SEG in fiscal year 2003-04 and \$160,000 SEG in fiscal year 2004-05 for the all-terrain vehicle safety enhancement grant program and increased aid for local all-terrain vehicle enforcement efforts.
- Continue management and operation of the Fox River lock system until the U.S. Army Corps of Engineers transfers the system to the state by reallocating \$126,700 SEG annually from the Fox River Navigational System Authority to the Department of Natural Resources.

F. HUMAN SERVICES

Medical Assistance and BadgerCare

Medical Assistance and BadgerCare provide health care for low-income families with dependent children, the elderly, and disabled individuals. Medical Assistance is a federal entitlement program in which the federal government shares the cost with the states. Wisconsin's Medical Assistance program is one of the most comprehensive in the nation, covering almost every optional service. BadgerCare provides health services for children and families whose income exceeds Medical Assistance standards, and provides coverage for these families up to 185 percent of poverty (i.e., the federal poverty line). Wisconsin contributes about 42 percent of the overall costs of the Medical Assistance program and 29 percent of BadgerCare. The Medical Assistance appropriation is one of the largest GPR expenditures in the state budget.

Medical Assistance costs have grown significantly, from an average increase of 2.4 percent between fiscal year 1993-94 and fiscal year 1999-2000, to increases of 7.2 percent in fiscal year 2000-01 and 14.2 percent in fiscal year 2001-02, trends which are continuing into the 2003-05 biennium. Many factors contribute to this growth, namely growth in the utilization of services and in the number of individuals seeking services. Prescription drug costs increased 15 percent in fiscal year 2001-02 and are projected to increase 16 percent in fiscal year 2002-03. Between July 2001 and December 2002, over 74,000 individuals in low-income families have applied for benefits and been determined eligible for either Medical Assistance or BadgerCare, an increase of 21 percent (see Chart 11 and Chart 12).

The record growth in the Medical Assistance and BadgerCare caseloads have created a crisis of health care costs for Wisconsin and most other states. Many states are slashing provider reimbursement rates, cutting benefits and retracting eligibility status for certain groups in order to manage their Medical Assistance programs. The Governor's budget responds to this significant challenge by safeguarding the health needs of Wisconsin's most vulnerable populations while containing costs and improving efficiency. Success will require finding new sources of revenue to pay for these critical services in fiscal year 2003-04.

The need to balance the 2003-05 budget, including offsetting the large fiscal year 2002-03 carry-over deficit, requires a large reduction in GPR support for Medicaid. This large cut will be partially offset through the use of federal revenue maximization funds but will still require reductions in Medicaid

reimbursement rates and payments to health care providers of approximately \$200 million. Such a large reduction would likely have significant adverse consequences on provider availability and costs.

Under this scenario, reimbursements to Medical Assistance providers would have to be reduced to unprecedented levels. Excluding nursing homes, which serve the state's neediest individuals who have nowhere else to go, the state would need to cut payments to providers, such as doctors and hospitals, up to 20 percent across the board in order to achieve reductions of \$200 million.

A reduction of this magnitude will cause providers to discontinue their participation as Medical Assistance providers, greatly impairing the state's ability to ensure that individuals have access to the medical services they are entitled to by federal law. Patients will have access to fewer providers at fewer locations, which will drive up the prices charged by the remaining providers who are willing to serve this population. As in any other sector of the economy, the fewer vendors, the higher the prices the remaining vendors are likely to charge. The reduction in Medicaid provider reimbursement will put pressure on many providers – both those who continue to serve the Medicaid population at lower reimbursement rates, and those who have dropped out of this health care program in response to lower rates and payments – to shift costs, in order to maintain their revenue, to private-sector insurers and employers.

The other alternative would be to eliminate coverage for all populations considered "optional" by federal law, and/or significantly reduce the optional services included in the state's Medical Assistance program. Optional populations include the aged and disabled who are medically needy and children served by the Katie Beckett program. However, even if all optional eligibility groups were eliminated, they represent only ten percent of all Medical Assistance expenditures. The remaining 90 percent of expenditures are for groups whose coverage is required by federal law. Eliminating optional services might appear to be an easy choice, but services that are defined as optional include prescription drugs, services required under federal program waivers, personal care and services provided by intermediate care facilities for the developmentally disabled. After ruling out these services, the remaining "optional" services account for only four percent of Medical Assistance costs.

Troubling as these alternatives are, a number of states have been forced to impose these program reductions. A January 2003 study from the Kaiser Foundation reported that nearly all states have taken steps to reduce Medical Assistance costs. Twenty-two states have reduced benefits they provide to Medical Assistance beneficiaries, and 25 have restricted eligibility. To offer a few examples from neighboring states: Michigan has taken steps to cap enrollment in home- and community-based waivers, Illinois has reduced provider reimbursement by \$300 million, and Indiana cut Medical Assistance expenditures by ten percent. All of these reductions will result in less care for fewer people.

CHART 11

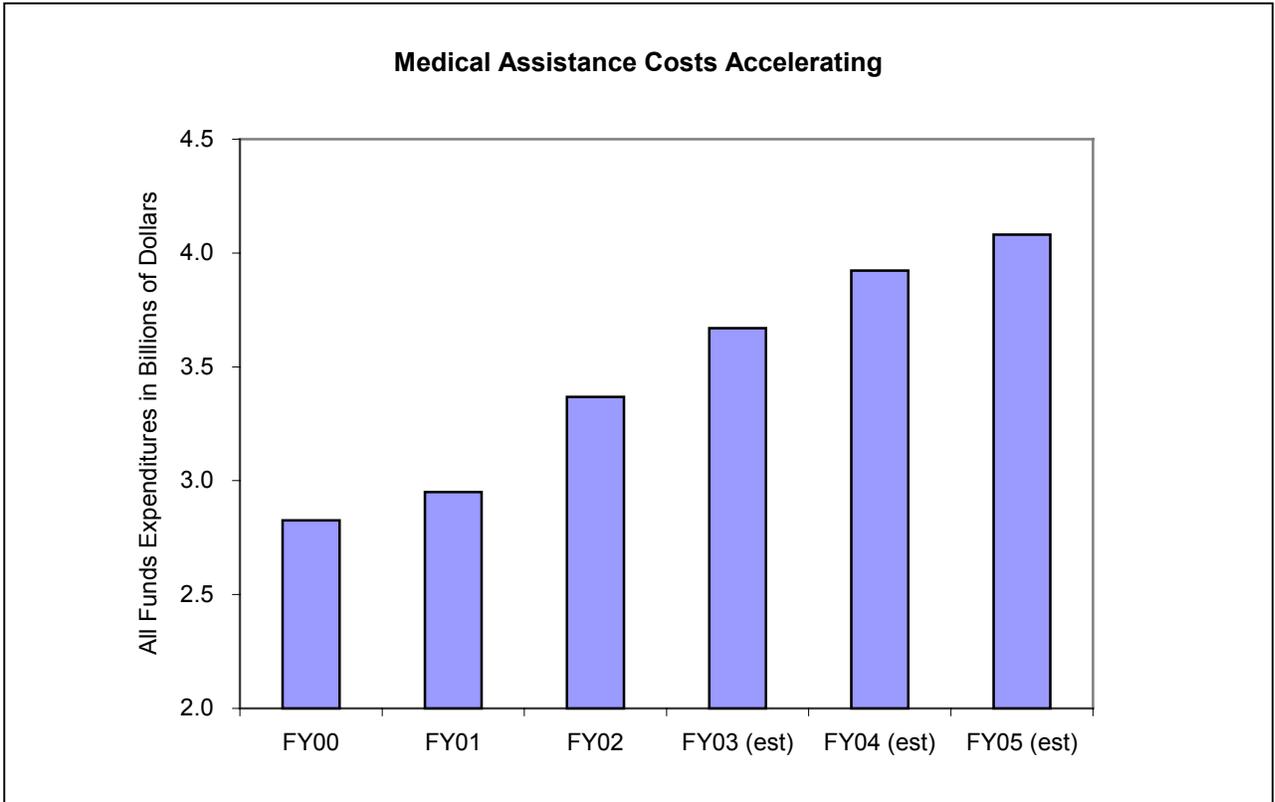
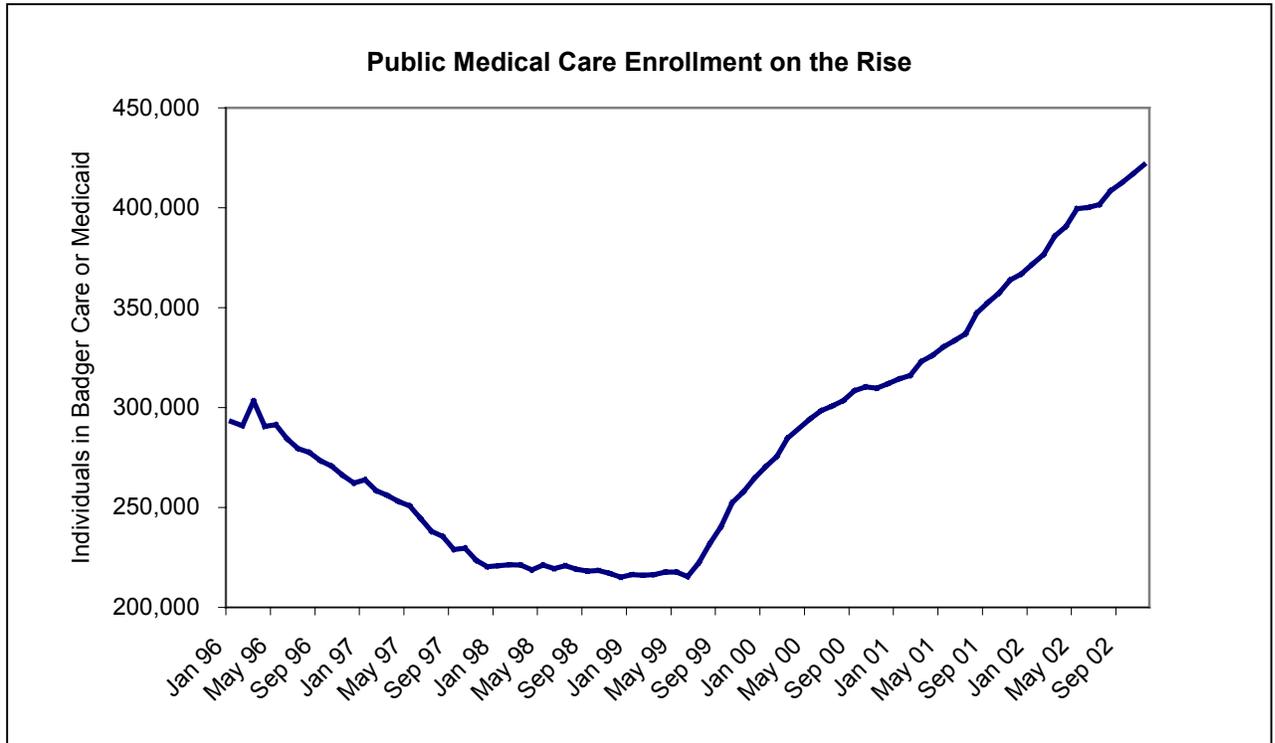


CHART 12



Provider Availability and Cost Containment Strategy

Maintaining the availability of health care providers and lowering the growth of health care costs are the underlying purposes of the Patients Compensation Fund. These purposes have been articulated in a number of legal cases (e.g., Patients Compensation Fund v. Lutheran Hospital, which defined the purposes of the Patients Compensation Fund as being "to help limit 'the increasing costs and possible decrease in availability of health care in Wisconsin'" and "to curb the rising costs of health care"; and State ex rel Strykowski v. Wilkie, which spoke of the fund being created "[to address] increased health care costs").

