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I. DEVELOPMENT OF THE 2011-13 BUDGET

A. OVERVIEW

Wisconsin faces one of the largest deficits in its history. Despite massive infusions of federal assistance and one of the largest tax increases in state history over the past two years, the state, much like our nation, faces a daunting sea of red ink. These last two years have shown us that we cannot tax and spend our way to economic vitality. Governments around the nation and world are facing the hard reality that spending has outstripped our ability to pay for too long. We need to remember that our state constitution requires frugality in government spending. In addition, excessive and unnecessary government regulations and rules have gotten in the way of sustainable economic growth.

Governor Walker for years recognized that we need to rein in government and tell the world that Wisconsin is open for business. Upon taking office, he moved immediately to support Wisconsin's economy. Legislation was introduced and adopted to remove Wisconsin's tax penalty on health savings accounts and cut taxes on small business through job creation tax credits. The Wisconsin Economic Development Corporation was created to help grow and retain jobs. Regulatory relief and lawsuit reform legislation was rapidly adopted – bringing Wisconsin into line with the rest of the country in fostering a positive business climate without compromising Wisconsin's values.

Governor Walker inherited a budget deficit totaling \$3.6 billion. The economic conditions of the past three years have contributed greatly to this deficit. However, more importantly, the deficit demonstrates that the short-term approaches employed by past leaders of both parties have brought a false promise of future economic stability.

Past governors and legislators from both parties have securitized tobacco settlement revenues and raided funds set aside for transportation and medical malpractice insurance. They delayed payments and used other accounting tricks to balance the budget. They created taxes on the sick and set up shell games to net more federal funding. They used a massive infusion of one-time federal stimulus money to pay for and even expand existing programs. All these approaches only delayed the day of fiscal reckoning.

Our state is broke. We owe Minnesota nearly \$60 million in tax reciprocity payments and are under a Supreme Court order to pay the injured patients and families compensation fund over \$200 million. The state's Medicaid program faces a \$153 million deficit. Our taxes are among the highest in the country and our business climate ranks near the bottom.

The current path of our great state is unsustainable. We must fundamentally change our financial structure and truly bring costs in line with our ability to pay.

Wisconsin's general fund budget spends approximately \$14 billion annually. Over one-half of the budget goes to cities, counties, towns, villages, and school districts. One-quarter of the budget goes for state operations, primarily the Department of Corrections and the University of Wisconsin. Taken together, most of the general fund budget supports the compensation costs of public employees.

Wisconsin's public sector workers are second-to-none. Serving our citizens primarily in the areas of education and public safety, our government employees work hard and deliver quality services to Wisconsin citizens.

However, we have no choice but to reduce state spending. Those reductions, in isolation, will compromise Wisconsin's public services. In the absence of the tools necessary to get at the cost drivers of increased government spending – retirement and health care benefits – drastic actions, such as layoffs, will be among our only options.

Rather than compromise services to our citizens, public sector workers need to contribute more toward their benefits. We must bring the share of benefits paid by employees in line with the private sector. By doing that, jobs are preserved and Wisconsin's top quality public services remain protected.

This budget takes the steps necessary, and long overdue, to make a fundamental change in public sector financing. We must reduce our spending – our budget is out of balance and has been for many years. Our deficit is significant – therefore the reductions must be significant.

We can either leave local government and school district leaders with no choice but to layoff the public servants who teach our children, plow our streets, and deliver a multitude of other critical services, or we can give them the tools to manage this situation.

By asking public employees to contribute a reasonable amount to their pension and health care benefits, we give local governments and school districts the tools necessary to maintain services and balance their budgets.

The budget repair bill introduced by Governor Walker laid this groundwork. The bill gives local officials the tools necessary to manage their staff resources and enable the effective investment of limited public resources. Reductions are also necessary at the state agency level, and the budget repair bill provides the flexibility necessary to better manage the impact of these cuts on staff resources.

The Governor has always believed in limited and effective government. Inheriting a massive budget deficit in his first budget, he remains true to that course. His budget includes the following actions:

Restore Fiscal Responsibility to State and Local Finances. The budget reduces all funds spending by over \$4.2 billion biennially compared to the fiscal year 2010-11 adjusted base, a 6.7 percent reduction over base year doubled. The overall general fund budget increases by \$384 million, a 1.35 percent increase over base year doubled. This small increase in GPR is achieved in spite of a \$1.26 billion GPR increase in funding for Medicaid to replace an equal amount of one-time federal Medicaid funding from the 2009-11 biennium. In order to balance the budget and fund Medicaid, the remainder of the budget is cut by a net \$879 million GPR. Most significantly, the structural deficit is nearly erased with an estimated gap between current law revenues and expenditures of less than \$100 million in fiscal year 2013-14 and a two year gap of less than \$250 million by the end of the 2013-15 biennium (see Chart 1).

Savings have been realized through higher employee contributions for pension and health care benefits - reducing both state operations appropriations and assistance to local governments and school districts. Growth in property taxes is held in check through reductions in per student revenue limits and a no-growth levy cap on municipalities, counties and technical college districts. Many nonfederal and non-segregated fund appropriations, excluding salaries and fringe benefits, have been reduced by 10 percent or more. Specific grant programs, including family planning and buy local grants have been eliminated. In recognition of declining juvenile corrections populations, the budget reflects the closure of the Ethan Allen School near Wales and the consolidation of all juvenile corrections programs at the existing facility at Lincoln Hills in Lincoln County. The State Treasurer and Secretary of State offices are also being downsized to their specific constitutional responsibilities.

Create Jobs: The budget provides almost \$200 million biennially for the new Wisconsin Economic Development Corporation, in part from a new economic development fund. The budget also creates a new Department of Safety and Professional Services consisting of the current Departments of Regulation and Licensing and parts of the Department of Commerce. The new department will be focused on streamlining Wisconsin's business licensing and related regulatory framework. To further assist businesses with job growth, capital gains taxes are eliminated for long-term investments in Wisconsin businesses and combined reporting is streamlined. The budget also provides a total of \$3.2 billion during the biennium to support economic development efforts through investments in highway construction and rehabilitation projects, including \$225 million to accelerate reconstruction of the Zoo Interchange in Milwaukee County. The state's busiest highway interchange is a critical economic lifeline for businesses throughout Wisconsin – ensuring its safe and smooth operation can be delayed no longer.

Protect Our Local Schools. The budget reduces school aid by \$834 million over the biennium, a 7.9 percent reduction compared to the base year doubled. School district revenue limits are reduced by 5.5 percent in fiscal year 2011-12 and held flat in fiscal year 2012-13 to ensure that this cut does not result in property tax increases. As a result of the increase in school district employee contributions toward their pension and health insurance benefits, estimated to save nearly \$1 billion over the biennium, local schools will have the tools to manage these cuts without having to compromise services or affect staffing. The budget also eliminates a number of mandates. In response to calls for reform by school districts, the 180 day school year requirement is eliminated while the classroom hours requirement is maintained. In addition, teacher residency requirements are removed. Funding for an elementary school reading initiative and a student information system is provided in the budget to help improve education outcomes.

Expand Educational Options. The budget expands the Milwaukee private school choice and independent charter school programs in support of improved educational outcomes for all Wisconsin students. The cap on the number of participants in the Milwaukee private school choice program is repealed and the income eligibility limits phased out to allow greater participation in this important program. Independent charter school authority is expanded throughout the state, with any University of Wisconsin System four-year campus authorized to create a charter school. All public schools (including virtual charter schools) are also enhanced by removing the student participation limit and expanding the open enrollment application period.

Enhance Higher Education. The budget reorganizes the University of Wisconsin-Madison as a public authority in recognition of greater flexibility needed by our flagship university as it seeks to compete in the global teaching and research marketplace. The University of Wisconsin-Madison is one of our state's great treasures, a true engine of economic development. The budget establishes a separate board of trustees and provides greater flexibility in allocating resources, leveraging private support, managing building construction, setting tuition and compensating staff. The budget also includes a combined \$250 million GPR reduction to the University of Wisconsin System and University of Wisconsin-Madison over the biennium. Despite the condition of the state's finances, the budget preserves current financial aid funding for students attending the University of Wisconsin-Madison and University of Wisconsin System campuses, Wisconsin technical colleges, and private colleges.

Refocus Health Care Programs. The Governor recognizes that we must provide care to those who cannot provide for themselves. The single greatest threat to these fundamental health care supports and our long-term economic success is the rapid growth in health care costs. The budget takes a number of actions to begin "bending the cost curve" in long-term health care outlays. In addition to increasing health care premium contributions and seeking plan design changes in the health insurance program for state employees, the budget repair bill provides flexibility to the Department of Health Services to pursue approaches to constrain health care costs in the state's Medicaid program. The budget assumes savings from these reforms, including increased co-pays and deductibles, consolidation of eligibility determination activities, greater use of managed care, and a comprehensive review of the Family Care program and other steps necessary to bring health care cost inflation in line with our ability to pay.

Ensure Public Safety. The previous budget included a number of changes to state sentencing laws that, if left in place, would seriously compromise the safety of Wisconsin citizens by releasing dangerous criminals into our neighborhoods. The budget deletes those sentencing changes to ensure that truth-in-sentencing remains intact. The budget also adds staff resources to the Department of Justice to help protect our children from internet predators and provides funding to the Department of Corrections to protect crime victims through a centralized system for information on offender status and location.

B. REVENUE AND EXPENDITURE OUTLOOK

Much like the national economy, Wisconsin's economy is expected to slowly recover throughout the upcoming biennium. The revenue estimates released by the Legislative Fiscal Bureau on January 31, 2011, reflect the improved outlook for the nation and Wisconsin. The bureau projects revenues will

increase by \$559.7 million (4.6 percent) in the current fiscal year, by \$472.9 million (3.7 percent) in fiscal year 2011-12, and by \$525.9 million (4.0 percent) in fiscal year 2012-13.

These increases are broad-based, affecting individual and corporate income taxes and sales taxes. Individual income taxes are expected to grow 4.3 percent this year, 4.7 percent in fiscal year 2011-12 and 5.3 percent in fiscal year 2013. Sales taxes are also expected to increase this year and in each year of the upcoming biennium, with growth of 5.2 percent this year, 4.8 percent in fiscal year 2011-12 and 3.1 percent in fiscal year 2012-13. Corporate income taxes will behave more erratically but remain above recessionary levels. Corporate income taxes are expected to have strong growth of 12 percent in the current year, but decline by 3.7 percent in fiscal year 2011-12 and then grow by 2.8 percent in fiscal year 2012-13.

The underlying economic and revenue forecast assumes the continued implementation of tax cuts and credits enacted in prior years, as well as new business and job tax credits and exclusions enacted in the January 2011 Special Session.

While the return to growth in revenues is significant, fiscal year 2011-12 revenues will only reach a level similar to fiscal year 2007-08. In addition, the previous budget used several one-time measures and large tax increases to fund ongoing expenditures which are no longer sustainable. As such, this budget is balanced through permanent reductions in spending.

C. THE GOVERNOR'S VISION

The overall fiscal goals of the Governor's 2011-13 budget are as follows:

1. Foster meaningful long-term economic growth and job creation, laying the groundwork for creating 250,000 jobs by 2015.
2. Recognize the tax burden on people by balancing the budget through measures that generate savings at the state and local level.
3. Ensure a strong and sustainable budget outlook by bringing ongoing spending in line with ongoing revenues.

D. BALANCING THE BUDGET

Major Budget Pressures

Major budget pressures the Governor faced in balancing the budget include:

First, the loss of \$1.2 billion in one-time federal funding in the state's Medicaid program required cuts throughout the budget to maintain critical health care services to Wisconsin seniors, disabled individuals and low-income families.

Second, advanced commitments from the 2009-11 biennial budget totaled over \$2.5 billion. In addition to the Medicaid shortfall mentioned above, other pressures include one-time savings from the previous budget and debt service on deferred principal payments on general obligation bonds.

Third, in addition to the loss of one-time federal funding, overall Medicaid costs continue to outstrip growth in general fund revenues. Long-term care expenditures, in particular, are growing much faster than the rest of the budget.

Fourth, the unconstitutional transfer of \$200 million from the injured patients and families compensation fund to the Medical Assistance trust fund in the 2007-09 biennial budget will have to be addressed in the 2011-13 biennial budget.

Fifth, in addition to the costs of restructuring principal payments on short- and long-term debt, debt service costs have increased due to issuance of authorized bonds.

Sixth, in each budget the state must include funding for costs of any new positions, new programs and fringe benefit increases. These so-called standard budget adjustments are made to ensure that the new budget authority recognizes existing payrolls. Standard budget adjustments in the 2011-13 biennium are significantly higher due to one-time savings in the previous biennium associated with furloughs and other reductions to agency salary and fringe benefit budgets. The Governor has eliminated all furloughs in the 2011-13 budget.

