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ADMINISTRATION**

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Date: August 8, 2002
To: Agency Heads
From: David P. Schmiedicke
State Budget Director
Subject: 2003-05 Budget Instructions

Preparing the budget instructions for the 2003-05 biennial budget has presented us with a number of unique challenges. Most state agencies are currently processing the budget changes mandated by the recently enacted Budget Reform Bill, 2001 Wisconsin Act 109 as well as completing file maintenance for 2001 Wisconsin Act 16 reductions. Due to the extraordinary circumstances caused by the delayed passage of Act 109, much of the financial budget information needed to complete the budget instructions and agency requests is still being determined.

At this time, we are informing you of the major budget policies you need to incorporate into your 2003-05 budget requests. Detailed instructions and examples for completing the budget system forms will be sent to you by August 15, 2002. If you have any questions about the major budget policies, please contact your assigned State Budget Office analyst.

cc: Agency Budget Contacts



SCOTT McCALLUM

Governor State of Wisconsin

August 2, 2002

Dear Agency Head:

The 2003-05 biennial budget represents a new beginning for our state's budgetary process. The changes we are undertaking will enable us to better maintain our commitments and maximize the efficiency and effectiveness of state government programs. This budget marks the implementation of new budget management tools created in both 2001 Wisconsin Act 16 and the budget reform bill, 2001 Wisconsin Act 109. These tools will extend our budget planning horizon to project revenues and expenditures four years into the future, require the state to report its financial status using generally accepted accounting principles (GAAP), improve the review of agency base budgets, and require agencies to report on vacant positions.

For the first time, selected agencies will be required to submit full reports on their base budgets. In addition, all agencies are required to submit reports to the Department of Administration secretary identifying all positions that became vacant in the preceding fiscal year and the associated savings. These reports, in conjunction with ongoing performance reporting requirements, will be a major step forward in ensuring that all programs are prioritized and every taxpayer dollar, not just the incremental increases, are used in the most effective manner possible. In implementing the base budget review provision for the upcoming 2003-05 biennial budget, I am directing the secretary of the Department of Administration to include the Governor's Office and Legislature in the first round of agencies to be reviewed. It's only appropriate that the budgets for elected officials be the first to receive this scrutiny.

In this budget, we must address the state's long-term structural deficit. The Major Budget Policies and Budget Instructions call for most agencies to hold overall fiscal year 2003-04 and fiscal year 2004-05 GPR budgets to fiscal year 2002-03 levels. The same targets will apply to the SEG funded administrative operations of the Department of Transportation, Department of Natural Resources and Lottery. The targets will be difficult to meet, but we are no different than hardworking Wisconsin families – we must live within our means. We are also asking agencies to prepare plans to reduce their 2003-05 state operations budgets by five percent per year below fiscal year 2002-03 base funding. A scenario where cuts of this magnitude are required is very possible. These plans should be submitted to the State Budget Office on Friday, November 15, 2002.

Your biennial budget requests need to reflect the basic funding priorities I have set forth to ensure educational excellence from preschool through post doctorate programs, provide health care for our state's neediest citizens and, finally and most importantly, lower Wisconsin's high tax ranking. Our budget difficulties are the result of spending beyond our means and cannot be solved by asking Wisconsin taxpayers to contribute more. I am ready to stand alone in my commitment to protecting Wisconsin taxpayers. We must do all we can to build Wisconsin's

Agency Head
Page 2
August 8, 2002

economy to new heights – thereby raising average incomes and reducing our tax burden. The Major Budget Policies and Budget Instructions build on these themes and identify ten core concepts for the 2003-05 budget.

Creative use of technology will enable us to harness the intelligent and efficient use of technological advances to streamline government and improve services to citizens. Wisconsin is an acknowledged leader in this area, and the Department of Electronic Government will continue to build on this foundation, using technology and process reengineering to do more with less.

The 2003-05 Major Budget Policies and Budget Instructions will require all state agencies to continue reporting outcome measures to enable citizens to see how well their programs are working. This is an area that can help focus attention on what we are doing and how well we are doing it, not on how much more funding we would like to have. And programs that are not working well must be revamped or eliminated.

Agency budget requests are due on Monday, September 16, 2002. Please review the Major Budget Policies and Instructions carefully as you prepare and prioritize your requests. Detailed instructions for completing full funding calculations and standard budget adjustments will be released soon.

I want to thank you for your past efforts to build Wisconsin's economy and I look forward to working with you as we face the challenges ahead of us. We are undertaking fundamental improvements to our budgetary process that will ensure government accountability and innovation to build Wisconsin.