In its effort to maintain the availability of health care providers and lower the growth of health care costs, the Patients Compensation Fund has built up a reserve of over \$550 million. This sizeable balance exceeds – in light of Wisconsin's tough medical malpractice laws – potential expenditures for the foreseeable future. The fund, which collected approximately \$33 million from providers in annual fees and had \$33 million in investment earnings in each of the last two years, has paid out an average of only \$28 million in claims annually.

Given the need to ensure continued access to health care for low-income families and individuals and protect Wisconsin's economy from the inevitable cost-shifting that will occur with cuts in these programs, the Governor recommends using \$200 million from the Patients Compensation Fund to support provider payments under the Medical Assistance program. These actions are consistent with the underlying purpose of the Patients Compensation Fund and retain a significant surplus to meet the annual volume of claims currently paid out of the fund. To further strengthen the fund in meeting any potential shortfalls, the budget includes a GPR supported sum-sufficient appropriation to meet any expenditures that exceed the fund's balance.

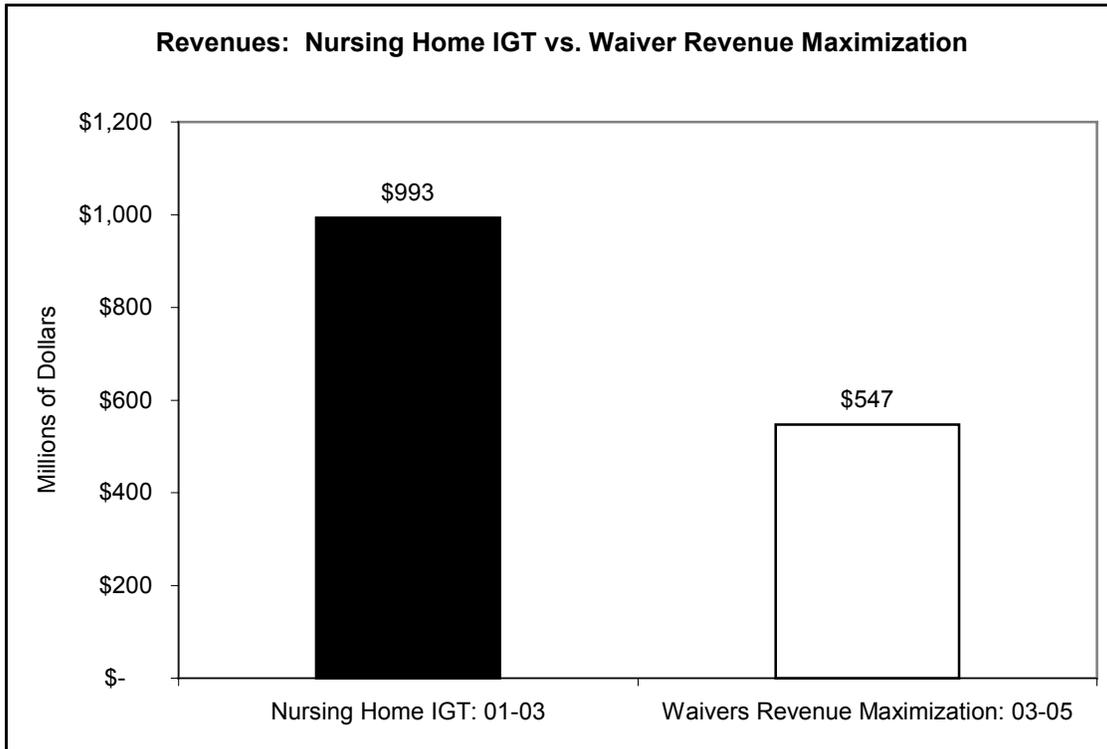
This budget not only protects the base Medical Assistance program, it expands services and reimbursement by maximizing access to other new revenues, including federal funds, for these programs. New federal revenue will be made available to the state through several mechanisms, including increased assessments on health providers, such as health maintenance organizations, nursing homes and intermediate care facilities for the developmentally disabled. These assessments will be used to make payments back to Medical Assistance and BadgerCare providers, which will then generate new federal funds to support provider rate increases.

In 2001, the state significantly expanded its use of intergovernmental transfers (IGT) to maximize federal revenues for use in the Medical Assistance program. In partnership with counties and nursing homes, Medical Assistance implemented a wire-transfer IGT system whereby counties transferred revenues to the state which in turn were used to make increased payments to counties for nursing home services. These transactions have yielded just under \$1 billion in new revenue through the end of fiscal year 2002-03.

In the 2003-05 biennium, the state, in partnership with counties, municipalities and school districts, will embark upon a new revenue maximization strategy to generate \$547 million in new federal funds, \$434 million of which will occur on a one-time basis, through reimbursement for home- and community-based waiver services, county- and municipality-provided human services, and school-based services. The budget will also reallocate \$30.5 million per year in funding from shared revenue and school aids in order to make enhanced payments to municipalities and school districts for medical services they provide. By making these payments out of Medical Assistance, the state will generate \$18 million in new federal funds each year.

This initiative represents a continuing effort to return a fair share of federal dollars to Wisconsin. While the federal revenue maximization strategies being pursued in the 2003-05 biennium are different from those used in the 2001-03 biennium, the total anticipated funding from this new initiative is more conservative than the amount brought in under the nursing home initiative (see Chart 13).

CHART 13



The budget solves the crisis in Medical Assistance by using responsibly these one-time revenues and the Patients Compensation Fund on a one-time basis in fiscal year 2003-04. Through additional efforts to contain costs, and additional state revenue growth, most of these one-time revenues will be replaced with GPR in fiscal year 2004-05, ensuring the stability of the Medical Assistance program into the 2005-07 biennium.

Long-Term Care

The Governor recommends continuing an ambitious effort to serve elderly and disabled residents in the community rather than institutions. New federal revenues will allow for increases in the number of placements and reimbursement rates for Community Options Program Waiver (COP-W) and Community Integration Program (CIP) 1B and II slots and full implementation of the Family Care program in Kenosha County.

The Governor further recommends creating incentives to reduce excess institutional capacity in the state, including the creation of community waiver slots for individuals in nursing homes on waiting lists and diverting disabled individuals from institutions and into the community. Finally, the transition of disabled individuals residing in state centers into community placements will continue whenever feasible. The state will also significantly downsize the Northern Wisconsin Center.

Providers

The budget will increase rates for Medical Assistance and BadgerCare providers, including:

- 3.3 percent per year increase for nursing homes.

- 6.1 percent per year increase for health maintenance organizations (HMOs), plus additional funding to ensure HMO rates do not fall below an eight percent discount compared to a fee-for-service equivalent.
- Ten percent per year increase for home health agencies and speech therapy.
- Additional increases for common carrier transportation, outpatient mental health and family planning services.

Not all providers will see rate increases. Special supplements to hospitals for medical education and to rural hospitals will be eliminated, and crossover claims paid to hospitals for dual Medical Assistance and Medicare eligible individuals will be capped at the Medical Assistance reimbursement rate. A supplement to county- and municipally-owned nursing homes will be reduced to the level approved in the 1999-2001 biennial budget, and a nursing home labor factor enhancement for three counties will be eliminated. Rental payments for durable medical equipment will be capped at the purchase price of the equipment, and reimbursement for oxygen and end-stage renal dialysis at freestanding clinics will be limited to the rate paid by Medicare.

Prescription Drugs

To control rapidly growing drug costs, the budget will reduce the reimbursement to pharmacies from the average wholesale price (AWP) minus 11.25 percent to AWP minus 15 percent, as well as eliminate a five percent provider rate enhancement under the SeniorCare program. The state will pursue aggressive strategies to purchase drugs more efficiently and intelligently, including expanding the use of prior authorization for drugs where there are less expensive, therapeutically equivalent drugs available. The budget will continue the practice of requiring the use of generic drugs whenever feasible, and will engage in contracts for less expensive mail order dispensing of maintenance drugs and the volume purchase of medical supplies. The Department of Health and Family Services will explore the possibility of negotiating greater rebates from drug manufacturers and partnering with other states to leverage greater price discounts.

Participant Contributions

Participants will share in controlling costs as well. Copayments will increase for brand name drugs from \$1 to \$3 and for generic drugs from 50¢ to \$1.00. The maximum copayment liability for participants will increase from \$5 to \$12 per month. In addition, in-home services for autistic children will be eliminated, in favor of using clinic- or school-based therapy services. Other changes include:

- The personal needs allowance for nursing home residents will be reduced from \$45 to \$30 per month.
- Eligibility loopholes related to using annuities to avoid divestment will be closed.
- The amount of assets individuals can transfer to family members to avoid those assets counting towards Medical Assistance eligibility will be capped at \$50,000, and provisions will be added to state law to ensure any transfer of assets from institutionalized individuals to a spouse in the community are solely for the benefit of that spouse.
- Premiums charged to BadgerCare recipients with incomes greater than 150 percent of poverty (i.e., the federal poverty line) will increase from three percent to five percent of their monthly income.
- Medical Assistance will expand the use of managed care to serve disabled individuals receiving Supplemental Security Income.
- The WisconCare program will be eliminated due to its similarity to the BadgerCare program.

SeniorCare

In its first five months of operation, the SeniorCare program has enrolled just under 80,000 individuals, a number projected to grow to 94,000 individuals by the end of fiscal year 2002-03. SeniorCare provides prescription drug coverage to individuals over the age of 65 with incomes below 240 percent of poverty, and to those who can demonstrate their drug costs effectively reduce their income to 240 percent of poverty. Participants pay a \$20 annual enrollment fee plus a \$5 copayment for generic drugs and a \$15 copayment for brand name drugs. Individuals with income greater than 160 percent of poverty are required to meet a \$500 deductible before being eligible for full benefits, though while meeting their deductible, benefit from paying the lower drug prices available through the Medical Assistance program.