Finally, every 11 years, the state needs to adjust the budget to reflect the accrual mismatch caused by the difference between the length of the fiscal year and the timing of biweekly pay periods. The cost of this adjustment is \$46 million GPR in fiscal year 2011-12. In addition, funds have been set-aside in compensation reserves to address increased employer costs for pension and health insurance. Due to the overall condition of the state budget, no funding is available for state employee pay increases over the next two years.

Balancing the Budget

Wisconsin's budget is broken due to an overreliance on one-time fixes, illegal transfers, unsustainable federal funding and economic weakness due to high taxes and job-killing regulations. The Governor is balancing the budget in two critical ways – improving the state's business climate in support of job creation and bringing state spending permanently in line with our ability to pay. State and local government employees are being asked to provide more toward their pensions and health care benefits - in keeping with norms for private sector employees and government workers in other states. The savings from these measures will allow spending to be reduced without compromising state or local services. Programs throughout the budget that do not pay for employee compensation costs are being reduced by 10 percent. Low priority programs are being eliminated and redundant services consolidated for savings.

Wisconsin is open for business. A vigorous, fully-employed state economy is the foundation for a healthy state budget. The budget lays that foundation through tax reductions, meaningful savings in government programs and investments in future growth. By making permanent reductions in spending, rather than short-term measures, the Governor's budget will bring the structural deficit under control and lay the groundwork for investments in economic growth, education and health care in future budgets.

CHART 1: DESPITE ONE OF THE LARGEST DEFICITS IN HISTORY; THE STRUCTURAL DEFICIT AT ALL TIME LOW

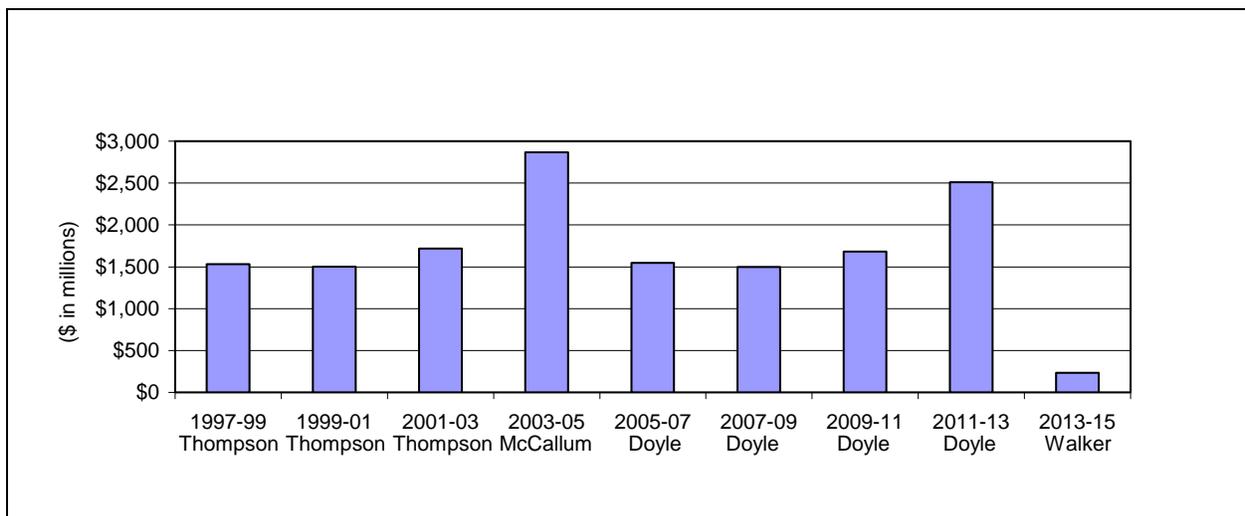


TABLE 1: SOLVING THE DEFICIT
(\$ in millions)

Department of Administration Report – November 19, 2010		-\$1,489
<u>Adjustments to DOA Report</u>		
DOA Budget Request – Continuation of 2009-11 Cuts		-800
DHS Budget Request – Medicaid Assumptions		<u>-1,067</u>
Net Deficit		-\$3,356
DOR Revenue Reestimates – December 2010		293
2011 Jobs Legislation (Health Savings Accounts, Jobs-Related Tax Credits)		-117
Legislative Fiscal Bureau Revenue Reestimates – January 31, 2011		-86
Legislative Fiscal Bureau FY11 Appropriation, Lapse and GPR-Earned Reestimates – January 31, 2011		67
Legislative Fiscal Bureau FY11 Appropriation Shortfalls – January 31, 2011		<u>-199</u>
Net Deficit		-\$3,398
Injured Patients and Families Compensation Fund (IPFCF) Settlement – Principal Repayment		<u>-200</u>
Net Deficit		-\$3,598
Medicaid – Administrative Savings		29
FY11 Budget Repair Bill – Change to Net Deficit		<u>115</u>
2011-13 Budget Gap		-\$3,455
Governor Walker's Plan for Addressing the Budget Deficit		
<u>Spending Changes</u>		2,920
GPR Spending Cuts	\$1,729	
Net Reductions From Agency Requests and Other Reestimates	627	
Other Cuts and Lapses to General Fund	267	
Medicaid Reestimates and Efficiencies	494	
GPR Spending Increases	-197	
<u>Revenue Changes</u>		-118
Capital Gains Exclusion for Wisconsin-Based Investments	-\$36	
Transfer of Motor Vehicle-Related Sales to Transportation Fund	-35	
Combined Reporting Modifications	-46	
IRC Update and Other Changes	-1	
<u>Other Changes</u>		<u>654</u>
Debt Restructuring	\$439	
Debt Service on FY11 and FY12 Debt Restructuring	-51	
Legal Settlement Reserve (Change From IPFCF Principal Repayment)	150	
Compensation Reserve (Change From November 19, 2010 Report)	87	
Lapses to General Fund	71	
Overall Balance of \$107 Million	-42	
Actions to Balance the Budget		<u>\$3,455</u>

II. SUMMARY OF GOVERNOR'S BUDGET INITIATIVES

A. EDUCATION, WORKFORCE AND LOCAL GOVERNMENT



Elementary and Secondary Education

- Reduce equalization aid by \$749.4 million over the biennium to help address the state budget deficit.
- To protect property taxpayers, reduce school district revenue limits per pupil by 5.5 percent below the amounts authorized in fiscal year 2010-11 and maintain those same amounts over the biennium.
- To also protect property taxpayers, repeal revenue limit exemptions for school nurses, pupil transportation costs, school safety equipment and security officers.
- To begin to shift the state's focus from educational inputs to accountability for outcomes, create a student information system that will provide longitudinal data to state policymakers, school districts, parents and citizens on the performance of the state's public education system and its students.
- Create a third grade reading initiative that will require all third graders in Wisconsin's public schools achieve basic literacy by the end of third grade.
- For students who did not attend a Milwaukee choice school in 2010-11, phase out the family income requirement as a condition of eligibility for the Milwaukee Parental Choice Program.
- Modify the Milwaukee Parental Choice Program by repealing the enrollment cap; allowing any school in Milwaukee County to participate; authorizing choice schools to use any nationally-normed achievement test rather than just the Wisconsin Knowledge and Concepts Examination; including in statute current administrative rules related to identifying choice schools with questionable financial administration practices; and requiring the Department of Public Instruction to notify parents of choice students of changes in administrative rules and deadlines prior to the beginning of the school year.
- Authorize all four-year University of Wisconsin campuses to sponsor independent charter schools and allow charter schools to be created anywhere in Wisconsin.
- Replace the mandate that charter school teachers be licensed by the Department of Public Instruction with the requirement that they have at least a bachelor's degree.
- To further expand enrollment options for parents, repeal the enrollment limit for the virtual charter school program.
- Extend the deadline to apply under the open enrollment program period for public schools and virtual charter schools from the fourth Friday in February to the end of April.

- To help address the state's budget deficit, repeal GPR-funded categorical aid programs for advanced placement; alcohol and other drug abuse prevention and intervention; alternative education; children-at-risk; English for Southeast Asian children; improving pupil academic achievement; nursing services; preschool to grade 5 programs; science, technology, engineering and mathematics programs; and supplemental aid.
- To provide greater flexibility for school districts to address educational outcomes, eliminate mandates requiring school districts to: schedule at least 180 school days annually; employ reading specialists; employ only licensed school nurses who have at least a bachelor's degree; prepare detailed indoor environmental quality plans; provide training to staff on administering prescription and nonprescription drugs only if the training is approved by the Department of Public Instruction; and not exceed 200 teaching service days for Milwaukee Public Schools.

Higher Education

- Position the University of Wisconsin-Madison to improve its ability to remain a world leader in research and instruction by restructuring the campus as an independent public authority with greater flexibility to manage compensation, human resources, tuition and capital projects. Greater independence for the state's flagship campus will enhance the Madison campus' potential as a major research institution for job creation, recruitment of top faculty and students, research and patent production, and to better serve Wisconsin's businesses, parents and students.
- Require system administration to allocate \$250,000 over the biennium to develop a plan to convert the University of Wisconsin-Milwaukee to a public authority.
- Reduce state aid by \$250 million over the biennium to University of Wisconsin System institutions and University of Wisconsin-Madison to help address the state budget deficit. The reduction would be split equally between the University of Wisconsin-Madison and the University of Wisconsin System.
- Promote administrative efficiency by requiring the system administration central office to absorb a larger share of the \$125 million reduction to system campuses. System administration will be reduced by 25 percent compared to 11 percent for the system campuses.
- Provide a modest tuition increase for University of Wisconsin System institutions to keep resident undergraduate tuition affordable without sacrificing quality.
- Expand the Wisconsin GI tuition and fee reimbursement to provide full remission of academic fees for 128 credits or eight semesters, whichever is longer, without regard to the number of credits the veteran student received under federal program benefits. This restores a promise to our veterans.
- To ensure that student financial aid remains available for Wisconsin's working families, exempt financial aid from GPR reductions.
- Prevent cuts to student financial aid and focus scarce resources on current Wisconsin higher education grant programs by limiting the Wisconsin Covenant program to students signing the pledge before September 30, 2011.

- Reduce state aid to technical college districts by \$71.6 million over the biennium to help address the state budget deficit. Increases in employee contributions for pension and health insurance will generate savings in excess of this state aid reduction.
- To avoid state aid reductions being offset with property tax increases, prohibit technical college districts from increasing property taxes above the amounts levied in fiscal year 2010-11, or 1.5 mills, whichever is less.
- Eliminate nonresident tuition and fee exemptions for undocumented persons at University of Wisconsin System campuses, the University of Wisconsin-Madison and technical college campuses.

Property Tax Relief

- Reduce calendar year 2012 county and municipal aid payments by \$96 million. Align adjustments in local government aids to the ability of local governments to realize savings on employee compensation to offset any potentially negative impact on municipal and county budgets.
- Cap county and municipal levy increases at the greater of 0 percent or the gain in value due to net new construction, and extend levy limits for two years.
- Require municipalities and counties that have declining debt service to reduce levies to reflect this reduced cost, thereby providing additional property tax relief to the taxpayers in those municipalities.
- Reduce the minimum inflation rate in the Expenditure Restraint Program from 3 percent to 0 percent to strengthen the incentive to create greater operating efficiencies for municipalities.
- Provide an additional \$1 million to reimburse local governments for damages and costs incurred as a result of major catastrophes if federal disaster assistance is not available.
- Fund the increase in the first dollar credit (\$10 million over the biennium) enacted in the 2009-11 biennium.

B. ECONOMIC DEVELOPMENT AND TRANSPORTATION



- Provide \$98.8 million in fiscal year 2011-12 and \$97.5 million in fiscal year 2012-13 for the recently enacted Wisconsin Economic Development Corporation to support economic development programs and operations. Creation of the corporation as a quasi-public authority focused on economic development will allow the corporation to attract top level talent, and provide more flexible and responsive support to the business community and job creators throughout Wisconsin.
- Eliminate the Department of Commerce and transfer economic development funds and the administration of tax credit certification to the Wisconsin Economic Development Corporation. Other related transfers of functions include:
 - Funding and positions related to the Division of Environmental and Regulatory Services, Division of Safety and Buildings, certification for woman-owned, minority-owned and disabled veteran-owned businesses to the Department of Regulation and Licensing, which is to be renamed the Department of Safety and Professional Services.
 - Funding and programs related to housing to the Wisconsin Housing and Economic Development Authority.
 - Technical assistance for the tribes funding to the Department of Administration.
 - Dairy 2020 program and administration for the dairy manufacturing facility investment credit to the Department of Agriculture, Trade and Consumer Protection.
 - Administration of the film production tax credit to the Department of Tourism.
- Establish ongoing funding for regional economic development organizations.
- Establish an Office of Business Development in the Department of Administration staffed with two positions appointed by the Governor to further support the needs of businesses.
- Modify the treatment of capital gains that are invested in Wisconsin-based businesses to make businesses in this state more attractive to investors, including a 100 percent exclusion for capital gains realized on Wisconsin-based capital assets held for five or more years and a 100 percent capital gains tax deferral for gains reinvested in Wisconsin-based businesses.
- Allow tax-option corporations that are nonoperating entities to claim angel investments credits for investments in new business ventures.
- Modify the holding period from one to three years for early stage seed or angel investments made after December 31, 2007.
- Modify the jobs tax credit to delete the upper wage limit, but establish a maximum annual credit of \$10,000 per job.
- Increase tourism marketing to \$15 million by fiscal year 2012-13 to help increase tourism spending and its direct positive impact on local economies throughout the state.