Sincerely,

SCOTT McCALLUM
Governor

cc: Agency Budget Contacts

MAJOR BUDGET POLICIES 2003-05

The Governor has identified the following ten themes as the core concepts for building the 2003-05 biennial budget. These themes build upon our state's existing strengths and position Wisconsin to better protect and improve our families, communities, businesses and natural resources.

REDUCE THE TAX BURDEN FOR WISCONSIN CITIZENS

The Governor's highest priority is to reduce taxes. Wisconsin taxpayers and businesses have clearly and consistently communicated their desire to get Wisconsin out of the top ten states in terms of state and local tax burdens.

RAISE THE AVERAGE INCOME OF WISCONSIN CITIZENS

Income growth in Wisconsin has lagged other Midwestern states and the national average. We must create a business climate in Wisconsin where sustained growth and increased productivity help Wisconsin improve its standard of living by raising the average income level of our citizens.

IMPROVE THE ABILITY OF WISCONSIN CITIZENS AND BUSINESSES TO COMPETE IN THE GLOBAL ECONOMY

Wisconsin citizens and businesses must be prepared to compete in an increasingly global marketplace. We need to improve in this area with success demonstrated by better educational performance on international tests and increased exports as a percent of Wisconsin's economy.

INCREASE FEDERAL FUNDS FLOWING TO WISCONSIN BUSINESSES AND GOVERNMENTS

Federal funds comprise approximately 23 percent of the state budget. The state has a goal of increasing the receipt of federal funds where consistent with state program goals. One potential strategy for securing federal funds is to centralize state grant and procurement assistance to coordinate state grant efforts and to provide assistance to local government. We need to aggressively pursue federal funds so that Wisconsin taxpayers are treated fairly relative to their financial contributions.

ENHANCE EDUCATIONAL EXCELLENCE OF WISCONSIN STUDENTS

A skilled, educated workforce is essential to ensure long term growth. One study estimates that the lifetime added value of a degree ranges from \$370,000 for a high school degree to \$1.5 million for a vocational degree and \$2.8 million for a professional or doctorate degree.

ACCELERATE ECONOMIC GROWTH AND ENHANCE ENVIRONMENTAL PROTECTION

We must increase the number of Wisconsin businesses that integrate environmental and economic performance when making critical business decisions.

PROMOTE HEALTHY PEOPLE AND HEALTHY COMMUNITIES

The dramatic increases in health care costs have a negative effective on all Wisconsin citizens and employers. We must collectively tackle these rising costs from a variety of fronts. We need to encourage all Wisconsin citizens to do their part by leading healthier lifestyles and becoming more informed consumers of health care. We must work with providers, insurers and employers to contain cost increases without sacrificing quality care.

IMPROVE GOVERNMENT COST EFFECTIVENESS AND SERVICE DELIVERY

In addition to saving scarce taxpayer funds, an efficient government can respond more effectively to the needs of its constituents. State agencies need to streamline business-to-government processes by delivering services electronically. We should coordinate, consolidate and colocate economic development activities between state and local governments and organizations and the University of Wisconsin System.

ENHANCE EFFORTS TO PROTECT WISCONSIN'S NATURAL RESOURCES

Wisconsin's natural resources are a vital part of our economy and heritage. We must maintain our excellent performance in current resource protection programs, while ensuring that we can effectively control new threats to our natural resources.

ENHANCE THE SAFETY AND SECURITY OF WISCONSIN CITIZENS AND FAMILIES

We need to focus on decreasing the overall cost of incarceration in Wisconsin while maintaining the safety of our citizens.

These are the common-sense values of Wisconsin. These themes are the core around which the 2003-05 budget will be built.

BUDGET TARGETS

- Agencies should prepare their 2003-05 biennial budget requests based on 100 percent of their fiscal year 2002-03 adjusted base level.
- Based on current projections fiscal year 2003-04 is expected to have a structural budget deficit of at least \$1.3 billion.
- Eliminating the fiscal year 2002-03 structural deficit will be the overriding factor in GPR spending decisions for the next budget. Because of the projected size of this structural deficit, there will need to be restraint in all types of GPR appropriations in the next budget, i.e., state operations, aids to individuals and local assistance.
 - Agencies should assume there will be zero growth in overall state GPR appropriations in each fiscal year during the 2003-05 biennium, and specific program needs should be managed within this general constraint.
 - Exceptions will only be considered for K-12 equalization aids; required cost-to-continue needs for the state's institutions, i.e., the Department of Corrections and the Department of Health and Family Services institutions; Medical Assistance; and housekeeping adjustments like standard budget adjustments and debt service.
- While agency base resources should be reallocated to meet higher priorities, the overall fiscal year 2003-04 GPR budget for most agencies and programs will not exceed the fiscal year 2002-03 adjusted base level. Therefore, every effort must be made to fund all routine budget items within agencies' base budgets regardless of funding source.
 - This policy will also apply to the SEG funded administrative operations appropriations of the Department of Transportation, Department of Natural Resources and Lottery.
 - Funding requests for other types of appropriations and other funding sources in both years should be limited to revenue availability and prioritized programmatic needs.
- Except for standard budget adjustments, routine budget items should be handled in agencies' base budgets regardless of fund source. Consistent with overall targets, agencies should limit requests to spending items associated with significant policy and operational changes. The State Budget Office will notify agencies by November 29 of any items to be funded out of the base budget.