Since the benefit provided by SeniorCare is prescription drug coverage, the program's cost is particularly sensitive to the growth in drug prices experienced in other state programs. Even with this challenge, the budget maintains the current income eligibility threshold of 240 percent of poverty. However, those with the highest incomes will be required to meet higher deductibles before becoming eligible for full benefits. Deductible requirements will increase from \$500 to \$750 per benefit year for those with incomes greater than 200 percent but less than 240 percent of poverty, and to \$850 for those with income greater than 240 percent of poverty. The annual enrollment fee will increase as well, from \$20 to \$25 for those with income below 200 percent of poverty and to \$30 for those with income greater than 200 percent of poverty. These changes, prescription drug purchasing strategies used by Medical Assistance and BadgerCare, and new federal funds made available for participants with incomes under 200 percent of poverty, will allow the state to maintain this new program and its critical health services, while actually reducing the projected GPR cost to the state by \$16.4 million in fiscal year 2003-04 and \$4.3 million in fiscal year 2004-05.

Child Welfare

The Governor's budget increases support for Milwaukee County child welfare services to reflect a reestimate of projected caseloads and increased costs for supplies, services and WiSACWIS, the computerized case management system. A significant portion of the GPR increase is due to new federal Title IV-E claiming guidelines that have an adverse fiscal impact on Wisconsin.

Despite the drop in federal Title IV-E support, this budget serves families in need by ensuring the state can meet rigorous permanence, safety and child well-being standards. Children will be safer, spend less time in foster care placements, and be adopted more quickly. Front line caseworkers will have fewer cases to manage and more face-to-face contact with foster children and their families.

Health Insurance Risk-Sharing Plan

The Health Insurance Risk-Sharing Plan provides health insurance for people who cannot obtain coverage in the private market because of a severe health problem. The program is funded from four sources: (a) a \$10.2 million GPR subsidy of premiums and deductibles; (b) payments by policyholders of 60 percent of subsidized premiums; (c) assessments on insurers of 20 percent of the remaining costs; and (d) cost discounts from providers' costs equal to the remaining 20 percent of program costs. In order to help balance the budget, the Governor is recommending eliminating the GPR funding for the program. To mitigate the cost increases to policyholders through this action, the Governor further recommends adjusting the percentages paid by each party so that policyholders would be responsible for 58 percent of the premium cost, and insurers and providers would each supply 21 percent of program costs.

Downsizing Northern Wisconsin Center

The state currently operates three centers for the developmentally disabled. Populations have declined from over 1,800 in the late 1980s to under 800 in this fiscal year. Residents are placed in the community under the Community Integration Program (CIP) 1A, and the funding that supported their placement in the center transfers to support their care in the community. As more and more residents are placed in the community, it becomes more difficult to support infrastructure costs of a large institution for fewer and fewer residents. The Governor recommends that the Northern Wisconsin Center be significantly downsized during the next biennium. This process can be conducted under current law for the

downsizing of an intermediate care facility for the developmentally disabled which includes the state centers. The downsizing should result in \$4.6 million in GPR savings under Medical Assistance, which is the source of funding for the centers, and a reduction of 301 FTE positions.

Since the residents remaining in the centers are more difficult to place in the community, an enhanced daily rate of \$325 per day will be paid for placements, which is an increase of 44 percent over the current rate of \$225 per day. Northern Wisconsin Center will continue to operate the 17-bed intensive treatment program under which problematic patients are treated, stabilized and returned to the community, with counties paying the GPR share of Medical Assistance. Central Wisconsin Center will open an additional 58 beds and some of the Northern Wisconsin Center's residents may transfer to that facility. The department anticipates that the last placements will occur from the center by June 2004. While many guardians and families are initially concerned about residents being moved from the institutions, over 90 percent of those surveyed following community placement register satisfaction with the move.

Advocates for people with developmental disabilities and professional staff who treat these people believe a better quality of life can be achieved through placements in the community rather than an institution. In addition, the trend has been for states to close large institutions; 38 other states have done so. Departmental staff will work with patients, guardians and the state employees union to make the transition as smooth as possible.

Establishing a Common Pharmacy Purchasing Pool

The Governor's budget requires every governmental unit that offers health insurance to form a common purchasing pool for pharmacy benefits, starting in 2005. As part of this effort, the units need to work together to create a preferred list of covered prescription drugs using evidence-based analysis to compare the effectiveness of different prescription drugs within their therapeutic classes and then identify the least costly drugs in each class. This list should focus on identifying generic drugs that are found to be as effective as their brand name counterparts. After the purchasing pool is established the Governor may request extending participation in the pool to certain private employers who already provide health insurance coverage to their employees.

G. JUSTICE

The Governor is committed to protecting public safety and ensuring that offenders are held accountable for their crimes while also receiving the assistance necessary to reform their behavior. Further, the Governor is committed to providing offenders the assistance they need to correct their criminal behavior, successfully reintegrate into their communities and lead crime-free lives. The budget creates a framework for redesigning the criminal justice system to be both more efficient in its use of state resources and more effective in protecting the public and rehabilitating offenders.

All of the agencies involved in the criminal justice system will share in the overall reductions being made to balance the budget. The Department of Corrections will improve efficiencies by eliminating the Division of Correctional Programs, deleting some units and consolidating others within the Division of Adult Institutions and the Division of Community Corrections. As part of this reorganization the number of middle management positions will be reduced, and some central office administrative positions will be eliminated. Altogether, approximately 200 positions are being eliminated to improve efficiencies and reduce costs. The budget also implements additional safety measures by providing full funding for the DNA evidence program to reimburse counties for collecting DNA samples from offenders and increased funding to upgrade and maintain the Automated Fingerprint Identification System (AFIS) with two fingerprint matchers and a live scan device.

The state-funded court system will lapse \$750,000 in each fiscal year and court support services fees will be increased by 30 percent. The fee increases will help with funding court operations and allow the state to increase reimbursement to counties for interpreter services. Furthermore, interpreter services will be provided in all criminal, juvenile, mental health and civil cases regardless of indigency status. The

Director of State Courts will offer certification, training and examinations to support the Supreme Court's interpreter program.

Budgets for both the State Public Defender and the district attorneys will have reductions in positions and funding. Successfully coping with these reductions will require these agencies to review their processes and procedures, and identify potential improvements and efficiencies. To assist district attorneys with these efforts, the budget creates a State Prosecutor Board to oversee the allocation of prosecutors statewide, as well as reviewing caseload standards and charging practices. The Milwaukee County special prosecution fee is increased by \$1.50 to fully fund all of the clerks within the Milwaukee County Drug and Violent Crime Court, the Milwaukee County district attorney's office, and Firearm Prosecution activities. Further, the budget provides funding for restorative justice coordinators in the Milwaukee and Outagamie county district attorney offices, as well as funding for antidrug prosecutors in the Milwaukee and Dane county district attorney offices. The State Public Defender is assisted by the provision of additional funds to reimburse private attorneys who take overflow and conflict cases. Further, it is important to note that caseload pressures across the justice system should decline as a result of the efforts in this budget to reduce the total number of individuals involved in the criminal justice and correctional systems.

The Department of Justice will consolidate the Division of Narcotics and the Division of Criminal Investigation to improve efficiencies in conducting criminal investigations and 40 positions within the department will be eliminated. Criminal record search fees will be increased and a surcharge will be added for paper requests to encourage the use of Internet searches and to reflect additional costs for requesting more complete records. Administration of grants for county-tribal law enforcement will be transferred to the Office of Justice Assistance, which will consolidate grant administration in the office.

Sentencing Reforms and Alternatives to Incarceration

It is the Governor's goal to redirect the focus of corrections to reduce reliance on prison beds and increase community prevention programs to keep individuals from entering the criminal justice system in the first place. During the 2003-05 biennium the state will continue to use out-of-state contract beds to house over 3,000 inmates. The opening of the Highview and New Lisbon correctional facilities, and planned expansions to a number of existing facilities will be deferred. This is more than a cost effectiveness measure. This budget is the first step in the Governor's long-term plan to greatly reduce the state's prison population and corrections budget, while promoting increased rehabilitation and community safety, over the next decade.

The budget includes a number of measures to begin this transformation in the criminal justice system.

First, the departments involved in the system are streamlining operations and improving efficiency as detailed in the preceding section. As part of this efficiency effort the Sentencing Commission is being transferred to the Department of Corrections and directed to adopt advisory sentencing guidelines for felonies in order to promote public safety in a cost-effective manner, promote consistency in sentencing practices, and to preserve the integrity of the criminal justice and correctional systems. The commission will also complete a report by January 1, 2004, analyzing whether the temporary guidelines adopted by the Criminal Penalties Study Committee have served to restore credibility and coherence to criminal sentencing and deliver a greater measure of public safety to our communities. If the commission determines that the guidelines are not adequately promoting their mission, it must adopt mandatory sentencing guidelines for felonies and misdemeanors. These mandatory guidelines will establish the parameters for sentencing and, at a minimum, will consider the conditions of extended supervision or probation, the length of imprisonment imposed, and whether penalties should be imposed concurrently or consecutively when a defendant is convicted of multiple crimes. In addition, the Department of Corrections will review standards for presentence investigation reports to account for the new Truth-in-Sentencing felony structure.

Second, the Challenge Incarceration Program is being modified to allow more nonviolent offenders to earn their release from prison. Under Truth-in-Sentencing, a judge may indicate at sentencing that certain nonviolent offenders should have the opportunity to earn their release provided they successfully complete the Challenge Incarceration Program. The budget grants judges the authority to consider a

similar earned release option for nonviolent offenders with serious alcohol or other drug abuse problems. Based on a judge's decision, nonviolent offenders who complete the intensive Drug Abuse Correction Center programming located on the grounds of the Winnebago Mental Health Institute would be eligible to receive earned release.

Third, the budget provides additional positions and funding to convert the Black River Correctional Center into a boot camp under the Challenge Incarceration Program. This conversion will add almost 100 beds to the boot camp program, enabling more nonviolent offenders to earn their release. Funding and staff is also provided to create a Felony Drug Alternative to Prison Program in Milwaukee County for female drug offenders, similar to the program currently operating in Milwaukee for males. In keeping with the goal of promoting rehabilitation, including teaching educational, vocational and employment skills to nonviolent offenders nearing release into the community, funding is also provided to open the Sturtevant probation and parole holding facility and the Sturtevant and Winnebago workhouses.

Fourth, the Sturtevant probation and parole holding facility will be used to conduct an intensive alternative to revocation program. Over half of the admissions to the prison system are for revocations. The Sturtevant facility will conduct 90-day intensive programming efforts to reform and rehabilitate nonviolent offenders and avoid the most expensive and less productive option of sending them to prison. On an annualized basis, this program should divert approximately 400 nonviolent offenders who would otherwise be sent to prison.