- Transfer the Arts Board to the Department of Tourism to help focus support for the arts and grow the economy.
- Invest a total of \$5.7 billion in Wisconsin's transportation system, including a \$410.5 million (14.7 percent) increase in highway funding over base amounts.
- Provide \$225 million for accelerating reconstruction of the Zoo Interchange to address immediate infrastructure needs, and \$195 million to continue construction of the I-94 corridor between Wisconsin's border with Illinois and the Mitchell Interchange in Milwaukee.
- Increase funding over base amounts by \$59.1 million over the biennium for the Major Highway Program to advance currently enumerated projects and begin initial work on four newly enumerated projects, keeping the percentage of transportation revenue bonding for the program at 42.2 percent.
- Provide an additional \$110.8 million base funding over the biennium for the State Highway Rehabilitation Program to meet increased costs and provide safe driving conditions on state highways.
- Fund transit operating aids from the general fund beginning in fiscal year 2012-13 to further strengthen the relationship between user fee revenues and investments in transportation infrastructure.
- Strengthen the link between vehicle-related user fees and transportation investments by phasing-in the deposit of motor vehicle related sales taxes into the transportation fund.
- Support economic development, and job creation and retention by investing in harbors and freight rail service.
- Expand the financing options offered to health care and private educational providers by the Wisconsin Health and Education Financing Authority.

C. ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT



- Maintain the ideals of the Stewardship Program while refocusing scarce state resources on priority lands.
 - Require lands purchased under the Stewardship Program to have full public access, unless the Department of Natural Resources determines the need for an exception to protect public safety, a natural resource or usership pattern on a trail.
 - Eliminate payments for aids in lieu of taxes on future land purchases and require local governments affected by these purchases to pass a nonbinding resolution in support or opposition to the purchase that the Department of Natural Resources must consider before making a final purchase.
 - Allow purchases only for fee simple land acquisitions, prohibit purchase of development rights, and only acquire easements when needed for logging, accessing adjacent publicly-owned land, state trails or the Ice Age Trail. Limit these easements to five acres or less.
 - Reduce acquisition costs for land to reflect the lower of the acquisition price or current fair market value, and require at least two appraisals for all grants.
- Respond to the continued economic challenges by keeping hunting and fishing license fees at current levels. Savings from employee compensation and program reductions will keep overall fish and wildlife revenues in balance with expenditures.
- Provide \$70,900 PR and 1.0 FTE position in each year to administer the Endangered Resources Review Program. This program has undergone rule changes that now include an expedited review of proposed development projects that allows development to occur at a quicker pace.
- Support the important role of law enforcement conducted by conservation wardens and rangers across the state by providing the following: \$175,000 SEG each year for warden recruit class support; \$338,500 SEG each year to master lease new warden laptops; \$288,000 SEG in fiscal year 2011-12 to permit radio trunking on warden radios; and \$125,000 SEG in fiscal year 2011-12 and \$109,500 SEG in fiscal year 2012-13 for law enforcement equipment in the parks.
- Provide \$32,100 SEG in fiscal year 2011-12 and \$24,100 SEG in fiscal year 2012-13 for limited term employees, and supplies and services associated with a new campground at Governor Thompson State Park in Marinette County.
- Provide \$407,800 SEG in each year to support the opening of several new facilities at parks and southern forests across the state as the parks welcome increasing numbers of visitors each year.
- Protect the Great Lakes and other waters by providing \$5 million in bond revenues to clean up contaminated sediments in the Great Lakes or its tributaries.
- Ensure the safety of Wisconsin's dams by providing \$4 million for dam repair, reconstruction and removal projects, and ensure greater program flexibility by removing the deadline for grant requests.

- Protect our lakes and rivers and improve water quality in Wisconsin by providing an additional \$20 million over the biennium to reduce nonpoint source water pollution through increased nutrient management planning and other pollution abatement practices.
- Continue to investigate and remedy environmental contamination by providing \$3 million in bond revenues for contaminated site repair.
- Modify the subsidized loan rates for the Clean Water Fund Program from 60 percent of the market rate to 80 percent, and reduce the amount that may be provided as financial hardship assistance to bring costs in line with state budget realities. Provide \$9.4 million for the Safe Drinking Water Loan Program and \$353 million in revenue obligation bonds for the Clean Water Fund Program, and set the present value subsidy level at \$30.7 million for the Safe Drinking Water Loan Program and \$54.4 million for the Clean Water Fund Program.
- Streamline regulatory authority by transferring soil erosion control regulation for commercial sites from the Department of Natural Resources to the Department of Regulation and Licensing, which is reorganized as the Department of Safety and Professional Services.
- Provide relief to municipalities by reforming regulations for effluent limitations on phosphorous so that Wisconsin's regulations are no more stringent than neighboring states, and repealing and recreating the municipal separate storm sewer systems stormwater standard that requires communities to reduce total suspended solids by 2013, so the standards are no more stringent than federal law and take into account its cost to municipalities.
- Eliminate the requirement that a municipality or county operate a recycling program to manage solid waste in compliance with the disposal restrictions, and eliminate the financial assistance for local governmental recycling programs.
- Convert the recycling and renewable energy fund to the economic development fund. Transfer a portion of the recycling tipping fee and current appropriations that are for purposes related to the environment to the environmental fund.
- Maintain a program for brownfields redevelopment and enhance its economic development potential by providing the Wisconsin Economic Development Corporation the authority to issue grants.
- Strengthen Wisconsin's meat industry by authorizing additional meat inspectors to ensure food safety and support business growth.
- Eliminate the conversion fee for rezoning land out of a farmland preservation zoning district, and eliminate the purchase of agricultural conservation easements program and \$12 million in GPR-supported general obligation bonds associated with the program.
- Eliminate the requirement that at least 20 percent of a diesel idling program grant be withheld until the recipient has complied with certain grant conditions, and eliminate the requirement to purchase more than one type of idling reduction units from more than one manufacturer.

D. HEALTH AND HUMAN SERVICES



- Preserve the health care safety net provided by Medicaid, BadgerCare Plus and SeniorCare while implementing significant, immediate program reforms to bring an end to the unsustainable rate of growth in order to ensure the programs can continue to serve the populations that depend on them.
 - Offer multiple, customized benefit plans tailored to the needs of specific populations and bring the coverage of working families back in line with private insurance.
 - Manage the care provided to high-needs individuals to prevent avoidable complications and reduce the provision of unnecessary services.
 - Develop innovative models of service delivery to realign provider incentives with better outcomes, and coordinate care covered by Medicare and Medicaid to better meet the needs of recipients.
 - Expand programs that encourage and support the self-direction of services, giving individuals the opportunity to decide how and when services are delivered to best meet their needs while promoting the efficient use of benefits.
 - Develop systems to encourage and reward individual responsibility by assisting recipients in making healthy lifestyle choices, managing their benefits effectively and avoiding unnecessary care.
- Review the Family Care community-based, long-term care program including the results of an audit conducted by the Legislative Audit Bureau. The Family Care program has expanded from five pilot counties in 2006 to 56 counties covering 80 percent of the state's population in January 2011. During this period, there has not been an adequate review of the effectiveness of the program in meeting the care needs of participants, and providing services in a cost-effective and accountable manner. The costs for providing services to individuals currently enrolled in Family Care are fully funded in the budget.
- Fund the costs of administering the Medicaid, BadgerCare Plus, Family Care and SeniorCare programs based on actual expenditures in prior years.
- Fund the costs of payments for funeral and burial services for indigent Medicaid recipients.
- Improve the efficiency of the Income Maintenance eligibility determination system by centralizing and automating the process, reducing total program costs by \$48 million per year and decreasing the number of staff by 270 FTE positions overall.
- Eliminate the state-only FoodShare program that provides FoodShare benefits to legal immigrants who do not meet federal residency requirements. The cost of this program has grown from \$400,000 GPR per year to \$3,000,000 GPR per year, making the continuation of this program unsustainable in the current budget climate.

- Open and fund a new unit for women at the Wisconsin Resource Center that provides treatment to mentally ill inmates from the Department of Corrections. Creation of the unit was required under a lawsuit settlement with the U.S. Department of Justice.
- Realize over \$5 million in GPR savings per year by closing units at the Wisconsin Resource Center and relocating sexually violent persons to vacant units at the Sand Ridge Secure Treatment Facility. This will decrease the number of state employees by 59.25 FTE positions.
- Restore expenditure authority and positions at the Southern Wisconsin Center for the Developmentally Disabled based on the actual number of residents relocated to the community over the past biennium.
- Allow the Department of Health Services to set fees for copies of medical records and for congenital disorder testing of infants in administrative rule.
- Ensure the solvency of the veterans trust fund through the biennium by providing funding and giving the Department of Veterans Affairs flexibility to reallocate revenues within the agency.
- Provide funding for the Department of Veterans Affairs to build and operate a new veterans home in Chippewa Falls. The department will contract for the daily operations and staffing of the home.
- Provide additional expenditure authority to increase staffing and maintenance at the Wisconsin Veterans Memorial Cemeteries in order to meet the demand for services.
- Provide expenditure authority and staffing to redevelop exhibit space at the Wisconsin Veterans Museum to create a temporary Civil War exhibit, and to move manuscripts, collections and archival materials to a new preservation storage facility.

Children and Families

- Transfer the FoodShare, State Supplement to Federal Supplemental Security Income and Caretaker Supplement programs from the Department of Health Services to the Department of Children and Families to consolidate economic welfare programs into one agency and streamline state services.
- Reform the Wisconsin Works (W-2) cash assistance program to enhance participant accountability for participation in work experience as a condition to receive cash assistance.
- Authorize the Department of Children and Families to implement tiered-reimbursement for child care providers based on a provider's quality rating.
- Authorize the Department of Children and Families to implement several cost-saving measures to the child care subsidy program, including implementing a waiting list, increasing copayments that individuals who receive a subsidy pay, adjusting the amount of reimbursement paid to child care providers and adjusting the gross income levels for eligibility for child care subsidies.

- Provide \$2.7 million over the biennium to fund out-of-home care expenditures in the Bureau of Milwaukee Child Welfare due to increasing caseloads and previous federal disinvestment in child welfare.
- Provide \$324,300 and 5.0 FTE positions in fiscal year 2011-12 and \$488,800 and 6.0 FTE positions in fiscal year 2012-13 to implement a regulated rate system for group homes, residential care centers and treatment foster care agencies.

E. JUSTICE



- Ensure public safety through repeal of sentencing changes in 2009 Wisconsin Act 28 that enabled the early release of offenders from prison.
 - Repeal the ability for offenders to earn time off the confinement portion of their sentence for good behavior.
 - Repeal the option for judges to sentence an offender to an alternative sentence that could result in release from confinement when 75 percent of the sentence is served.
 - Repeal the ability of the Department of Corrections to discharge an offender from extended supervision after two years or discharge an offender from probation after serving half of the sentence.
- Provide \$394,000 GPR in fiscal year 2011-12 and \$376,300 in fiscal year 2012-13 and 6.0 FTE GPR positions to increase the number of DNA analysts in the state crime laboratories. Positions are needed to prevent a backlog of DNA cases due to the increase in the number of submissions from law enforcement.
- Provide \$497,300 GPR and 8.0 FTE GPR positions in fiscal year 2011-12 and \$543,900 GPR and 11.0 FTE GPR positions in fiscal year 2012-13 to increase staffing for investigating Internet crimes against children. The funding will support five new criminal analyst positions, three new special agent positions and two support positions, and enable an increased number of investigations of on-line predators targeting children.
- Reduce funding by \$22,701,100 in fiscal year 2011-12 and \$29,954,800 in fiscal year 2012-13 in the Department of Corrections to reflect declining adult prison populations due to increased success of pre-incarceration diversion programs. In fiscal year 2009-10, the average daily population in adult institutions was 23,015, compared to 23,341 in fiscal year 2007-08. The projected fiscal year 2012-13 average daily population is 21,217. These trends are occurring on a national basis and are not the result of the early release and truth-in-sentencing modifications from 2009 Wisconsin Act 28.