PLANNING FOR OPERATIONS REDUCTIONS

- Reduced base budget plans should be submitted on Friday, November 15, 2002. Agencies with GPR-funded state operations should prepare plans to absorb a five percent permanent base cut.
- Agencies need to determine how and where they can generate permanent savings of five percent annually from their adjusted base funding for operations.
- To prepare for these cuts agencies should look beyond trying to absorb the reduction as an across-the-board appropriation cut. This should not be an exercise to tweak the status quo, instead you should use this exercise to fundamentally review your agency's missions and

priorities, exploring opportunities to reallocate resources, integrate programs and consolidate functions.

- This should be viewed as an opportunity to reallocate resources to where they are more effective and focus resources on the most important parts of the agency's mission.
- This policy will apply to GPR funded operations and SEG funded administrative operations of the Department of Transportation, Department of Natural Resources and Lottery.

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

- Given expected increases in employee retirements and continued tight labor markets statewide, agencies should also expect to operate with a smaller workforce than they are currently authorized to have, regardless of their sources of funding or budget outlook. This strategic staff planning is also emphasized by the new requirement to report on all vacant positions and associated funding. Instructions will be sent out later this fall informing agencies how to report on fiscal year 2002-03 vacancies.
 - Any areas needing additional staff must be met through base reallocations.
 - An exception may be made for new federal positions, if adding federal positions results in generating more federal revenue for Wisconsin.
- Increased employee retirements present an obvious challenge to program managers but also an opportunity to reduce state operations spending, reshape organizations to mesh with 21st century needs and free up funds for higher priorities.

BASE BUDGET REVIEW

Starting with this biennial budget, the Department of Administration secretary is required to select one-third of all state agencies and require those agencies to provide a description of each programmatic activity performed by the agency and the expenditure, by revenue source, for each activity area. Expenditures must be reported for the last three fiscal years, with detailed breakouts of expenditures occurring in the third and fourth quarters of the last three fiscal years.

Agencies' Chapter 20 appropriation schedules will be used to identify programmatic activity areas and to categorize the expenditure information. Agencies required to report for the 2003-05 biennium must submit their reports on Monday, September 16, 2002. The State Budget Office will notify selected agencies on August 30, 2002, and will provide the base expenditure information and a standard format for agencies to describe their programmatic activity and spending patterns.

PERFORMANCE MEASUREMENT IN BUDGETING

- Agencies should update the performance measures submitted for the 2001-03 biennial budget. A continuing tight budget environment necessitates a shift in thinking away from requests for new money and toward achieving results. Performance measures can help to facilitate this shift.
- Agencies are asked to continue to report on the performance measures they identified for the 2001-03 biennial budget. These measures are related to agencies' broad Chapter 20 budget programs. If needed to capture significant shifts in agency function, additional measures could be added; however, only a few measures should be presented so there is a clear focus on results.
- Ideally, outcome measures should present at least five years of past performance, preferably the most recent five years for which data are available, to portray trends. If historical data is not available or not feasible because a program is too new or doesn't yet exist, the agency should collect base data to show what the present situation is. Ideally, planned outcomes based on the agency's goals and objectives should also be presented for the next five years. For the 2003-05 budget, agencies need to report actual outcome measures through fiscal year 2000-01 or, if possible, through fiscal year 2001-02. Planned outcome measures should be listed for fiscal year 2002-03 through fiscal year 2004-05. Agencies should track and maintain data going forward to present actual performance data for a fiscal year compared to planned performance. (A calendar year may be used if data is collected on that basis. Please note where calendar years are used.)

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

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

- Agency descriptions and performance measures will be E-mailed to each agency budget contact for updating. Agencies need to follow the prescribed format to ensure consistency and compatibility. The information should be submitted electronically in Microsoft Word software format, to facilitate inserting the information in the Executive Budget Book.