Finally, prison bed capacity will also be expanded at the Redgranite and Racine Youthful Offender facilities and the Prairie du Chien facility will officially be converted to an adult institution. The result of all of these initiatives will be to reduce the department's reliance on contract prison beds in fiscal year 2004-05.

Provide Federal Byrne Funding for Three Key Children's Programs

Helping juveniles make the right choices early in life can prevent a host of personal and societal problems. To this end, the Governor recommends providing \$825,000 of federal Byrne funding in each fiscal year for programs to prevent juvenile delinquency and rehabilitate juvenile offenders. The Office of Justice Assistance will administer the grants consistent with the Byrne program guidelines, using a competitive grant solicitation process for local units of government. The Governor's intent is to fund a variety of programs covering the continuum of services, including keeping juveniles in school, having community mentors counsel juveniles on decision-making skills, providing intensive supervision of juvenile offenders in the community and improving their rehabilitation. The following programs for at-risk youth are examples of successful models upon which the Governor's 2003-05 biennial budget expands:

Mentoring. Mentoring programs allow citizens and youth, determined to be at risk of delinquent behavior, to work together to overcome the impact of significant risk factors and reduce the incidence of delinquent behavior in high-risk neighborhoods and schools. Mentoring projects recruit, select and train community members to act as mentors for youth referred by schools, human service agencies or law enforcement. By providing counseling, homework assistance, adult guidance and recreational outlets, mentors are able to demonstrate to at-risk youth that there are other options to engaging in delinquent behavior. A key element of mentoring projects is a case tracker/manager who is able to support the activities of the mentor while providing contact with the referring agency to ensure that cases and youth do not get lost in the system.

Truancy Abatement. Several truancy and other status offense prevention programs have been supported over the years, focusing on an act of truancy and holding the youth accountable for that act. The Governor proposes a new offense prevention program that uses support services, managed-case approaches to truancy abatement, intensive evaluation and a review of truancy policies to increase youth awareness of personal accountability.

Intensive Supervision. Retaining at-risk youth offenders in the community allows them to be held accountable to their victims and the community, while promoting family reunification. One successful community-based model for this population is the Intensive Supervision Program model. The program helps keep young people with multiple risk factors (school failure, alcohol or other drug use, violence in

the home, etc.) from being sent to out-of-home placement facilities. Program workers are limited to handling no more than ten individual cases and use daily face-to-face contact and electronic monitoring as tools to reduce recidivism. The program has a proven record of success in reducing the number of placements in juvenile corrections.

Federal Byrne Program

The Governor recommends, subject to availability of federal funds, using federal Byrne antidrug program and matching monies administered by the Office of Justice Assistance for the following programs and activities:

1. Career Youth Development. Provide \$80,000 in each year for the City of Milwaukee Career Youth Development Center to continue community programs.
2. Court Appointed Special Advocates. Provide \$50,000 in each year to continue funding community advocacy services for children in need of protective services.
3. Children's Safe House. Provide \$50,000 in each year for Kenosha County's Children's Safe House to continue child care programs.
4. Police Athletic League. Provide \$5,000 in each year to the Milwaukee Police Athletic League to continue purchasing sports and recreational equipment for City of Milwaukee facilities.
5. Governor's Law Enforcement and Crime Commission. Provide \$455,000 in each year to continue supporting special needs that complement the drug enforcement task forces' initiatives.
6. Multijurisdictional Enforcement Group. Provide \$4,800,000 in each year for 32 multijurisdictional units lead by a board of chiefs and sheriffs for community drug enforcement activities.
7. Improvement to the Automated Fingerprint Identification System (AFIS). Provide \$545,000 in fiscal year 2003-04 for fingerprint matchers and a device in the Dodge Correctional Institution.
8. Wisconsin Incident Based Reporting Systems. Provide \$383,300 in each year to fund the completion of the Federal Bureau of Investigation crime statistics information technology process.
9. Antidrug Prosecutors. Provide \$383,400 in each year to continue funding three drug prosecutors in Milwaukee County and one in Dane County.
10. Restorative Justice Assistant District Attorneys. Provide \$114,000 in each year to fund the provision of victim support, reintegration and forum services by the Outagamie County district attorney's office.
11. Byrne Program Administration. Provide \$636,000 in each year to the Office of Justice Assistance to administer the Byrne antidrug program.
12. Grants to Counties for Victim-Witness Services. Provide \$850,800 in each year to support county-based victim and witness services programs.
13. Jail Literacy Program. Provide \$300,000 in each year to continue the Department of Corrections' jail literacy programs.
14. Inmate Alcohol and Drug Abuse. Provide \$464,700 in each year to continue the Department of Corrections' alcohol and other drug abuse programs.

Other Federal Law Enforcement Grant Programs

The Governor recommends the following allocations, subject to the availability of federal funds:

1. Juvenile Accountability Incentive Block Grant. Provide \$3,588,800 in each year to fund local government agencies' programs and services oriented towards juvenile accountability.
2. Juvenile Justice and Delinquency Prevention. Provide \$1,247,000 in each year to fund juvenile justice improvement programs, including disproportionate minority confinement prevention, truancy and expulsion, and alcohol and other drug abuse. Provide \$143,000 to challenge state agencies to develop projects that promote changes to the juvenile justice system. Provide \$474,000 in each year for Title V prevention activities.
3. Safe Havens. Provide \$120,000 to fund child domestic abuse transfer activities.
4. Alcohol and Other Drug Abuse. Provide \$300,000 in each year for the Social Development Commission to provide drug abuse prevention services.
5. Rural Domestic Violence. Provide \$680,000 in each year for domestic violence programs in community organizations based in rural Wisconsin.
6. Comprehensive Strategies. Provide \$300,000 in each year for comprehensive community planning.
7. Violence Against Women Grant. Provide \$2,463,000 in each year to improve the criminal justice system response to violence against women and the services available to women victims.
8. Police Corps Program. Provide \$551,000 in each year for community-oriented policing recruitment, education, training and placement.
9. Local Law Enforcement Block Grant. Provide \$594,200 in each year to fund law enforcement services.
10. Uniform Crime Reporting. Provide \$49,600 for federally mandated statistical analysis reports.
11. Residential Substance Treatment. Provide \$1,092,400 in each year for alcohol and other drug abuse treatment programs in state correctional institutions.
12. Office of Justice Assistance Administration. Provide \$249,000 in each year to fund the administrative costs of the office.
13. Homeland Security. Provide \$30 million in each year to fund local and state disaster preparedness activities involving police, fire and medical personnel.

Penalty Assessment Distribution

The Governor recommends adjusting the distribution of funds from the penalty assessment surcharge to reflect revenue projections and to meet the state's highest priorities. The Governor recommends using penalty assessment funds for:

1. Required Match of Federal Funds. Provide the Office of Justice Assistance with \$2,208,400 in fiscal year 2003-04 and \$2,072,400 in fiscal year 2004-05 to provide the required match for federal Byrne antidrug monies. Programs supported by these matching funds include local antidrug task forces, drug awareness, victim-witness reimbursement to counties, completion of the district attorney information system and jail literacy.
2. Narcotics Intelligence Operations. Provide \$750,000 in each year to fully fund intelligence operations in the Department of Justice, Division of Criminal Investigations.

3. Victim and Witness Services. Provide \$773,000 in each year to reimburse counties for providing victim-witness services, bringing a total for all funds to \$5,612,600 in each year. Fully fund the Office of Victims Services in the Department of Corrections at \$174,400 in each year.
4. State Public Defender. Provide \$122,700 in each year for the training of state public defenders.
5. Youth Diversion. Provide \$720,000 in each year for the Social Development Commission's efforts to divert youth from gangs to productive activities.
6. Alcohol and Drug Abuse Programming. Fund drug and alcohol abuse programs in the Department of Public Instruction at \$2,989,600 in fiscal year 2003-04 and \$3,029,100 in fiscal year 2004-05.
7. Correctional Officer Training. Provide \$930,000 in each year for correctional officer training in the Department of Corrections.
8. Law Enforcement Officer Training. Provide \$7,095,700 in each year for law enforcement officer training in the Department of Justice. Provide \$377,300 in each year for crime lab supplies and services.

**Economic
Assumptions and
Revenue Estimates**

V. ECONOMIC ASSUMPTIONS AND REVENUE ESTIMATES

NATIONAL ECONOMY

The Legislative Fiscal Bureau's 2003-05 revenue estimates are based on the January 2003 national economic forecast from Global Insight. These revenue estimates predict slower growth in employment and retail sales in 2003 compared to recent years. The pace of the recovery will improve during 2004 and 2005. See Table 11.

- Real Growth. Real Gross Domestic Product (GDP) will increase by 3.1 percent in 2003, by 4.7 percent in 2004 and by 3.3 percent in 2005.
- Employment. Employment gains will continue, initially at a slower pace in 2003, but improving in 2004 and 2005. Total employment will increase by 0.7 percent in 2003, 2.6 percent in 2004 and 1.9 percent in 2005.
- Inflation. At 1.6 percent, inflation in 2002 was low, due to moderate wage pressure, a strong dollar and intense retail competition. With a weakening dollar, inflation is expected to accelerate somewhat. On the whole it should be reasonably stable during the 2003-05 biennium. It will increase to 2.3 percent in 2003, to 2.4 percent in 2004 and to 2.6 percent in 2005.
- Profits. Profits will rebound sharply in 2003 and 2004 (up 15 percent and 16.5 percent, respectively) before moderating in 2005 (down 3.7 percent).
- Incomes. Slow employment growth will restrain income gains in 2003 to five percent. Personal income will improve in 2004 (up 6.5 percent) and 2005 (up 5.6 percent).
- Retail Sales. Retail sales will be below income growth in 2003 as consumers rebalance income, savings and spending. Retail sales are expected to increase 3.6 percent in 2003. Thereafter, consumer spending will more closely match income growth in 2004 and 2005. Retail sales should increase 6.4 percent in 2004, and 5.7 percent in 2005.

TABLE 11

Summary of the National Economic Outlook					
Economic Indicators	Actual			Forecast	
	2001	2002	2003	2004	2005
Gross Domestic Product					
Nominal GDP	2.7	3.6	5.2	7.2	5.7
Real GDP (1987 Dollars)	0.3	2.4	3.1	4.7	3.3
Prices and Wages					
GDP Deflator	2.4	1.2	2.0	2.4	2.3
Consumer Price Index	2.8	1.6	2.3	2.4	2.6
Compensation Per Hour	4.1	3.7	3.3	4.0	3.7
Production and Other Measures					
Total Nonfarm Employment	0.2	-0.9	0.7	2.6	1.9
Industrial Production	-3.7	-0.7	2.9	6.4	5.7
Housing Starts (Millions of Units)	1.603	1.691	1.564	1.641	1.668
Light Vehicle Sales (Millions)	17.1	16.7	16.5	17.6	17.4
Retail Sales	3.9	3.3	3.6	6.4	5.7
Profits and Income					
Corporate Profits Before Tax	0.1	-1.6	15.0	16.5	-3.7
Personal Income	3.3	3.0	5.0	6.5	5.6

All numbers are annual percent change except as noted.