- Consolidate juvenile offenders into one correctional facility, and eliminate expenditure authority and positions to reflect a dramatically lower population. In fiscal year 2009-10, the juvenile institution average daily population was 466, compared to 587 in fiscal year 2007-08. The projected fiscal year 2012-13 average daily population is 340.
 - The Department of Corrections has been unable to reduce operating expenses at juvenile correctional facilities enough to accommodate lower populations, resulting in an increasing deficit. To better manage funds and control escalation of the rates charged to counties who place juveniles in institutions, the department will close Ethan Allen School in Waukesha County and move the juveniles to Lincoln Hills School in Lincoln County.
 - To further maximize savings, the Department of Corrections will close Southern Oaks Girls School in Racine County and transfer the female juveniles to Copper Lake School at Lincoln Hills.
- Provide daily rates of \$284 in fiscal year 2011-12 and \$289 in fiscal year 2012-13 for counties to place a juvenile in a correctional facility. Closing Ethan Allen School and Southern Oaks Girls School is intended to keep this rate from escalating to a level that would be unmanageable for counties.
 - The daily rates for the 2011-13 biennium include \$17 in each year to eliminate the deficit in juvenile facility operations over the next ten years.
 - Maintaining the current three facilities and addressing the deficit would result in rates of \$538 in fiscal year 2011-12 and \$543 in fiscal year 2012-13.
- Convert 27.6 LTE positions to FTE positions in fiscal year 2011-12 to equip the Department of Corrections to handle an increase in operating while intoxicated offenders placed on community supervision as a result of the strengthening of drunken driving penalties in 2009 Wisconsin Act 100.
- Provide funding of \$511,900 in fiscal year 2011-12 and \$692,600 in fiscal year 2012-13 for county-level Victim Information and Notification Everyday services through the biennium; and accompanying protective order services beginning in fiscal year 2012-13 to protect crime victims through a centralized system for information on offender status and location.
- Provide \$1,062,200 PR in fiscal year 2011-12 and \$421,700 PR in fiscal year 2012-13 and 1.0 FTE position for ongoing costs associated with the Wisconsin Interoperable System for Communications to ensure first responders can communicate during an emergency.
- Provide \$1,000,000 PR in each year to retain experienced assistant district attorneys, and ensure effective and efficient prosecution.
- Provide \$128,300 PR in each year to fully fund the federal surplus property program that enables law enforcement agencies to procure surplus equipment and maximize resources.
- Modify the democracy trust fund to: (a) require the democracy trust fund be funded by voluntary contributions on individuals' state tax returns; (b) limit the amount of funding available for public campaigns to the amount of money in the fund; (c) permit two-thirds of the available funds to be used for judicial races; and (d) eliminate sum sufficient matching grants paid out of the general fund.

- Convert a 1.0 FTE GPR project auditor position in the Supreme Court to permanent status to assist counties with an accurate reporting of circuit court costs and ensure consistent reporting statewide.
- Increase funding by \$120,800 GPR in fiscal year 2011-12 and \$53,400 GPR in fiscal year 2012-13 to pay increased liability premium costs incurred by the Judicial Commission as the result of lawsuits that challenged Supreme Court rules.
- Implement a strategic planning process to determine allocation of federal Byrne/Justice Assistance grant dollars and remove earmarks to enable the Office of Justice Assistance to maximize funding for evidence-based programs.
- Provide \$41,000 PR in fiscal year 2011-12 to enable the State Law Library to purchase digital editions of archived court decisions to assist with space needs in the collection and enable on-line access to additional legal materials.
- Modify the fees charged by the Department of Justice for performing a background record check to create a single fee of \$7 per request, regardless of the entity requesting the background check.
- Provide supplies and services funding of \$619,900 in fiscal year 2011-12 and \$373,900 in fiscal year 2012-13 for 45.4 FTE positions provided to the Office of the State Public Defender for an expected increase in cases that qualify for state public defender representation as a result of the new indigency standard implemented in 2009 Wisconsin Act 164. The new standard applies to cases opened on or after June 19, 2011, and is modeled after the W-2 eligibility standard.
- Provide funding for the State Public Defender private bar appropriation to allow the agency to meet a projected increased need in both years of the biennium.

F. GOVERNMENT OPERATIONS AND EFFICIENCY



- Increase state employee contributions towards pension and health insurance costs. Employees will generally pay 50 percent of the total required retirement contribution, which for calendar year 2011 equals 5.8 percent of salary. Increase employee contributions for health insurance from approximately 6 percent of the premium to 12.6 percent of the premium. These modifications are necessary to bring state employee compensation in line with private sector employment and reduce compensation costs.
- Reduce funding, excluding salary and fringe benefits, in most GPR and PR appropriations by 10 percent to create additional efficiencies and balance the budget.
- Eliminate 735 FTE positions that have been vacant for longer than 12 months.

- Authorize the Department of Administration secretary to lapse program revenue related to: employee compensation reductions; eliminated positions that have been vacant longer than 12 months; and across-the-board reductions of nonsalary and fringe budgets of most agencies. The secretary would also be authorized to lapse general purpose and program revenue from the elimination of budget authority related to the 2 percent wage increase for represented staff that was approved in June 2009.
- Authorize the Department of Administration secretary to lapse an additional unallocated \$145 million over the biennium from GPR and PR appropriations to executive branch agencies in order to balance the budget.
- Authorize the Department of Administration secretary to abolish any vacant full-time equivalent position at any executive branch agency if the secretary determines that filling the position is not required for the state agency to carry out its duties and exercise its powers.
- Modify provisions relating to procurement of goods and services to streamline administrative processes and improve efficiency.
- Increase expenditure and position authority in each year for critical customer service support at the Department of Employee Trust Funds.
- Reorganize the Department of Regulation and Licensing as the Department of Safety and Professional Services and consolidate regulatory functions from the Department of Regulation and Licensing, the Department of Commerce, the Department of Agriculture, Trade and Consumer Protection, and the Department of Veterans Affairs. This consolidation will result in greater administrative efficiency and improved oversight, with no increase in the fees for licensure or certification.
- Transfer the local government investment pool and the college savings program from the State Treasurer to the Department of Administration.
- Eliminate the Office of Energy Independence and merge its responsibilities into the Division of Energy within the Department of Administration.
- Improve customer service by transferring responsibilities for trademark and trade name registrations, and notary public commissions from the Secretary of State to the Department of Financial Institutions, creating a one-stop shop at the department for entities registering trade names and filing as corporations.

G. REVENUE AND GENERAL FUND TAXES



- Create a 100 percent exclusion from capital gains taxation for investors who invest in Wisconsin-based business and hold those investments for five or more years.
- Expand the capital gains tax deferral for investments in qualified new business ventures to include all Wisconsin-based businesses to encourage investors to reinvest investment earnings in Wisconsin.
- Update Wisconsin's tax code to recent changes in the federal Internal Revenue Code, increasing tax collections by \$230,000 in fiscal year 2011-12 and decreasing tax revenues by \$347,000 in fiscal year 2012-13.
- Allow businesses to reduce their tax burdens by allowing broader use of losses incurred prior to the passage of combined reporting, and increase the period that those corporations can carryforward losses from 15 years to 20 years. Businesses will realize tax savings of \$9.2 million in fiscal year 2011-12 and \$37.2 million in fiscal year 2012-13.
- Reduce the percentages of the federal earned income tax credit that can be claimed for Wisconsin in line with national averages while still maintaining a focus on reducing child poverty to realize savings of \$41.3 million over the biennium.
- Repeal the indexing provisions of the homestead tax credit to realize savings of \$8.1 million over the biennium.
- Provide businesses with more certainty regarding certain filings under the combined reporting law by repealing the Department of Revenue's ability to overturn combined group elections.
- Exempt from sales and use tax the sale of cooking oils converted into motor vehicle fuels in order to treat this type of fuel like other motor vehicle fuels.
- Exempt from sales and use tax the sale of modular homes built in the state for use in other states.

III. STATE BUDGET OVERVIEW

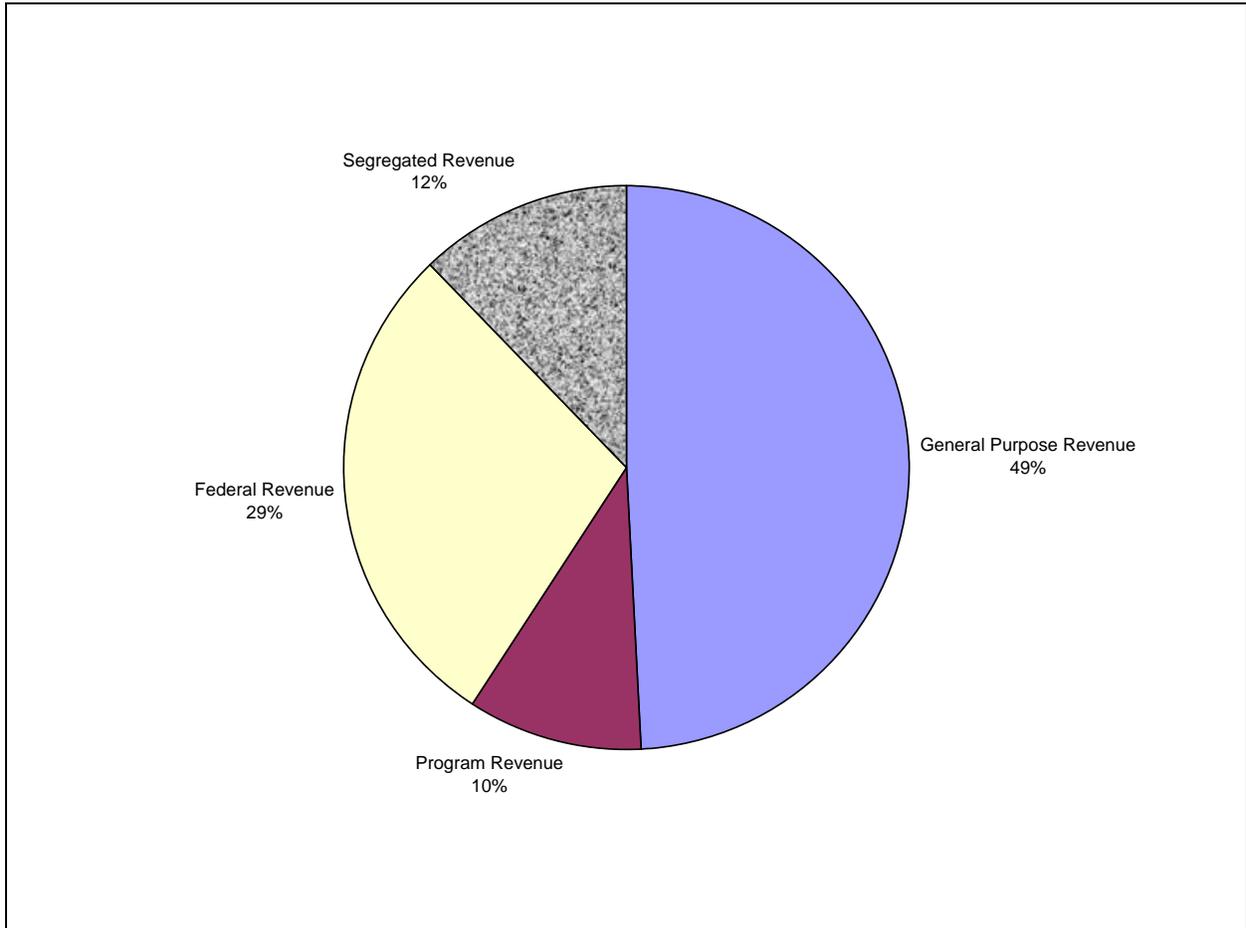
A. PRESENTATION OF THE GOVERNOR'S 2011-13 BUDGET

The Governor's recommended budget for the 2011-13 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 2011-13 biennium.