BUDGETING FOR INFORMATION TECHNOLOGY

Requests for funding of information technology projects will follow a new process for 2003-05, reflecting statutory provisions enacted in 2001 Wisconsin Act 16 creating a portfolio approach to information technology management. Agencies will be asked to identify the link between technology projects and the state's business goals and provide specific information about each project. The biggest change is that each project definition will include a standard return on investment (ROI) calculation. Special electronic forms are available for submitting the necessary information. The approach to defining projects was developed with the assistance of a group of state information technology managers and chief information officers. The ROI model is similar to those used in other states. Since portfolio management and return on investment are new concepts for the upcoming biennium, the Department of Electronic Government would welcome constructive comments on the forms and ROI for future use. The intent is to use these forms for gathering information on information technology projects through other planning processes as well.

- Wisconsin continues to be a leader in using technology to improve services. There are five principles that agencies should follow in developing budget requests for information technology.
 - The goal of information technology innovation must be driven by business needs for the specific program area. The use of technology must improve the business process.
 - All strategic information technology projects and biennial budget requests must include a cost-benefit analysis. The Department of Administration's instructions for both the strategic planning and budget process provide a general methodology that can be adapted for this analysis.
 - The presumption is that electronic government efforts must have a benefit, such as streamlining processes and reducing ongoing costs. If an upfront investment is necessary, innovative funding for that upfront investment is essential.
 - Given fiscal realities, statewide or enterprise provision or implementation of technology will be the preferred method of deployment. Citizens cannot afford the luxury of each agency developing an individually tailored method of implementing the technology that supports e-government. Department of Electronic Government and Department of Administration staff are working to put plans for this effort into place.
 - All efforts in electronic government will be implemented with the security of personally identifiable information and the aggregate information resources as a fundamental priority. Success in e-government efforts will be judged by how well the privacy of citizens and the public investments in automated systems are protected.

INCREASING FEDERAL FUNDS

Federal funds comprise approximately 23 percent of the state's resources. The state has a goal of increasing the receipt of federal funds where the use of federal funding is consistent with state program goals. In order to increase the amount of federal funds received, agencies should conduct the following review:

- Examine existing grant awards to ensure that they are fully utilized and consistent with agency priorities. If unexpended grant authority is available, the agency should reallocate the funds to other activities to the extent possible under state and federal rules.
- Identify, by federal grant number (CFDA), the anticipated award amount for all known and reasonably expected federal grants. For each grant, indicate to which numeric appropriation or appropriations funds will be credited. For those federal appropriations that are estimated without reference to specific awards, include a brief explanation of the estimate's assumptions.
- Identify, by federal grant number (CFDA), grants that specifically contribute to the Governor's budget priorities. Include estimated grant awards for each grant.
- Agencies may also identify, in the form of a policy paper, additional federal grant opportunities that were not included in the agency's request. Such opportunities may be considered for funding by the State Budget Office during budget deliberations.

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

STATUTORY LANGUAGE GUIDELINES

- Agencies should not submit policy items unrelated to appropriation changes for inclusion in the Governor's budget.

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

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

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

- As in past budgets, prior to September 16 agencies may work directly with the Legislative Reference Bureau in preparing statutory language items related to the budget. After September 16 all drafting and redrafting requests related to the budget must come from the State Budget Office.

- The Legislative Reference Bureau strongly discourages agencies from submitting budget bill drafts that agencies have drafted. Instead, agencies should submit memoranda identifying what they are seeking to accomplish.
- The detailed budget instructions will provide more information on statutory language submission requirements.

BUDGET SUBMISSION DUE DATES AND PROCEDURES

- Formal budget requests including statutory language related to decision items are due Monday, September 16, 2002. Send four (4) copies to the State Budget Office and two (2) copies directly to the Legislative Fiscal Bureau.
- Agency budget directors will be required to include with their budget submissions a signed Budget Checklist of budget elements completed. This will help ensure all required materials have been included in the budget. The formal instructions for 2003-05 will include this checklist.
- State Budget Office staff will also meet with individual agencies to explain budget policies and procedures and discuss any agency concerns.

INFORMATION ON THE WEB

- The 2003-05 Budget Instructions manual contains a subject index at the end, listing topics and page numbers where the topics are found.
- The Budget Instructions, along with various budget forms, will be available on the State Budget Office Web site at <http://www.doa.state.wi.us/debf/sbo/index.asp>
 - Periodic information updates will be posted to this Web site so agencies should check it regularly.