WISCONSIN ECONOMY

In 2002, Wisconsin's economy fared better than the rest of the country. Wisconsin's unemployment rate averaged 5.2 percent, compared to a national average of 5.8 percent. Wisconsin managed to break-even in employment gains (up 0.1 percent) while the nation lost jobs (down 0.9 percent). Wisconsin's income growth (up 3.4 percent) managed to slightly edge national income growth (up 3 percent). See Table 12.

For the coming biennium, Wisconsin will maintain a slight performance edge in 2003 but will trail the rest of the country in 2004 and 2005.

- **Employment.** The state's overall employment growth should continue to be better than national employment growth. In 2003, total nonfarm employment will improve by 1.4 percent. In 2004 and 2005, employment growth will be 2.6 percent and 1.9 percent, respectively, matching the national employment estimates.
- **Income.** Wisconsin's personal income growth will be well below national averages for 2003, continuing below average growth for 2004, but be close to national estimates for 2005. Wisconsin's total personal income should increase by 3.9 percent in 2003, and by 5.4 percent in each year for 2004 and 2005, compared to national income growth estimates of 5 percent in 2003, 6.5 percent in 2004 and 5.6 percent in 2005.

TABLE 12

Summary of the Wisconsin Economic Outlook					
Economic Indicators	Actual			Forecast	
	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Total Nonfarm Employment (in thousands)	2,827.3	2,830.4	2,870.0	2,943.8	3,000.2
Percent Change		0.1	1.4	2.6	1.9
Income (Annual Rates of Change)					
Personal Income	3.4	3.4	3.9	5.4	5.4

REVENUE ESTIMATES

General fund taxes will increase by 2 percent in 2003, 5.1 percent in 2004 and 5.6 percent in 2005. See Table 13.

TABLE 13

General Purpose Revenue Estimates (\$ in millions)				
Current Law Estimates	Actual FY02	Estimate FY03	Estimate FY04	Estimate FY05
Individual Income	\$4,979.7	\$5,120.0	\$5,410.0	\$5,800.0
General Sales and Use	3,695.8	3,760.0	3,910.0	4,100.0
Corporation Franchise and Income	503.0	490.0	540.0	555.0
Public Utility	252.2	260.4	268.0	278.0
Excise				
Cigarette	288.8	292.0	288.4	284.7
Liquor and Wine	36.0	36.3	37.2	38.5
Beer	9.6	9.7	9.8	9.9
Tobacco Products	13.9	15.9	16.8	17.9
Inheritance, Estate and Gift	82.6	67.0	85.0	90.0
Insurance Companies	96.1	105.0	105.0	95.0
Miscellaneous	<u>62.5</u>	<u>67.2</u>	<u>71.3</u>	<u>74.7</u>
Total GPR Taxes	\$10,020.2	\$10,223.5	\$10,741.5	\$11,343.7
Change Over Prior Year				
Amount		\$203.3	\$518.0	\$602.2
Percent		2.0%	5.1%	5.6%

Detail may not add precisely to total due to rounding.

The Governor also recommends improved reporting of sales taxes for firms doing business with the State of Wisconsin. This should improve collection of taxes owed to the state by \$5.4 million in fiscal year 2003-04 and by \$7.2 million in fiscal year 2004-05.

Reference Section

VI. REFERENCE SECTION

GLOSSARY OF TERMS AND ABBREVIATIONS

Adjusted Base Year: The legislatively authorized total level of funding in the second year of a biennium for an appropriation, program or agency, which becomes the base and starting point for funding changes in the upcoming budget.

Aids to Individuals and Organizations: State payments made directly to or on behalf of an individual or private organization.

Annual Appropriations: Authorization for expenditures only up to the amount shown in the Chapter 20 appropriations schedule and only for the fiscal year for which they are appropriated. Unused funds in annual appropriations lapse to the fund of origin at the close of each fiscal year.

Base Level Reallocations: A means of transferring existing budgeted dollars from lower to higher priority activities.

Base Year Reconciliation: The documentation of adjustments to agency budgets at the appropriation level throughout the current biennium which have an effect on the base year (the second year of the current biennium).

Biennial Appropriations: Authorization for expenditures for the biennium for which they are appropriated. Dollar amounts shown in the Chapter 20 appropriations schedule represent the most reliable estimates of the amounts which will be expended in each fiscal year. Amounts can be expended in any fashion between the two years of the biennium.

Bond Revenue: Monies resulting from the contracting of public debt as authorized by the Legislature for specific purposes.

Continuing Appropriations: Authorization for expenditures from an appropriation until the appropriation is fully depleted or repealed by subsequent action of the Legislature. The appropriation for any given year consists of the previous fiscal year ending balance together with the new Chapter 20 appropriation authority granted during the current fiscal year.

Fiscal Year (FY): The year between July 1 and the following June 30 which corresponds to the state's budget and accounting period. A fiscal year is usually expressed as FY02 for fiscal year 2001-02, for example.

Full-Time Equivalent (FTE) Position: Designates the number (down to 0.1) of authorized positions affected by an action. A 1.0 FTE position represents full-time authority for 2,080 hours of employment, 0.5 FTE position represents 1,040 hours, etc.

General Purpose Revenue (GPR): Monies consisting of general taxes (sales, income, excise, inheritance, etc.), miscellaneous receipts and revenues collected by state agencies which are paid into the general fund, lose their identity and are then available for appropriation for any purpose by the Legislature.

General Purpose Revenue-Earned (GPR-E): Miscellaneous revenues collected by agencies that are deposited within the general fund and interest earnings on general fund balances.

Lapse: For annual appropriations, any budgeted funds that remain unspent at the end of each fiscal year revert or lapse back to the fund (general fund, transportation fund, conservation fund, etc.) from which they were appropriated. For biennial appropriations a lapse occurs only in the second fiscal year of each biennium. There is no lapse from continuing appropriations.

Limited Term Employee (LTE): Individuals employed by the state for temporary positions which are limited by law to 1,044 hours per 26 consecutive pay periods, and are not part of the state's civil service system.

Local Assistance: Appropriations made to or on behalf of units of local government in Wisconsin to help pay costs which would otherwise be borne by local governments.

Mission Statement: The overall purpose of a governmental organization. In many cases specific legislative direction is given to an agency and serves as the principal purpose of the agency.

One-Time Financing: The provision of funds for a cost that will not recur in future years.

Permanent Positions: All positions, classified and unclassified, which are not LTE or project positions and which do not have a termination date. Most position numbers are expressed as full-time equivalent (FTE). This would represent one person working full-time as one FTE position and two persons each working half-time as one FTE position.

Program Goal: A broadly based statement of anticipated results.

Program Revenue – Federal (PR-F): Monies received from the federal government and deposited as program revenues of the general fund.

Program Revenue – Other (PR-O): Monies credited by law to a specific general fund appropriation to finance a particular agency, program or activity. They generally represent monies from user charges such as license and inspection fees, receipts from product sales, reimbursement for the cost of services provided to an individual or organization which is not another state agency.

Program Revenues – Service (PR-S): Monies credited by law to a specific general fund appropriation to finance a particular agency, program or activity when the service is provided to another state agency or the funding is received from another state agency.

Program Structure: The building blocks of an agency's budget are as follows:

Program: A broad category of similar services for an identifiable group or segment of the population for a specific purpose.

Subprogram: A breakdown of a program into units which identify more specific services or a more specific segment of the population.

Program Element: A breakdown of a subprogram into units which further program objectives by contributing to a specific output or group of related outputs described by a service or target group.

Program Summary: The same information as the department summary, but at the program and subprogram levels.

Project Positions: A position with a fixed termination date and with a maximum duration of four years.

Segregated Revenue – Federal (SEG-F): Monies received from the federal government and deposited as revenues in a segregated fund.

Segregated Revenue – Local (SEG-L): Monies received from local governments which are used in conjunction with state and/or federal funds on projects with a local component.

Segregated Revenue – Other (SEG or SEG-O): Monies which, by law, are deposited into funds other than the general fund. The funds retain their interest earnings and are available for predesignated purposes.

Segregated Revenue – Service (SEG-S): Monies which are credited by law to a specific segregated fund appropriation to finance a particular agency, program or activity when the service is provided to another state agency.

Standard Budget Adjustments: Technical adjustments to the base which are needed to accurately reflect the current level of funding on an annualized basis.

State Operations: Expenditures which are not local assistance or aids to individuals that fund the administrative operations of state agencies and the University of Wisconsin.

Sum Certain Appropriations: Authorization for expenditures from the indicated source in the specific amounts appropriated in the Chapter 20 schedule.

Sum Sufficient Appropriations: Authorization for expenditures from the indicated source in the amounts necessary to accomplish the purpose specified. Dollar amounts shown in the Chapter 20 appropriation schedule represent the most reliable estimate of the amounts which will be needed; however, they are not controlling.

Turnover: A reduction to the salary budget to reflect the savings realized when positions become vacant and also when experienced employees are replaced with those who earn only the minimum salary in their classification.

Unclassified Positions: Permanent positions which are not filled through the civil service and which have no civil service protection.