B. EXPENDITURES

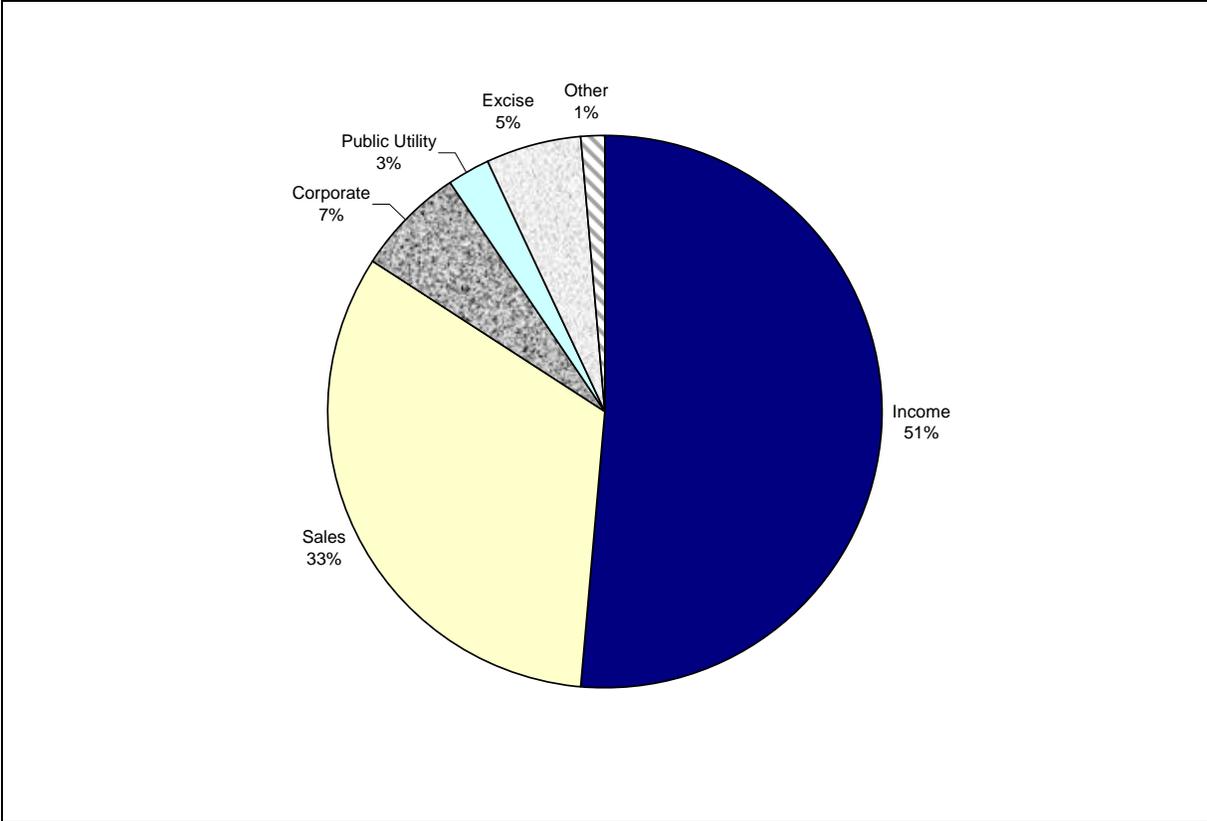
The Governor recommends an operating budget of \$29.261 billion in fiscal year 2011-12 and \$29.984 billion in fiscal year 2012-13. These figures include all four major funding sources and all state agencies and programs (see Chart 2). On an annual basis, the Governor's all funds budget for fiscal year 2011-12 represents a decrease of \$2.486 billion (-7.8 percent) over the fiscal year 2010-11 adjusted base, and the budget for fiscal year 2012-13 represents an increase of \$723.6 million (2.5 percent) compared with fiscal year 2011-12. Much of the fiscal year 2011-12 decrease is related to increased government employee contributions to their retirement plans and health insurance, as well as removing certain non-GPR appropriations from the budget related to the creation of the University of Wisconsin-Madison as a separate entity.

CHART 2: FISCAL YEAR 2012-13 BUDGET BY FUND SOURCE



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 3).

CHART 3: FISCAL YEAR 2012-13 GPR TAX REVENUE BY TYPE



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's budget puts a halt to this practice and starts the process of paying back the largest of the segregated funds, the transportation fund, by depositing a portion of automobile-related sales tax revenue to the fund, beginning in fiscal year 2012-13. The amount of these sales tax revenues deposited to the transportation fund will increase annually by 5 percent annually until 50 percent of the tax revenues related to these sales is deposited in the fund.

The Governor recommends a GPR budget of \$13.987 billion in fiscal year 2011-12 and \$14.727 billion in fiscal year 2012-13. On an annual basis, the Governor's GPR budget for fiscal year 2011-12 is a spending decrease of \$178.2 million (-1.3 percent) over the fiscal year 2010-11 base, and for fiscal year 2012-13 is a spending increase of \$740.1 million (5.3 percent) over fiscal year 2011-12.

TABLE 2: LARGEST BIENNIAL GPR INCREASES OVER BASE
(\$ in millions)

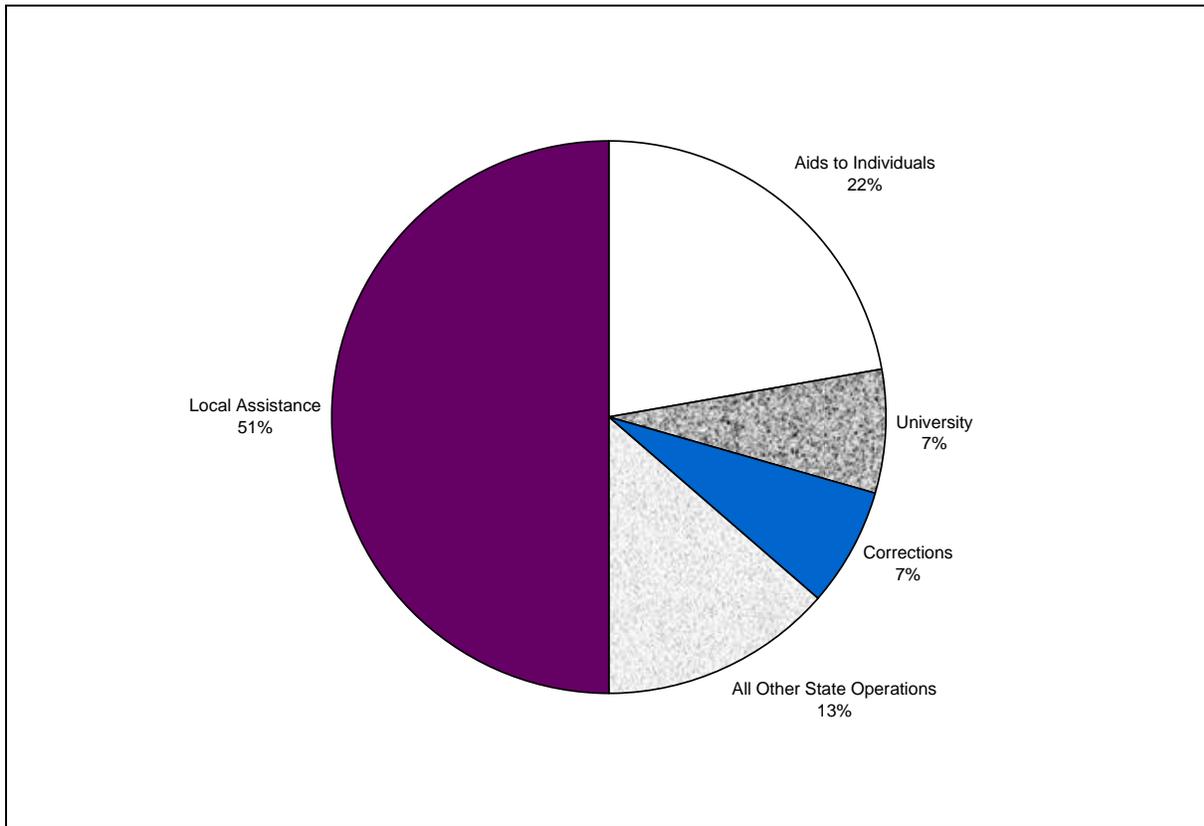
Department of Health Services	\$996
Department of Children and Families	308
Appropriation Obligation Bond Debt Service	259
Income and Property Tax Relief	109
Transit Aids	106
Illinois Tax Reciprocity Reestimates	34
All Other Changes	<u>-1,428</u>
TOTAL	\$384

Note: \$293 million biennially is transferred from the Department of Health Services to the Department of Children and Families related to the supplemental security income program. The increase in appropriation bond debt service is required by bond agreements and is offset by a lapse included in the general fund condition statement.

TABLE 3: TEN LARGEST GENERAL PURPOSE REVENUE PROGRAMS
(\$ in millions)

	<u>FY13 Budgeted</u>	<u>Percent of Total</u>	<u>Cumulative Percent</u>
General and Categorical School Aids	\$5,087.2	34.5%	34.5%
Medical Assistance and Related Programs	2,001.1	13.6%	48.1%
Corrections	972.5	6.6%	54.7%
University of Wisconsin System and Madison	895.7	6.1%	60.8%
State Property Tax Credits	882.6	6.0%	66.8%
Shared Revenue	882.1	6.0%	72.8%
Homestead, Earned Income and Other Tax Credits	348.3	2.4%	75.2%
Community and Social Service Aids	274.8	1.9%	77.0%
Wisconsin Works and Economic Support	159.9	1.1%	78.1%
Supplemental Security Income Program, State Supplement	<u>146.7</u>	<u>1.0%</u>	<u>79.1%</u>
Top Ten Program Total	\$11,650.9	79.1%	79.1%
Debt Service	682.8	4.6%	83.7%
Debt Service for Appropriation Obligation Bonds	627.2	4.3%	88.0%
All Other Programs	<u>1,766.5</u>	12.0%	100.0%
GPR Total	\$14,727.4		

CHART 4: FISCAL YEAR 2012-13 BUDGET ALLOCATION BY PURPOSE



C. POSITIONS

The Governor's budget recommendations include authorization for 49,784 FTE state positions from all fund sources by the end of the next biennium (fiscal year 2012-13). This represents a decrease of 21,325 positions from the fiscal year 2010-11 adjusted base of 71,109. From GPR funds the budget provides 28,664 FTE positions, a decrease of 7,097 (19.85 percent) from the fiscal year 2010-11 adjusted base of 35,762.

Table 4 demonstrates the reductions from the adjusted base level FTE positions to the second year of the biennium (fiscal year 2012-13).

TABLE 4: FISCAL YEAR 2012-13 FTE POSITION CHANGES OVER BASE

	<u>GPR</u>	<u>FED</u>	<u>PR</u>	<u>SEG</u>	<u>All Funds</u>
Adjusted Base	35,761.66	10,330.09	19,843.38	5,173.48	71,108.61
Agency Requests	788.12	-302.46	59.34	-37.59	507.41
Governor's Recommendation	<u>-7,885.34</u>	<u>-4,640.49</u>	<u>-9,025.47</u>	<u>-280.53</u>	<u>-21,831.83</u>
TOTAL	28,664.44	5,387.14	10,877.25	4,855.36	49,784.19

There are several initiatives included in the budget to reduce the number of FTE positions and support the Governor's goal of a more streamlined and efficient state government. The elimination of vacant positions reduces state positions by 735 FTE positions. These positions have been vacant for at least 12 months and some as long as 16 years.

Declining juvenile institution populations allows the Department of Corrections to consolidate facilities. This helps control the rate charged to counties to place a juvenile in an institution. Both Ethan Allen School for Boys and Southern Oaks Girls School will close, and all juveniles will be located at an institution in Irma, Wisconsin (Lincoln Hills School for the boys and Copper Lake School for the girls). As a result of the institution closures, as well as lower populations in other types of juvenile care, 269 FTE positions are eliminated in each year.

The Department of Health Services will realize over \$5 million in GPR savings per year by closing units at the Wisconsin Resource Center and relocating sexually violent persons to vacant units at the Sand Ridge Secure Treatment Facility. This will also decrease the number of state employees by 59.25 FTE positions.

Finally, eliminating the Department of Commerce and University of Wisconsin Hospital and Clinics Board, reduces FTE positions by 2,745. The largest reduction results from the creation of the University of Wisconsin-Madison Authority, a reduction of 17,418 FTE positions. As of January 1, 2011, the number of vacancies at University of Wisconsin-Madison was 494.6 FTE positions. As a result of creating the University of Wisconsin-Madison Authority, these vacancies will be eliminated along with all other state positions.

By eliminating long-term vacant positions in state government, eliminating vacancies associated with creating the University of Wisconsin-Madison Authority, closing facilities and units, and reducing other programs, the budget eliminates 1,656.33 FTE positions. Furthermore, the overall state position complement is reduced by shifting state positions associated with the University of Wisconsin Hospitals and Clinics Board to the University of Wisconsin Hospitals and Clinics Authority, creating the University of Wisconsin-Madison Authority and the Wisconsin Economic Development Corporation, and shifting housing functions from the Department of Commerce to the Wisconsin Housing and Economic Development Authority. While the primary goal of these initiatives is not to reduce the number of state FTE positions, these changes will allow the state to focus on its core functions.

These reductions are summarized in Table 5 below.

TABLE 5: FISCAL YEAR 2012-13 FTE POSITION DECREASES

	<u>FTE</u>
Creation of University of Wisconsin-Madison Authority	-17,418.29
Elimination of University of Wisconsin Hospital and Clinics Board	-2,609.38
Elimination of Vacant Positions	-735.12
Closure of Juvenile Facilities at the Department of Corrections	-269.00
Elimination of the Department of Commerce	-135.60
Closure of Unit at Wisconsin Resource Center	-59.25
Other FTE Position Reductions	<u>-98.36</u>
TOTAL	-21,325.00

Finally, the Governor has directed the Department of Administration to continue to review all agency requests to fill vacant positions. This ensures that only positions critical to state operations and public

safety are filled. This review has resulted in a current vacancy rate of 10.9 percent. Many of these vacancies will be eliminated in the Governor's budget. The budget includes a provision which allows the secretary of the Department of Administration to eliminate any future vacant positions in order to achieve additional efficiencies in state government.

D. BUDGET BALANCE

TABLE 6: GENERAL FUND CONDITION UNDER GOVERNOR'S BUDGET AND FISCAL YEAR 2010-11 BUDGET ADJUSTMENT LEGISLATION
(\$ in millions)

	2011-13 Governor's Budget			2013-15 Estimates	
	FY11	FY12	FY13	FY14	FY15
OPENING BALANCE, JULY 1	\$25.7	\$65.1	\$99.0	\$107.3	-\$21.3
REVENUES AND TRANSFERS					
Taxes	12,691.4	13,139.0	13,597.1	13,575.7	13,554.2
Departmental Revenues					
Tribal Gaming Revenues	22.3	25.7	26.9	26.9	26.9
Other	<u>782.6</u>	<u>596.2</u>	<u>607.2</u>	<u>605.2</u>	<u>605.2</u>
Total Available	\$13,522.1	\$13,826.1	\$14,330.2	\$14,315.2	\$14,164.9
APPROPRIATIONS, TRANSFERS AND RESERVES					
Gross Appropriations	\$14,157.7	\$13,987.4	\$14,727.5	\$14,783.2	\$14,783.2
Compensation Reserves	96.0	26.8	77.9	77.9	77.9
Legal Settlements Reserve	0.0	25.0	25.0	25.0	25.0
Less Biennial Appropriation Spend Ahead	-242.7	0.0	0.0	0.0	0.0
Less Estimated Lapses	<u>-554.0</u>	<u>-312.2</u>	<u>-607.5</u>	<u>-549.6</u>	<u>-549.6</u>
Total Expenditures	\$13,457.0	\$13,727.1	\$14,222.9	\$14,336.5	\$14,336.5
BALANCES					
Gross Balance	\$65.1	\$99.0	\$107.3	-\$21.3	-\$171.6
Less Required Statutory Balance	<u>-65.0</u>	<u>-65.0</u>	<u>-65.0</u>	<u>-65.0</u>	<u>-65.0</u>
Net Balance, June 30	\$0.1	\$34.0	\$42.3	-\$86.3	-\$236.6
Structural Balance	\$39.4	\$33.9	\$8.3	-\$128.8	-\$150.3

Detail may not add due to rounding.

The estimated four-year fund condition statement is balanced through fiscal year 2012-13. The estimates for the 2013-15 biennium do not assume any projected growth in revenues or expenditures. However, prospective tax cuts and commitments to additional expenditures made in this biennium for the next are addressed in the estimates for fiscal years 2013-14 and 2014-15.

**TABLE 7: ESTIMATED GENERAL FUND CONDITION SUMMARY ACCORDING TO
GENERALLY ACCEPTED ACCOUNTING PRINCIPLES**
(\$ in millions)

	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
Opening Balance	-\$2,943.3	-\$2,965.8	-\$2,990.5
Revenue			
Estimated Taxes	\$12,691.4	\$13,139.0	\$13,597.1
Departmental Revenues and Transfers	782.6	596.2	607.2
Tribal Gaming Revenue	<u>22.3</u>	<u>25.7</u>	<u>26.9</u>
Total Revenue	\$13,496.3	\$13,760.9	\$14,231.2
Total Available	\$10,553.0	\$10,795.1	\$11,240.7
Less Total Appropriations (Net)	<u>13,457.0</u>	<u>13,727.1</u>	<u>14,222.9</u>
Balance Before Change in Adjustments to GAAP	-\$2,904.0	-\$2,932.0	-\$2,982.2
Net Contribution to Balance Adjustments in GAAP (change from prior year)			
Transit Aids			-26.6
County and Municipal Aids	11.1	1.1	52.8
Accrue/Defer Tax Revenues	<u>-72.9</u>	<u>-59.6</u>	<u>-68.5</u>
Estimated Closing Balance	-\$2,965.8	-\$2,990.5	-\$3,024.5

E. DEBT MANAGEMENT

State debt management is necessary to ensure that long-term capital needs can be met at an affordable level. State debt management historically has maintained GPR debt service at approximately 4 percent, or below, of GPR. This standard is 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. Of necessity this standard will be exceeded during the next biennium; however, a more stringent use of debt provided in this budget will result in that ratio declining in the future.

Net debt service for General Fund Annual Appropriation Bonds (both the Pension and Sick Leave Conversion Benefits issue, as well as the Tobacco Repurchase issue) will continue at the same amounts originally planned for these bonds. The terms of the Pension and Sick Leave Conversion Benefits borrowing include variable rate index notes with a maximum annual interest rate of 35 percent (hedged by interest exchange agreements) that require appropriations at the 35 percent assumption. This high appropriation amount is offset by a lapse assumption that will reflect the actual hedged interest costs of approximately 5.35 percent. For fiscal year 2011-12 the combined appropriation amount will be \$367.2 million, offset by a lapse of \$145.6 million, for a net of \$221.6 million. For fiscal year 2012-13 the combined appropriation amount will be \$627.2 million, offset by a lapse of \$396.6 million, for a net of \$230.5 million.

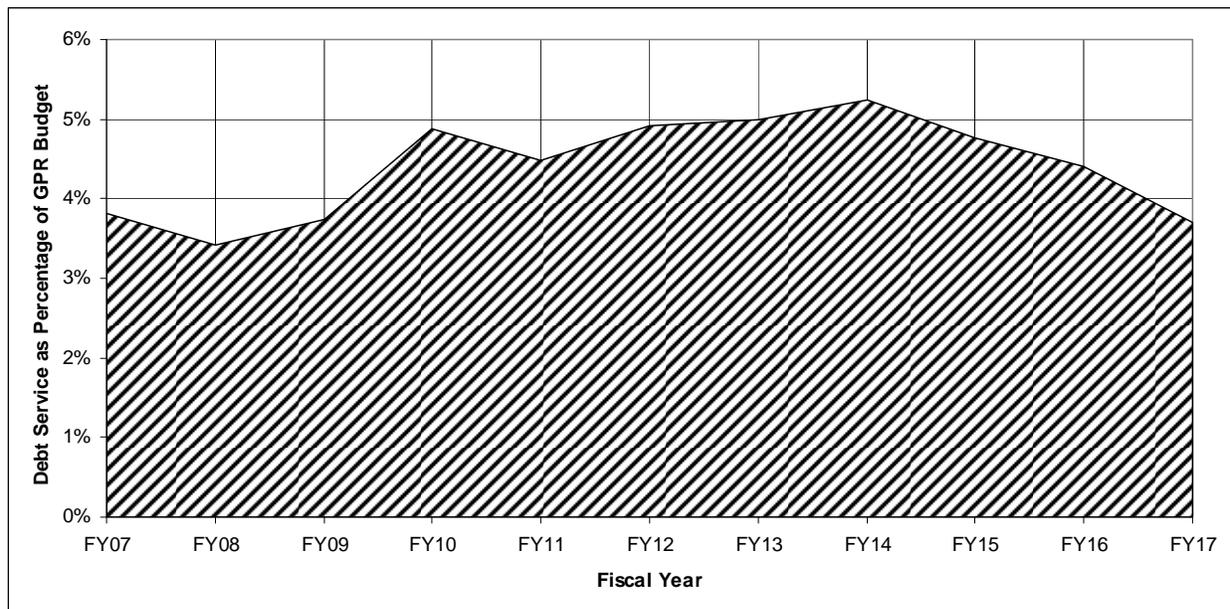
The debt management policies and projected results reflected in this budget are based on three important assumptions.

First, specific bonding recommendations for the building program will be included in the capital budget bill 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 reamortization of a portion of commercial paper previously scheduled to be retired during the biennium. Commercial paper scheduled for retirement in the first year of the biennium is being reamortized or refunded to future fiscal years. The savings will be approximately \$104.8 million in fiscal year 2011-12. Additionally the budget calls for restructuring \$333.6 million of fixed rate debt during fiscal year 2011-12, for additional budgetary relief. Currently authorized but unissued general obligation bonding authority for GPR-supported programs amounts to \$2.1 billion. This authorized unissued bond authority breaks down to \$1,182 million for environmental and water programs and \$959 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. The absolute cost of new debt service during the past two years has been significantly ameliorated by historic low interest rates, particularly in the shorter end of the yield curve. Interest rates have increased sharply for longer borrowings, as well as for lower bond rating levels.

Third, the state's market access and bond ratings will not deteriorate. As a result of recalibrations of municipal bond ratings to provide comparability to corporate bond ratings, Wisconsin's general obligation bonds carry ratings of AA/Aa2/AA from Fitch, Moody's and Standard & Poors respectively. All three ratings are considered "stable." Wisconsin's bonds are still received favorably by the investment community, but like most issuers, are being given much closer scrutiny. Maintaining and improving the state's bond rating is most directly related to improving the state's long-term fiscal outlook.

CHART 5: ACTUAL (FY07-FY10) AND PROJECTED (FY11-FY17) GPR-SUPPORTED GO DEBT SERVICE



F. CASH MANAGEMENT

While the 2011-13 budget is balanced as required by state law, cash shortfalls will occur at various times during the year. They arise from the difference between the "statutory/budgetary basis" on which the budget is built and the "cash basis" on which the state must pay its bills. There are significant differences in the timing of receipts and payments, particular on dates of major state aid payments.

These cash shortfalls are accommodated through short-term borrowing. Most often, this borrowing occurs automatically by using the balances of other state funds. In many years operating notes have been issued if there is a significant need for cash or if the operating notes are cheaper than using the cash of other state funds. The 2011-13 budget assumes the state will issue \$800 million in operating notes in each year.

In response to changes in the state's cash structure due to the creation of the University of Wisconsin-Madison authority and the treatment of its non-GPR revenue, the budget increases the general fund 30 day interfund borrowing limit from 3 percent to 6 percent of general fund appropriations.

IV. MAJOR BUDGET INITIATIVES

A. EDUCATION, WORKFORCE AND LOCAL GOVERNMENT

School District and Local Government Compensation Costs

The major cost category for school districts and local governments is employee compensation. Costs for health insurance and pensions, in particular, are growing much faster than employee salaries. This has put considerable pressure on local property taxes and the direct and categorical aid provided from the state.

Since over one-half of the state's general fund budget is provided to school districts and local governments, balancing the state budget requires matching the cost of all programs with ability to pay. In order to achieve the necessary savings without compromising school district and local government jobs and services, the Governor is proposing that employee contributions toward pensions and health care be brought into line with the private sector and government workers in other states. The savings from these measures are estimated to offset the impact of state aid reductions.