Appendices

APPENDIX 1
Summary of All Funds Appropriations
Governor's Recommendations - FY04

	<u>FY03 Base</u>	<u>FY04 Recommended</u>	<u>Change from Base(Amt)</u>	<u>Change Percent</u>
Administration, Dept.	383,770,000	480,632,000	96,862,000	25.2
Adolescent Preg. Prev. Board	555,300	0	-555,300	-100.0
Aging and Long-Term Care, Board	1,597,900	1,641,700	43,800	2.7
Agriculture, Trade and Consumer Protection, Dept.	76,140,400	71,648,300	-4,492,100	-5.9
Arts Board	3,104,700	3,488,600	383,900	12.4
Building Commission	44,054,500	35,400,200	-8,654,300	-19.6
Child Abuse and Neglect Prev.	2,561,000	2,726,000	165,000	6.4
Circuit Courts	74,083,900	78,816,500	4,732,600	6.4
Commerce, Dept.	184,182,800	217,961,900	33,779,100	18.3
Corrections, Dept.	987,349,200	1,009,615,200	22,266,000	2.3
Court of Appeals	7,659,700	8,234,900	575,200	7.5
District Attorneys	38,041,700	38,546,800	505,100	1.3
Educational Communications Board	16,748,900	16,515,000	-233,900	-1.4
Elections Board	1,706,500	1,175,400	-531,100	-31.1
Electronic Government, Dept.	132,488,300	0	-132,488,300	-100.0
Employee Trust Funds, Dept.	20,282,700	22,132,700	1,850,000	9.1
Employment Relations Commission	2,707,300	2,414,600	-292,700	-10.8
Employment Relations, Dept.	7,170,500	0	-7,170,500	-100.0
Environmental Improvement Program	36,429,000	41,401,000	4,972,000	13.6
Ethics Board	609,600	645,600	36,000	5.9
Financial Institutions, Dept.	15,434,000	15,369,400	-64,600	-0.4
Fox River Navigational System Authority	126,700	0	-126,700	-100.0
Governor's Office	3,588,100	3,137,200	-450,900	-12.6
Health and Family Services, Dept.	5,545,828,500	6,173,270,300	627,441,800	11.3
Higher Educational Aids Board	72,835,900	77,910,400	5,074,500	7.0
Historical Society	18,376,500	17,444,300	-932,200	-5.1
Insurance, Commissioner	94,270,000	301,136,500	206,866,500	219.4
Investment Board	17,720,500	17,720,500	0	0.0
Judicial Commission	213,200	227,300	14,100	6.6
Justice, Dept.	77,442,800	72,623,000	-4,819,800	-6.2
Legislature	60,688,200	56,596,700	-4,091,500	-6.7
Lieutenant Governor	526,700	347,200	-179,500	-34.1
Lower WI State Riverway Board	154,100	151,800	-2,300	-1.5
Medical College of Wisconsin	8,135,700	6,083,200	-2,052,500	-25.2
Military Affairs, Dept.	54,742,100	56,747,200	2,005,100	3.7
Miscellaneous Appropriations	889,779,300	129,959,500	-759,819,800	-85.4
Natural Resources, Dept.	490,843,100	489,888,900	-954,200	-0.2
Personnel Commission	812,800	0	-812,800	-100.0
Program Supplements	48,205,900	9,303,500	-38,902,400	-80.7
Public Defender Board	74,375,600	64,588,700	-9,786,900	-13.2
Public Instruction, Dept.	5,309,437,200	5,528,812,100	219,374,900	4.1
Public Lands	1,424,100	1,460,400	36,300	2.5
Public Service Commission	22,634,500	20,800,100	-1,834,400	-8.1
Regulation and Licensing, Dept.	11,660,200	11,980,900	320,700	2.8
Revenue, Dept.	154,018,500	154,682,200	663,700	0.4
Secretary of State	709,500	751,300	41,800	5.9
Shared Revenue and Tax Relief	1,305,181,000	1,908,843,700	603,662,700	46.3
State Fair Park Board	18,009,300	18,768,000	758,700	4.2
Supreme Court	23,988,000	24,807,500	819,500	3.4
TEACH Wisconsin Board	64,757,400	0	-64,757,400	-100.0
Technical College System	177,284,400	176,241,400	-1,043,000	-0.6
Tobacco Control Board	15,345,100	0	-15,345,100	-100.0
Tourism, Dept.	15,725,000	13,624,800	-2,100,200	-13.4
Transportation, Dept.	2,227,826,500	2,046,315,500	-181,511,000	-8.1
Treasurer, State	2,150,200	2,701,800	551,600	25.7
UW Hospitals & Clinics Board	82,707,300	99,818,300	17,111,000	20.7
UW System	3,398,812,400	3,507,972,000	109,159,600	3.2
Veterans Affairs, Dept.	168,483,900	166,866,200	-1,617,700	-1.0
WHEDA	0	0	0	0.0
Workforce Development, Dept.	1,137,630,100	1,066,375,000	-71,255,100	-6.3
TOTALS	23,633,128,200	24,276,323,200	643,195,000	2.7
Compensation Reserve	173,865,600	252,150,900	78,285,300	
	23,806,993,800	24,528,474,100	721,480,300	3.0

APPENDIX 2
Summary of All Funds Appropriations
Governor's Recommendations - FY05

	<u>FY04</u> <u>Recommended</u>	<u>FY05</u> <u>Recommended</u>	<u>Change from</u> <u>FY04 (Amt)</u>	<u>Change</u> <u>Percent</u>
Administration, Dept.	480,632,000	484,067,100	3,435,100	0.7
Adolescent Preg. Prev. Board	0	0	0	0.0
Aging and Long-Term Care, Board	1,641,700	1,637,300	-4,400	-0.3
Agriculture, Trade and Consumer Protection, Dept.	71,648,300	74,156,100	2,507,800	3.5
Arts Board	3,488,600	3,488,600	0	0.0
Building Commission	35,400,200	57,067,000	21,666,800	61.2
Child Abuse and Neglect Prev.	2,726,000	2,726,000	0	0.0
Circuit Courts	78,816,500	79,024,800	208,300	0.3
Commerce, Dept.	217,961,900	217,882,400	-79,500	0.0
Corrections, Dept.	1,009,615,200	1,009,806,500	191,300	0.0
Court of Appeals	8,234,900	8,234,900	0	0.0
District Attorneys	38,546,800	38,595,000	48,200	0.1
Educational Communications Board	16,515,000	17,082,400	567,400	3.4
Elections Board	1,175,400	1,725,600	550,200	46.8
Electronic Government, Dept.	0	0	0	0.0
Employee Trust Funds, Dept.	22,132,700	21,244,100	-888,600	-4.0
Employment Relations Commission	2,414,600	2,414,600	0	0.0
Employment Relations, Dept.	0	0	0	0.0
Environmental Improvement Program	41,401,000	45,701,500	4,300,500	10.4
Ethics Board	645,600	645,600	0	0.0
Financial Institutions, Dept.	15,369,400	15,450,000	80,600	0.5
Fox River Navigational System Authority	0	0	0	0.0
Governor's Office	3,137,200	3,137,200	0	0.0
Health and Family Services, Dept.	6,173,270,300	6,369,807,800	196,537,500	3.2
Higher Educational Aids Board	77,910,400	0	-77,910,400	-100.0
Historical Society	17,444,300	17,494,900	50,600	0.3
Insurance, Commissioner	301,136,500	104,259,600	-196,876,900	-65.4
Investment Board	17,720,500	17,720,500	0	0.0
Judicial Commission	227,300	227,300	0	0.0
Justice, Dept.	72,623,000	72,268,000	-355,000	-0.5
Legislature	56,596,700	56,608,200	11,500	0.0
Lieutenant Governor	347,200	347,200	0	0.0
Lower WI State Riverway Board	151,800	151,800	0	0.0
Medical College of Wisconsin	6,083,200	7,488,800	1,405,600	23.1
Military Affairs, Dept.	56,747,200	57,566,400	819,200	1.4
Miscellaneous Appropriations	129,959,500	147,554,800	17,595,300	13.5
Natural Resources, Dept.	489,888,900	492,968,800	3,079,900	0.6
Personnel Commission	0	0	0	0.0
Program Supplements	9,303,500	9,271,700	-31,800	-0.3
Public Defender Board	64,588,700	67,619,800	3,031,100	4.7
Public Instruction, Dept.	5,528,812,100	5,566,562,800	37,750,700	0.7
Public Lands	1,460,400	1,460,400	0	0.0
Public Service Commission	20,800,100	21,330,600	530,500	2.6
Regulation and Licensing, Dept.	11,980,900	11,980,900	0	0.0
Revenue, Dept.	154,682,200	154,844,100	161,900	0.1
Secretary of State	751,300	752,000	700	0.1
Shared Revenue and Tax Relief	1,908,843,700	1,792,887,900	-115,955,800	-6.1
State Fair Park Board	18,768,000	21,256,600	2,488,600	13.3
Supreme Court	24,807,500	24,801,700	-5,800	0.0
TEACH Wisconsin Board	0	0	0	0.0
Technical College System	176,241,400	177,351,400	1,110,000	0.6
Tobacco Control Board	0	0	0	0.0
Tourism, Dept.	13,624,800	13,663,000	38,200	0.3
Transportation, Dept.	2,046,315,500	2,206,534,900	160,219,400	7.8
Treasurer, State	2,701,800	2,278,500	-423,300	-15.7
UW Hospitals & Clinics Board	99,818,300	102,802,700	2,984,400	3.0
UW System	3,507,972,000	3,679,656,100	171,684,100	4.9
Veterans Affairs, Dept.	166,866,200	168,813,100	1,946,900	1.2
WHEDA	0	0	0	0.0
Workforce Development, Dept.	1,066,375,000	1,066,212,400	-162,600	0.0
TOTALS	24,276,323,200	24,518,631,400	242,308,200	1.0
Compensation Reserve	252,150,900	383,974,700	131,823,800	---
	<u>24,528,474,100</u>	<u>24,902,606,100</u>	<u>374,132,000</u>	<u>1.5</u>