CHART 6: SALARY AND FRINGE BENEFITS AS A SHARE OF COUNTY AND MUNICIPAL BUDGETS

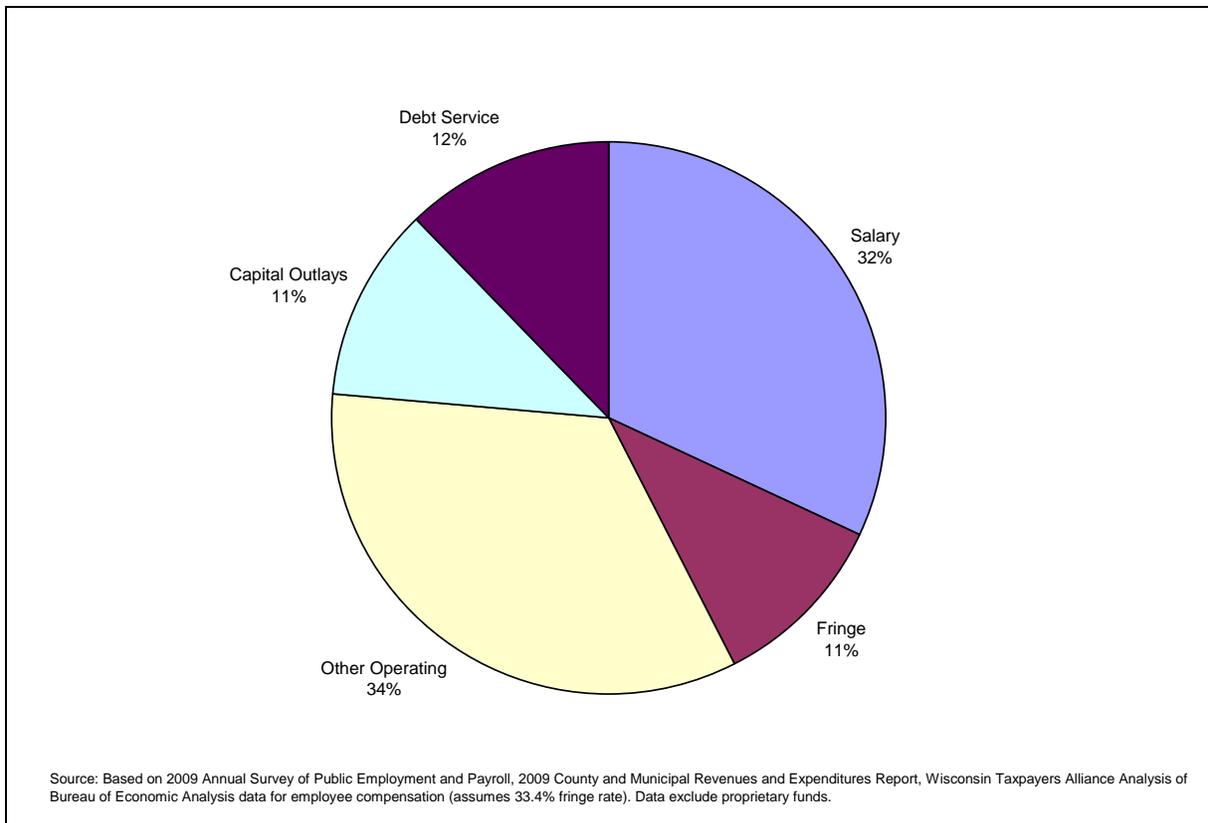


CHART 7: SALARY AND FRINGE BENEFIT COSTS COMPRISE 75 PERCENT OF SCHOOL DISTRICT EXPENDITURES (2008-09 DATA)

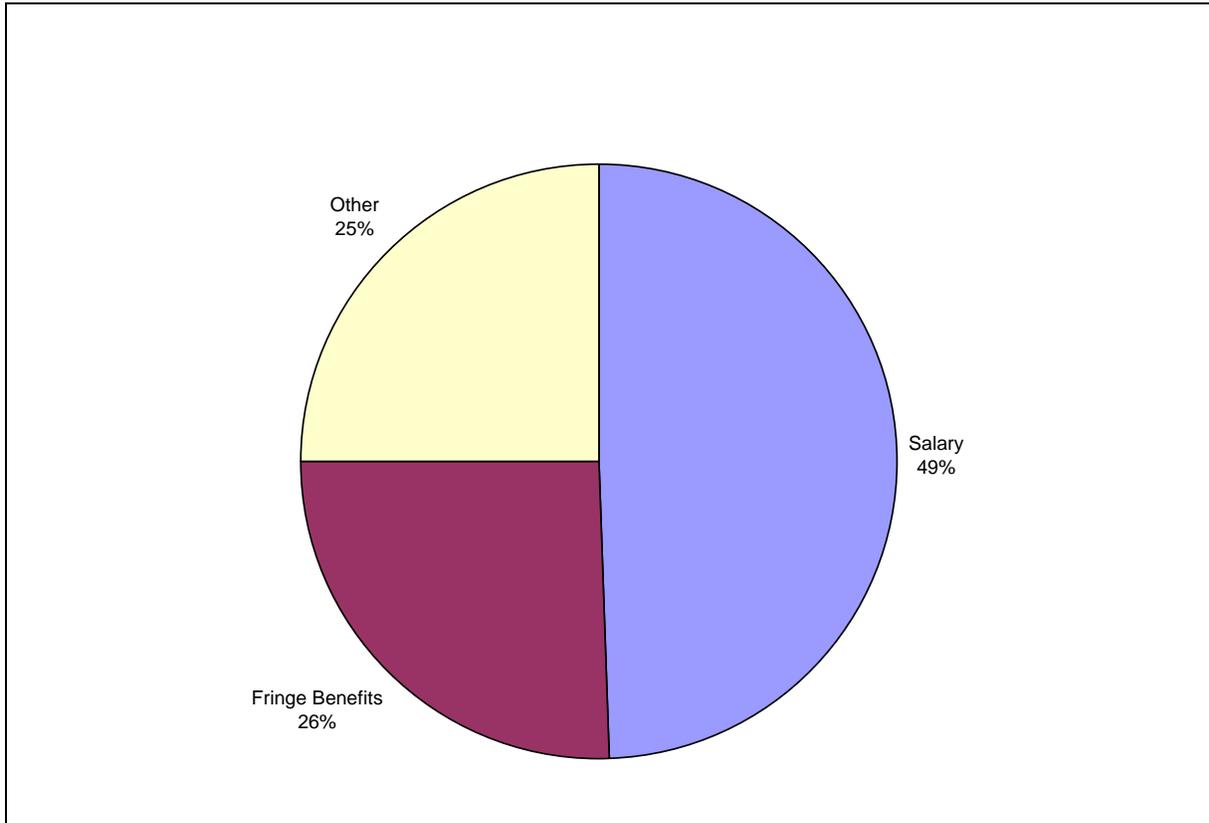


CHART 8: TEACHER FRINGE BENEFIT INCREASES OUTPACE SALARY INCREASES AND THE CONSUMER PRICE INDEX

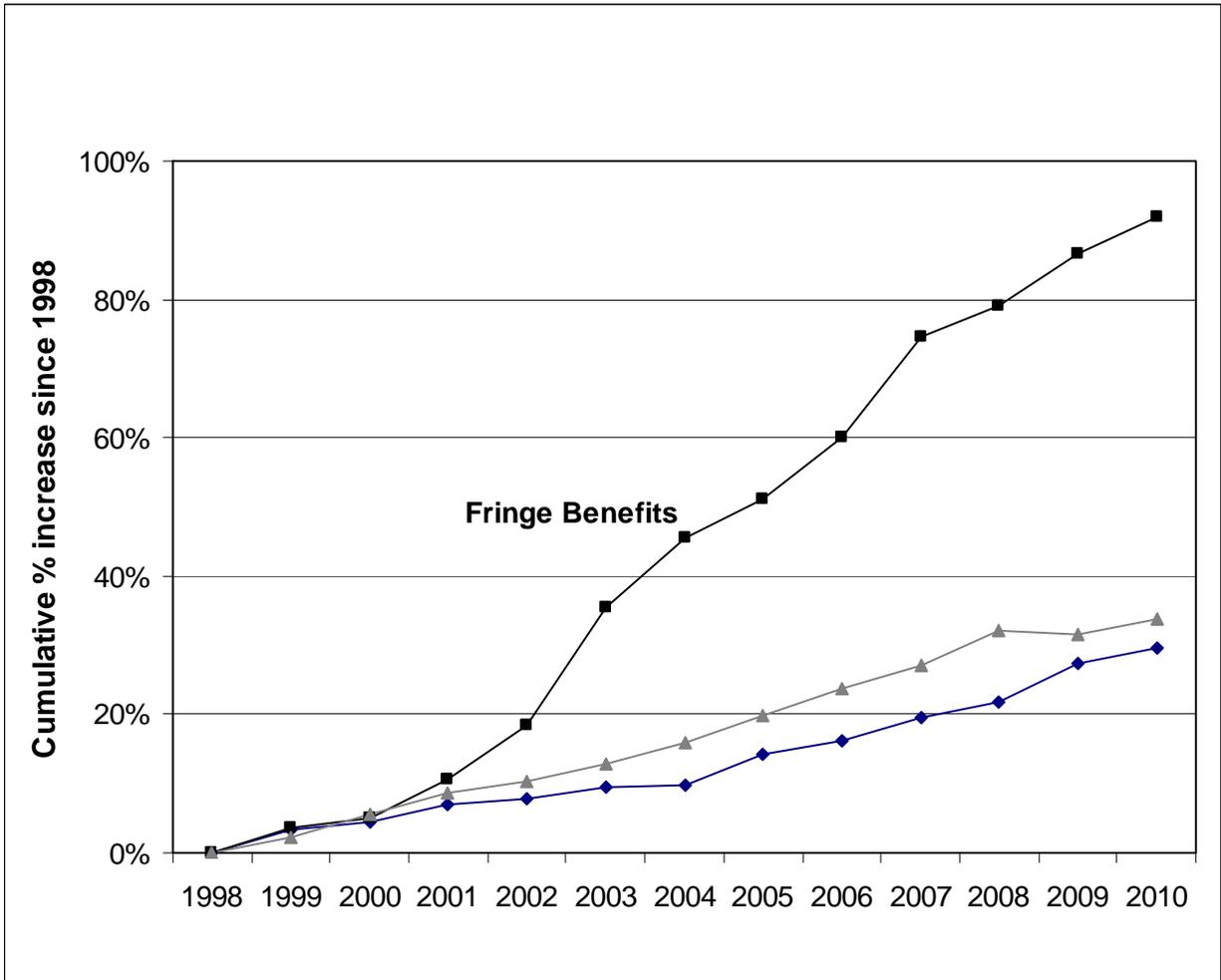


TABLE 8: SAVINGS FROM EMPLOYEE COMPENSATION CHANGES OFFSET AID REDUCTIONS
(\$ in millions)

	School Districts	Municipalities ¹	Counties ¹	Technical Colleges	Special Districts	Totals
Total General Revenues (2009)	10,724.4	5,316.7	4,879.5	1,496.4		
State Aid	5,324.9	1,072.5	424.2	135.2	0.0	6,956.9
Projected Compensation Savings						
WRS Contributions (at 5.8%)	283.7	55.6	37.1	33.8	9.0	419.2
Health Insurance Contributions (at 4.2%) ³	<u>205.2</u>	<u>42.6</u>	<u>27.2</u>	<u>24.4</u>	<u>6.5</u>	<u>305.9</u>
Total Contribution Savings ²	488.9	98.3	64.3	58.2	15.5	725.1
Aid Cuts	438.4	98.9	63.8	35.8	0.0	636.9
Savings Less Aid Reductions	50.5	-0.7	0.5	22.4	15.5	88.2
Reductions as a Percentage of State Aid	8.2%	9.2%	15.0%	26.5%	N/A	9.2%

¹County and Municipal State Aid reflects the county and municipal aid account, youth aids, payments for municipal services, general transportation aids and transit aids.

²Savings estimates for counties and municipalities adjust for excluding police officers and fire fighters as well as assumptions regarding utility and other municipal enterprise employees. Counties' realizable savings are adjusted for program areas not typically funded by Shared Revenues or their equivalents. Actual amounts may vary.

³4.2% of salary assumption is based on 12% of premiums plus accompanying plan design changes that are worth an equivalent of 4.2% of salary.

Elementary and Secondary Education

The Governor's educational agenda focuses on five key areas: the fundamentals of learning, reforming failing schools, recruiting and retaining great teachers, expanding choices for parents, and finding efficiencies. His 2011-13 biennial budget proposals for elementary and secondary education take important steps toward implementing this agenda.

First and foremost, the Governor's education package must address the overall state budget shortfall. Years of maintaining and trying to maintain two-thirds state funding can no longer be sustained unless business-killing tax increases are enacted. Therefore, reductions to school aids need to be part of the solution to balancing the budget.

The Governor also recognizes that, under current law, revenue limits will allow school districts to increase spending per pupil by \$275 per student each year in the next biennium from the combination of general aid and property taxes. As a result, school boards could offset state aid reductions with property tax increases. To prevent significant property tax increases, state aid reductions must be matched by comparable decreases in revenue limit authority.