APPENDIX 3
Summary of GPR Appropriations
Governor's Recommendations - FY04

	<u>FY03 Base</u>	<u>FY04 Recommended</u>	<u>Change from Base (Amt)</u>	<u>Change Percent</u>
Administration, Dept.	19,445,600	15,225,300	-4,220,300	-21.7
Adolescent Preg. Prev. Board	105,600	0	-105,600	-100.0
Aging and Long-Term Care, Board	781,500	785,900	4,400	0.6
Agriculture, Trade and Consumer Protection, Dept.	28,383,800	24,734,200	-3,649,600	-12.9
Arts Board	2,430,000	2,370,900	-59,100	-2.4
Building Commission	43,030,300	34,230,700	-8,799,600	-20.4
Child Abuse and Neglect Prev.	0	0	0	0.0
Circuit Courts	74,083,900	78,816,500	4,732,600	6.4
Commerce, Dept.	18,318,600	21,444,700	3,126,100	17.1
Corrections, Dept.	824,529,600	864,659,700	40,130,100	4.9
Court of Appeals	7,659,700	8,234,900	575,200	7.5
District Attorneys	36,395,900	36,407,200	11,300	0.0
Educational Communications Board	6,775,700	6,441,100	-334,600	-4.9
Elections Board	956,200	1,019,400	63,200	6.6
Electronic Government, Dept.	0	0	0	0.0
Employee Trust Funds, Dept.	3,419,800	3,176,600	-243,200	-7.1
Employment Relations Commission	2,479,100	2,162,700	-316,400	-12.8
Employment Relations, Dept.	5,606,300	0	-5,606,300	-100.0
Environmental Improvement Program	30,429,000	35,401,000	4,972,000	16.3
Ethics Board	232,700	237,100	4,400	1.9
Financial Institutions, Dept.	0	0	0	0.0
Fox River Navigational System Authority	0	0	0	0.0
Governor's Office	3,537,100	3,137,200	-399,900	-11.3
Health and Family Services, Dept.	1,975,730,400	1,378,912,300	-596,818,100	-30.2
Higher Educational Aids Board	70,691,000	68,790,900	-1,900,100	-2.7
Historical Society	11,223,300	10,094,800	-1,128,500	-10.1
Insurance, Commissioner	0	0	0	0.0
Investment Board	0	0	0	0.0
Judicial Commission	213,200	227,300	14,100	6.6
Justice, Dept.	36,871,100	33,250,400	-3,620,700	-9.8
Legislature	59,196,100	54,934,900	-4,261,200	-7.2
Lieutenant Governor	526,700	347,200	-179,500	-34.1
Lower WI State Riverway Board	0	0	0	0.0
Medical College of Wisconsin	7,635,700	5,583,200	-2,052,500	-26.9
Military Affairs, Dept.	18,074,700	19,114,700	1,040,000	5.8
Miscellaneous Appropriations	108,526,700	110,880,800	2,354,100	2.2
Natural Resources, Dept.	160,986,100	148,472,000	-12,514,100	-7.8
Personnel Commission	809,800	0	-809,800	-100.0
Program Supplements	43,580,100	9,303,500	-34,276,600	-78.7
Public Defender Board	73,088,200	63,294,500	-9,793,700	-13.4
Public Instruction, Dept.	4,819,182,500	4,835,986,500	16,804,000	0.3
Public Lands	0	0	0	0.0
Public Service Commission	0	0	0	0.0
Regulation and Licensing, Dept.	0	0	0	0.0
Revenue, Dept.	81,059,200	79,855,300	-1,203,900	-1.5
Secretary of State	0	0	0	0.0
Shared Revenue and Tax Relief	1,136,163,600	1,503,901,700	367,738,100	32.4
State Fair Park Board	1,203,200	1,499,000	295,800	24.6
Supreme Court	11,099,400	11,814,100	714,700	6.4
TEACH Wisconsin Board	42,544,300	0	-42,544,300	-100.0
Technical College System	140,077,800	138,882,800	-1,195,000	-0.9
Tobacco Control Board	0	0	0	0.0
Tourism, Dept.	11,010,600	8,772,600	-2,238,000	-20.3
Transportation, Dept.	59,700	168,900	109,200	182.9
Treasurer, State	46,700	0	-46,700	-100.0
UW Hospitals & Clinics Board	0	0	0	0.0
UW System	1,039,721,200	974,093,100	-65,628,100	-6.3
Veterans Affairs, Dept.	2,073,700	2,138,200	64,500	3.1
WHEDA	0	0	0	0.0
Workforce Development, Dept.	193,766,500	184,905,100	-8,861,400	-4.6
TOTALS	11,153,761,900	10,783,708,900	-370,053,000	-3.3
Compensation Reserve	79,815,500	115,812,900	35,997,400	
	11,233,577,400	10,899,521,800	-334,055,600	-3.0

APPENDIX 4
Summary of GPR Appropriations
Governor's Recommendations - FY05

	<u>FY04</u> <u>Recommended</u>	<u>FY05</u> <u>Recommended</u>	<u>Change from</u> <u>FY04 (Amt)</u>	<u>Change</u> <u>Percent</u>
Administration, Dept.	15,225,300	15,400,300	175,000	1.1
Adolescent Preg. Prev. Board	0	0	0	0.0
Aging and Long-Term Care, Board	785,900	785,900	0	0.0
Agriculture, Trade and Consumer Protection, Dept.	24,734,200	27,505,800	2,771,600	11.2
Arts Board	2,370,900	2,370,900	0	0.0
Building Commission	34,230,700	55,851,600	21,620,900	63.2
Child Abuse and Neglect Prev.	0	0	0	0.0
Circuit Courts	78,816,500	79,024,800	208,300	0.3
Commerce, Dept.	21,444,700	21,447,900	3,200	0.0
Corrections, Dept.	864,659,700	863,703,700	-956,000	-0.1
Court of Appeals	8,234,900	8,234,900	0	0.0
District Attorneys	36,407,200	36,429,400	22,200	0.1
Educational Communications Board	6,441,100	7,006,600	565,500	8.8
Elections Board	1,019,400	969,600	-49,800	-4.9
Electronic Government, Dept.	0	0	0	0.0
Employee Trust Funds, Dept.	3,176,600	2,715,400	-461,200	-14.5
Employment Relations Commission	2,162,700	2,162,700	0	0.0
Employment Relations, Dept.	0	0	0	0.0
Environmental Improvement Program	35,401,000	39,701,500	4,300,500	12.1
Ethics Board	237,100	237,100	0	0.0
Financial Institutions, Dept.	0	0	0	0.0
Fox River Navigational System Authority	0	0	0	0.0
Governor's Office	3,137,200	3,137,200	0	0.0
Health and Family Services, Dept.	1,378,912,300	2,316,872,100	937,959,800	68.0
Higher Educational Aids Board	68,790,900	0	-68,790,900	-100.0
Historical Society	10,094,800	10,054,300	-40,500	-0.4
Insurance, Commissioner	0	0	0	0.0
Investment Board	0	0	0	0.0
Judicial Commission	227,300	227,300	0	0.0
Justice, Dept.	33,250,400	33,157,200	-93,200	-0.3
Legislature	54,934,900	54,938,500	3,600	0.0
Lieutenant Governor	347,200	347,200	0	0.0
Lower WI State Riverway Board	0	0	0	0.0
Medical College of Wisconsin	5,583,200	6,988,800	1,405,600	25.2
Military Affairs, Dept.	19,114,700	19,984,200	869,500	4.5
Miscellaneous Appropriations	110,880,800	127,713,400	16,832,600	15.2
Natural Resources, Dept.	148,472,000	148,338,900	-133,100	-0.1
Personnel Commission	0	0	0	0.0
Program Supplements	9,303,500	9,271,700	-31,800	-0.3
Public Defender Board	63,294,500	66,325,500	3,031,000	4.8
Public Instruction, Dept.	4,835,986,500	4,848,582,000	12,595,500	0.3
Public Lands	0	0	0	0.0
Public Service Commission	0	0	0	0.0
Regulation and Licensing, Dept.	0	0	0	0.0
Revenue, Dept.	79,855,300	79,855,300	0	0.0
Secretary of State	0	0	0	0.0
Shared Revenue and Tax Relief	1,503,901,700	1,429,337,900	-74,563,800	-5.0
State Fair Park Board	1,499,000	1,939,500	440,500	29.4
Supreme Court	11,814,100	11,814,100	0	0.0
TEACH Wisconsin Board	0	0	0	0.0
Technical College System	138,882,800	139,992,800	1,110,000	0.8
Tobacco Control Board	0	0	0	0.0
Tourism, Dept.	8,772,600	8,772,600	0	0.0
Transportation, Dept.	168,900	168,900	0	0.0
Treasurer, State	0	0	0	0.0
UW Hospitals & Clinics Board	0	0	0	0.0
UW System	974,093,100	1,010,578,100	36,485,000	3.7
Veterans Affairs, Dept.	2,138,200	2,047,500	-90,700	-4.2
WHEDA	0	0	0	0.0
Workforce Development, Dept.	184,905,100	184,905,100	0	0.0
TOTALS	10,783,708,900	11,678,898,200	895,189,300	8.3
Compensation Reserve	115,812,900	176,359,600	60,546,700	
	10,899,521,800	11,855,257,800	955,736,000	8.8

APPENDIX 5
Summary of All Funds Positions
Governor's Recommendations – FY04

	<u>FY03 Base</u>	<u>FY04 Recommended</u>	<u>Change from Base (FTE)</u>
Administration, Dept.	900.08	1,106.73	206.6
Adolescent Preg. Prev. Board	1.50	0.00	-1.5
Aging and Long-Term Care, Board	25.18	23.00	-2.2
Agriculture, Trade and Consumer Protection, Dept.	649.47	568.94	-80.5
Arts Board	12.00	11.00	-1.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	4.00	4.00	0.0
Circuit Courts	511.00	511.00	0.0
Commerce, Dept.	483.25	438.50	-44.7
Corrections, Dept.	10,220.16	10,055.04	-165.1
Court of Appeals	75.50	75.50	0.0
District Attorneys	427.15	406.90	-20.3
Educational Communications Board	89.00	71.00	-18.0
Elections Board	15.00	11.00	-4.0
Electronic Government, Dept.	230.30	0.00	-230.3
Employee Trust Funds, Dept.	213.35	197.35	-16.0
Employment Relations Commission	25.50	21.50	-4.0
Employment Relations, Dept.	78.00	0.00	-78.0
Environmental Improvement Program	0.00	0.00	0.0
Ethics Board	6.50	6.00	-0.5
Financial Institutions, Dept.	168.50	148.00	-20.5
Fox River Navigational System Authority	0.00	0.00	0.0
Governor's Office	48.05	39.75	-8.3
Health and Family Services, Dept.	6,790.88	6,186.97	-603.9
Higher Educational Aids Board	12.00	11.00	-1.0
Historical Society	158.82	127.29	-31.5
Insurance, Commissioner	135.00	127.00	-8.0
Investment Board	104.50	104.50	0.0
Judicial Commission	2.00	2.00	0.0
Justice, Dept.	557.85	546.35	-11.5
Legislature	830.97	770.97	-60.0
Lieutenant Governor	7.75	4.00	-3.8
Lower WI State Riverway Board	2.00	2.00	0.0
Medical College of Wisconsin	0.00	0.00	0.0
Military Affairs, Dept.	382.91	377.16	-5.8
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	2,974.66	2,869.25	-105.4
Personnel Commission	9.00	0.00	-9.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	527.55	511.55	-16.0
Public Instruction, Dept.	641.88	613.53	-28.4
Public Lands	10.00	9.00	-1.0
Public Service Commission	191.50	184.50	-7.0
Regulation and Licensing, Dept.	135.50	125.50	-10.0
Revenue, Dept.	1,212.65	1,155.15	-57.5
Secretary of State	8.50	8.50	0.0
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	45.20	30.20	-15.0
Supreme Court	210.50	210.50	0.0
TEACH Wisconsin Board	9.00	0.00	-9.0
Technical College System	75.90	73.50	-2.4
Tobacco Control Board	4.00	0.00	-4.0
Tourism, Dept.	59.25	51.45	-7.8
Transportation, Dept.	3,942.33	3,800.83	-141.5
Treasurer, State	18.50	17.50	-1.0
UW Hospitals & Clinics Board	1,887.22	2,240.10	352.9
UW System	29,634.07	29,569.71	-64.4
Veterans Affairs, Dept.	945.80	923.80	-22.0
WHEDA	0.00	0.00	0.0
Workforce Development, Dept.	2,380.74	2,166.55	-214.2
TOTALS	68,091.92	66,515.57	-1,576.4

APPENDIX 6
Summary of All Funds Positions
Governor's Recommendations – FY05

	<u>FY04</u> <u>Recommended</u>	<u>FY05</u> <u>Recommended</u>	<u>Change from</u> <u>FY04 (FTE)</u>
Administration, Dept.	1,106.73	1,103.73	-3.0
Adolescent Preg. Prev. Board	0.00	0.00	0.0
Aging and Long-Term Care, Board	23.00	23.00	0.0
Agriculture, Trade and Consumer Protection, Dept.	568.94	564.94	-4.0
Arts Board	11.00	11.00	0.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	4.00	4.00	0.0
Circuit Courts	511.00	511.00	0.0
Commerce, Dept.	438.50	437.50	-1.0
Corrections, Dept.	10,055.04	10,041.54	-13.5
Court of Appeals	75.50	75.50	0.0
District Attorneys	406.90	401.90	-5.0
Educational Communications Board	71.00	71.00	0.0
Elections Board	11.00	11.00	0.0
Electronic Government, Dept.	0.00	0.00	0.0
Employee Trust Funds, Dept.	197.35	197.35	0.0
Employment Relations Commission	21.50	21.50	0.0
Employment Relations, Dept.	0.00	0.00	0.0
Environmental Improvement Program	0.00	0.00	0.0
Ethics Board	6.00	6.00	0.0
Financial Institutions, Dept.	148.00	148.00	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Governor's Office	39.75	39.75	0.0
Health and Family Services, Dept.	6,186.97	6,138.97	-48.0
Higher Educational Aids Board	11.00	0.00	-11.0
Historical Society	127.29	127.29	0.0
Insurance, Commissioner	127.00	127.00	0.0
Investment Board	104.50	104.50	0.0
Judicial Commission	2.00	2.00	0.0
Justice, Dept.	546.35	546.35	0.0
Legislature	770.97	770.97	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower WI State Riverway Board	2.00	2.00	0.0
Medical College of Wisconsin	0.00	0.00	0.0
Military Affairs, Dept.	377.16	376.16	-1.0
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	2,869.25	2,804.85	-64.4
Personnel Commission	0.00	0.00	0.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	511.55	511.55	0.0
Public Instruction, Dept.	613.53	613.53	0.0
Public Lands	9.00	7.50	-1.5
Public Service Commission	184.50	173.50	-11.0
Regulation and Licensing, Dept.	125.50	125.50	0.0
Revenue, Dept.	1,155.15	1,060.65	-94.5
Secretary of State	8.50	8.50	0.0
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	30.20	30.20	0.0
Supreme Court	210.50	210.50	0.0
TEACH Wisconsin Board	0.00	0.00	0.0
Technical College System	73.50	73.50	0.0
Tobacco Control Board	0.00	0.00	0.0
Tourism, Dept.	51.45	51.45	0.0
Transportation, Dept.	3,800.83	3,635.83	-165.0
Treasurer, State	17.50	12.50	-5.0
UW Hospitals & Clinics Board	2,240.10	2,240.10	0.0
UW System	29,569.71	29,571.71	2.0
Veterans Affairs, Dept.	923.80	922.80	-1.0
WHEDA	0.00	0.00	0.0
Workforce Development, Dept.	2,166.55	2,166.55	0.0
TOTALS	66,515.57	66,088.67	-426.9

APPENDIX 7
Summary of GPR Positions
Governor's Recommendations – FY04

	<u>FY03 Base</u>	<u>FY04 Recommended</u>	<u>Change from Base (FTE)</u>
Administration, Dept.	127.91	143.11	15.2
Adolescent Preg. Prev. Board	0.30	0.00	-0.3
Aging and Long-Term Care, Board	13.33	12.53	-0.8
Agriculture, Trade and Consumer Protection, Dept.	260.33	205.88	-54.4
Arts Board	5.00	4.00	-1.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	0.00	0.00	0.0
Circuit Courts	511.00	511.00	0.0
Commerce, Dept.	73.00	68.00	-5.0
Corrections, Dept.	8,784.06	8,925.73	141.7
Court of Appeals	75.50	75.50	0.0
District Attorneys	390.40	375.40	-15.0
Educational Communications Board	57.25	45.60	-11.6
Elections Board	15.00	11.00	-4.0
Electronic Government, Dept.	0.00	0.00	0.0
Employee Trust Funds, Dept.	3.50	3.50	0.0
Employment Relations Commission	22.50	18.50	-4.0
Employment Relations, Dept.	71.50	0.00	-71.5
Environmental Improvement Program	0.00	0.00	0.0
Ethics Board	3.00	2.50	-0.5
Financial Institutions, Dept.	0.00	0.00	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Governor's Office	47.75	39.75	-8.0
Health and Family Services, Dept.	2,224.20	2,143.60	-80.6
Higher Educational Aids Board	11.36	10.36	-1.0
Historical Society	125.50	94.90	-30.6
Insurance, Commissioner	0.00	0.00	0.0
Investment Board	0.00	0.00	0.0
Judicial Commission	2.00	2.00	0.0
Justice, Dept.	381.70	367.70	-14.0
Legislature	811.17	751.17	-60.0
Lieutenant Governor	7.75	4.00	-3.8
Lower WI State Riverway Board	0.00	0.00	0.0
Medical College of Wisconsin	0.00	0.00	0.0
Military Affairs, Dept.	103.35	99.85	-3.5
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	447.53	405.12	-42.4
Personnel Commission	9.00	0.00	-9.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	523.55	507.55	-16.0
Public Instruction, Dept.	290.72	272.02	-18.7
Public Lands	0.00	0.00	0.0
Public Service Commission	0.00	0.00	0.0
Regulation and Licensing, Dept.	0.00	0.00	0.0
Revenue, Dept.	1,000.00	942.50	-57.5
Secretary of State	0.00	0.00	0.0
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	0.00	0.00	0.0
Supreme Court	111.50	111.50	0.0
TEACH Wisconsin Board	5.00	0.00	-5.0
Technical College System	34.25	31.25	-3.0
Tobacco Control Board	0.00	0.00	0.0
Tourism, Dept.	55.25	47.45	-7.8
Transportation, Dept.	0.00	0.00	0.0
Treasurer, State	0.00	0.00	0.0
UW Hospitals & Clinics Board	0.00	0.00	0.0
UW System	18,965.13	18,315.13	-650.0
Veterans Affairs, Dept.	9.30	6.80	-2.5
WHEDA	0.00	0.00	0.0
Workforce Development, Dept.	255.67	198.92	-56.8
TOTALS	35,835.26	34,753.82	-1,081.4

APPENDIX 8
Summary of GPR Positions
Governor's Recommendations – FY05

	<u>FY04</u> <u>Recommended</u>	<u>FY05</u> <u>Recommended</u>	<u>Change from</u> <u>FY04 (FTE)</u>
Administration, Dept.	143.11	145.11	2.0
Adolescent Preg. Prev. Board	0.00	0.00	0.0
Aging and Long-Term Care, Board	12.53	12.53	0.0
Agriculture, Trade and Consumer Protection,	205.88	205.88	0.0
Arts Board	4.00	4.00	0.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	0.00	0.00	0.0
Circuit Courts	511.00	511.00	0.0
Commerce, Dept.	68.00	68.00	0.0
Corrections, Dept.	8,925.73	8,916.23	-9.5
Court of Appeals	75.50	75.50	0.0
District Attorneys	375.40	375.40	0.0
Educational Communications Board	45.60	45.60	0.0
Elections Board	11.00	11.00	0.0
Electronic Government, Dept.	0.00	0.00	0.0
Employee Trust Funds, Dept.	3.50	3.50	0.0
Employment Relations Commission	18.50	18.50	0.0
Employment Relations, Dept.	0.00	0.00	0.0
Environmental Improvement Program	0.00	0.00	0.0
Ethics Board	2.50	2.50	0.0
Financial Institutions, Dept.	0.00	0.00	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Governor's Office	39.75	39.75	0.0
Health and Family Services, Dept.	2,143.60	2,144.10	0.5
Higher Educational Aids Board	10.36	0.00	-10.4
Historical Society	94.90	94.90	0.0
Insurance, Commissioner	0.00	0.00	0.0
Investment Board	0.00	0.00	0.0
Judicial Commission	2.00	2.00	0.0
Justice, Dept.	367.70	367.70	0.0
Legislature	751.17	751.17	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower WI State Riverway Board	0.00	0.00	0.0
Medical College of Wisconsin	0.00	0.00	0.0
Military Affairs, Dept.	99.85	99.85	0.0
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	405.12	376.72	-28.4
Personnel Commission	0.00	0.00	0.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	507.55	507.55	0.0
Public Instruction, Dept.	272.02	271.52	-0.5
Public Lands	0.00	0.00	0.0
Public Service Commission	0.00	0.00	0.0
Regulation and Licensing, Dept.	0.00	0.00	0.0
Revenue, Dept.	942.50	942.50	0.0
Secretary of State	0.00	0.00	0.0
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	0.00	0.00	0.0
Supreme Court	111.50	111.50	0.0
TEACH Wisconsin Board	0.00	0.00	0.0
Technical College System	31.25	31.25	0.0
Tobacco Control Board	0.00	0.00	0.0
Tourism, Dept.	47.45	47.45	0.0
Transportation, Dept.	0.00	0.00	0.0
Treasurer, State	0.00	0.00	0.0
UW Hospitals & Clinics Board	0.00	0.00	0.0
UW System	18,315.13	18,316.49	1.4
Veterans Affairs, Dept.	6.80	6.80	0.0
WHEDA	0.00	0.00	0.0
Workforce Development, Dept.	198.92	198.92	0.0
TOTALS	34,753.82	34,708.92	-44.9

ABOUT THE BUDGET DOCUMENTS

The 2003-05 budget appears in four components: Executive Budget, Budget in Brief, Summary of Tax Exemption Devices and Budget Message.

The Executive Budget presents each agency's budget request, accompanied by the Governor's recommendations and initiatives. The Budget in Brief gives an overview of the Governor's revenue and expenditure priorities and serves as the state's fiscal plan. The Governor's Budget Message provides the text of the speech the Governor delivers to the Legislature at the time the budget is introduced, laying out the Governor's budget priorities and plans for the state. These documents were prepared by the Division of Executive Budget and Finance in the Department of Administration.

The Summary of Tax Exemption Devices, written by the Division of Research and Policy in the Department of Revenue, explains current Wisconsin tax law provisions that decrease state revenue by exempting certain persons, income, goods or property from the impact of established taxes. It includes data on the fiscal impact of each exemption device for fiscal year 2001-02.

The Executive Budget and Budget in Brief can be found on the Internet at:
<http://www.doa.state.wi.us/debf/execbudget.asp>.

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