Without providing districts with tools to control spending, reduced revenue limit authority would result in the potential layoffs of thousands of school district employees. Governor Walker recognizes the need to balance state aid reductions with cost savings. School districts have a significant tool to achieve balance with recent statutory changes authorizing school boards to require school employees to pay a larger share of their retirement and health benefit costs. In addition, the Governor proposes the repeal of several mandates that will provide school boards additional opportunities for greater efficiencies. As a result, school districts will have the means necessary to address school aid and revenue limit reductions

without the need to lay off teachers or other school district staff. To create sustainable financial support for public education, the Governor proposes the following:

- Reduce general equalization aid by \$749.4 million over the biennium to help address the state budget deficit. Annually, the decreases compared to base will be \$390.5 million (8.4 percent) in fiscal year 2011-12 and \$358.9 million in fiscal year 2012-13 (7.7 percent). To prevent major aid reductions to individual school districts, the special adjustment aid hold harmless provision is increased to guarantee school districts 90 percent of their prior year general aid amounts for fiscal year 2011-12. Current law guarantees 85 percent.
- Eliminate the following GPR-funded categorical aid programs, totaling \$29.9 million annually: advanced placement; alternative education; alcohol and other drug abuse prevention and intervention; children-at-risk; English for Southeast Asian children; improving pupil academic achievement; nursing services; preschool to grade 5 programs; science, technology, engineering and mathematics programs; and supplemental aid. With the exception of the grants for improving academic achievement program, which provides aid to the Milwaukee Public Schools district, the remaining programs were all recommended for repeal and repurposing by the Department of Public Instruction in its budget request. The department recognized that these programs are either too small to provide meaningful resources to school districts or have unproven results. While the department proposes to reallocate these funds to create a new competitive grant program to reduce dropouts and improve graduation rates, the goal is not backed up with a proven plan to achieve it. The Governor proposes, instead, to use a portion of the savings to create new initiatives to improve student reading levels and create a state-of-the-art student information system, and the remainder to help address the state budget deficit.
- Freeze per pupil payments for the Milwaukee Parental Choice Program and for independent charter schools at the 2010-11 amounts.

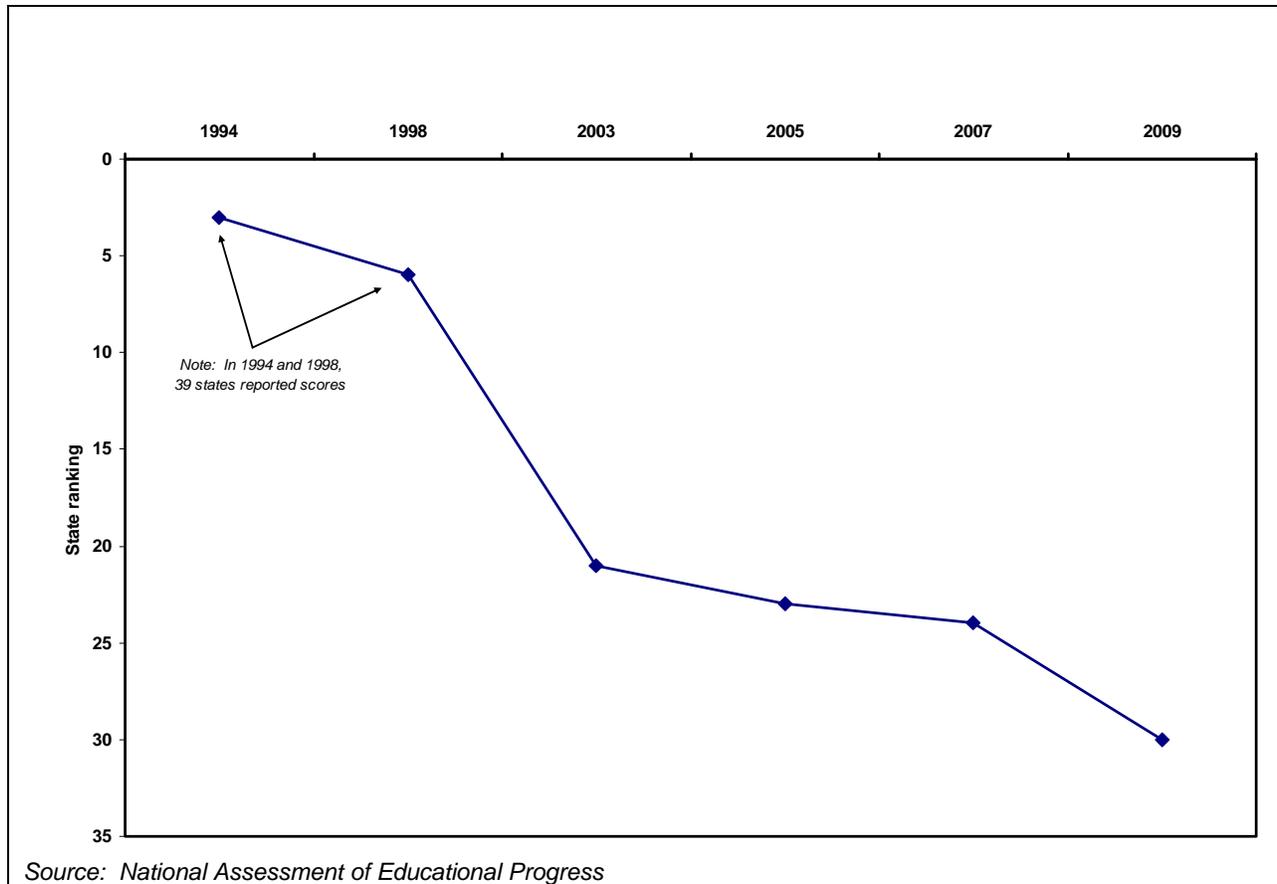
To protect property taxpayers from significant levy increases, the Governor recommends:

- Reducing school district revenue limits per pupil in fiscal years 2011-12 and 2012-13 by 5.5 percent below the amounts authorized in fiscal year 2010-11. While revenue limits will decrease, school boards will have more tools to manage these decreases through increasing school district employees' share of fringe benefit costs and the repeal of some state mandates.
- Repealing state mandates that prevent school districts from: scheduling fewer than 180 school days annually even though they meet current hours of instruction requirements; providing reading instruction without employing reading specialists; employing school nurses who are licensed, but may not have a bachelor's degree; addressing indoor environmental quality without adopting a plan approved by the Department of Public Instruction; providing staff training on administering prescription and nonprescription drugs to students only if the training is approved by the Department of Public Instruction; and exceeding 200 teaching service days for Milwaukee Public Schools.
- Repealing revenue limit exemptions for school nurses, pupil transportation costs, school safety equipment and security officers. These revenue limit exemptions were signed into law as part of the 2009-11 biennial budget, but were not scheduled to go into effect until fiscal year 2011-12. Repealing these exemptions will protect property taxpayers in future years without impacting current school district spending for these activities.

The difficult decisions necessary to balance the state's budget do not preclude taking some important first steps to improve the delivery of educational services to Wisconsin's school-age children. Of greatest importance is to reverse the disturbing downward trend in the reading skills of Wisconsin's elementary school students. Between 1994 and 2009, Wisconsin's national ranking on fourth grade reading has dropped from 3rd (out of 39 states reporting) to 30th (out of 50 states reporting), based on the National Assessment of Educational Progress. Strong reading skills are central to success in virtually all subject areas. A 2010 report from the Annie E. Casey Foundation, *Early Warning! Why Reading by the End of Third Grade Matters*, concluded that "Reading proficiently by the end of third grade (as measured by the

NAEP at the beginning of fourth grade) can be a make-or-break benchmark in a child's educational development."

CHART 9: WISCONSIN RANKING ON FOURTH-GRADE READING IS DECREASING



For Wisconsin to be successful in a knowledge-based economy, which increasingly includes traditionally blue-collar jobs, early literacy is the key. Therefore, it is imperative that we reverse the downward trend in elementary school reading skills. However, before Wisconsin can address declining literacy, we need to implement a testing program that identifies reading difficulties in the early grades so that problems can be addressed before putting a child's future educational success at risk. To that end, the Governor will soon appoint, by Executive Order, a blue ribbon task force to plan a literacy initiative to identify problem readers while pupils are still on the "make" side of the make-or-break benchmark.

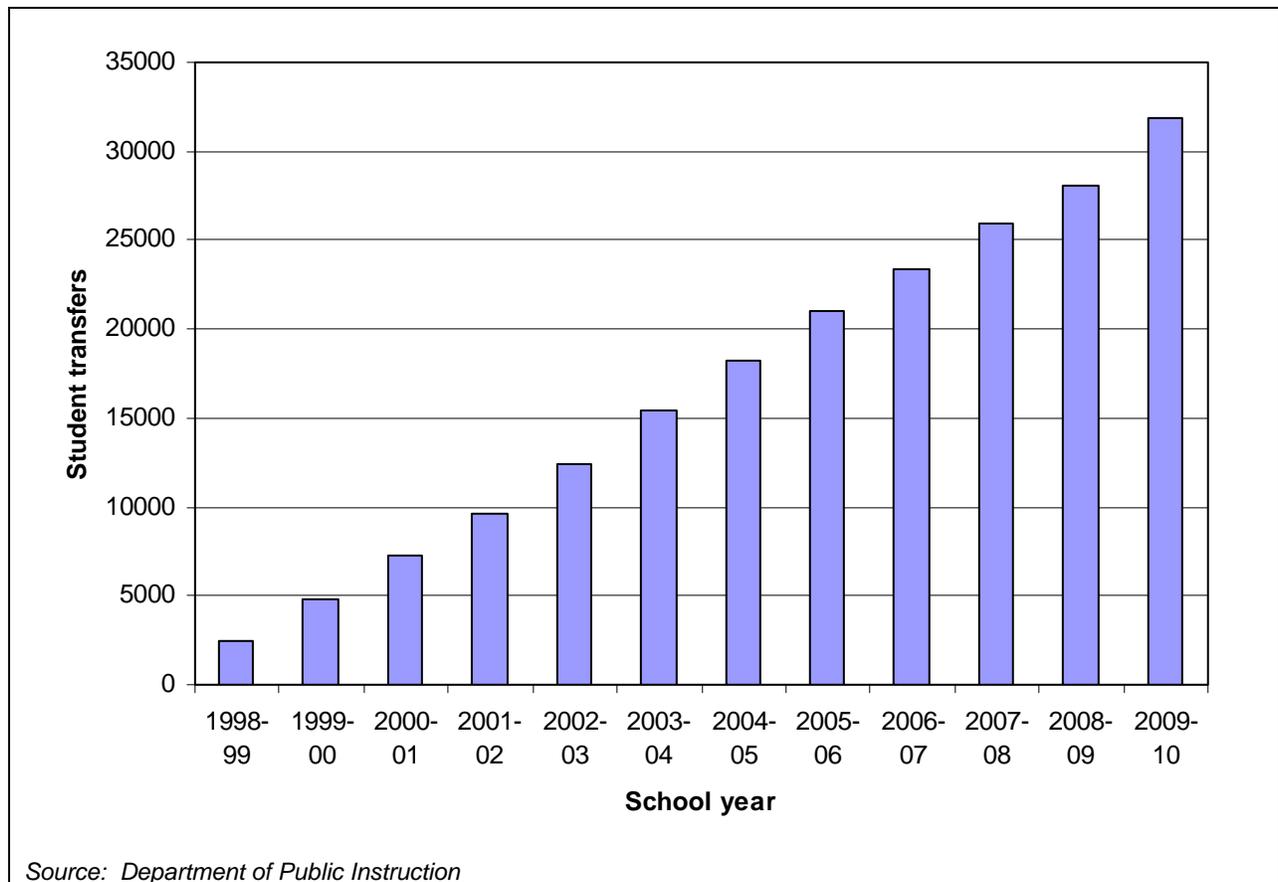
It is also critical that the results of a statewide third grade reading test and other measures of academic performance be integrated into a comprehensive student information system that enables state policymakers and local school districts to accurately track student performance from kindergarten through high school. A student information system will also become the foundation for two of Governor Walker's major educational priorities: to grade and reform failing schools; and to recruit, retain and reward great teachers. In addition, a state-operated, software-based student information system can replace local school-district-based systems, providing even greater ability to manage student data and lower the cost at both the state and school district levels.

To achieve these ends, Governor Walker proposes the following initiatives:

- Provide \$15 million GPR to the Department of Public Instruction over the biennium to create a student information system that will provide longitudinal data to state policymakers, school districts, parents and citizens on the performance of the state's public education system and its students.
- Provide \$600,000 GPR to the Department of Administration in each fiscal year for developing and implementing the recommendations of the task force appointed by Governor Walker related to a third grade reading test.
- Require the State Superintendent to fund the ongoing costs of the student information system by implementing a per pupil charge to school districts using the system. Since school districts will be able to replace existing local systems with the state system, there should be no additional cost, and in many cases actual savings, in switching to the state system.

Another important element of Governor Walker's education plan is to expand choices for parents. Under current law, parents have benefited from several effective, but limited, educational options, including the Milwaukee Parental Choice Program, independent charter schools, virtual charter schools and the state's open enrollment program. Enrollment trends demonstrate that these programs are exceedingly popular educational options for families.

CHART 10: INTERDISTRICT OPEN ENROLLMENT CONTINUES TO GROW IN POPULARITY



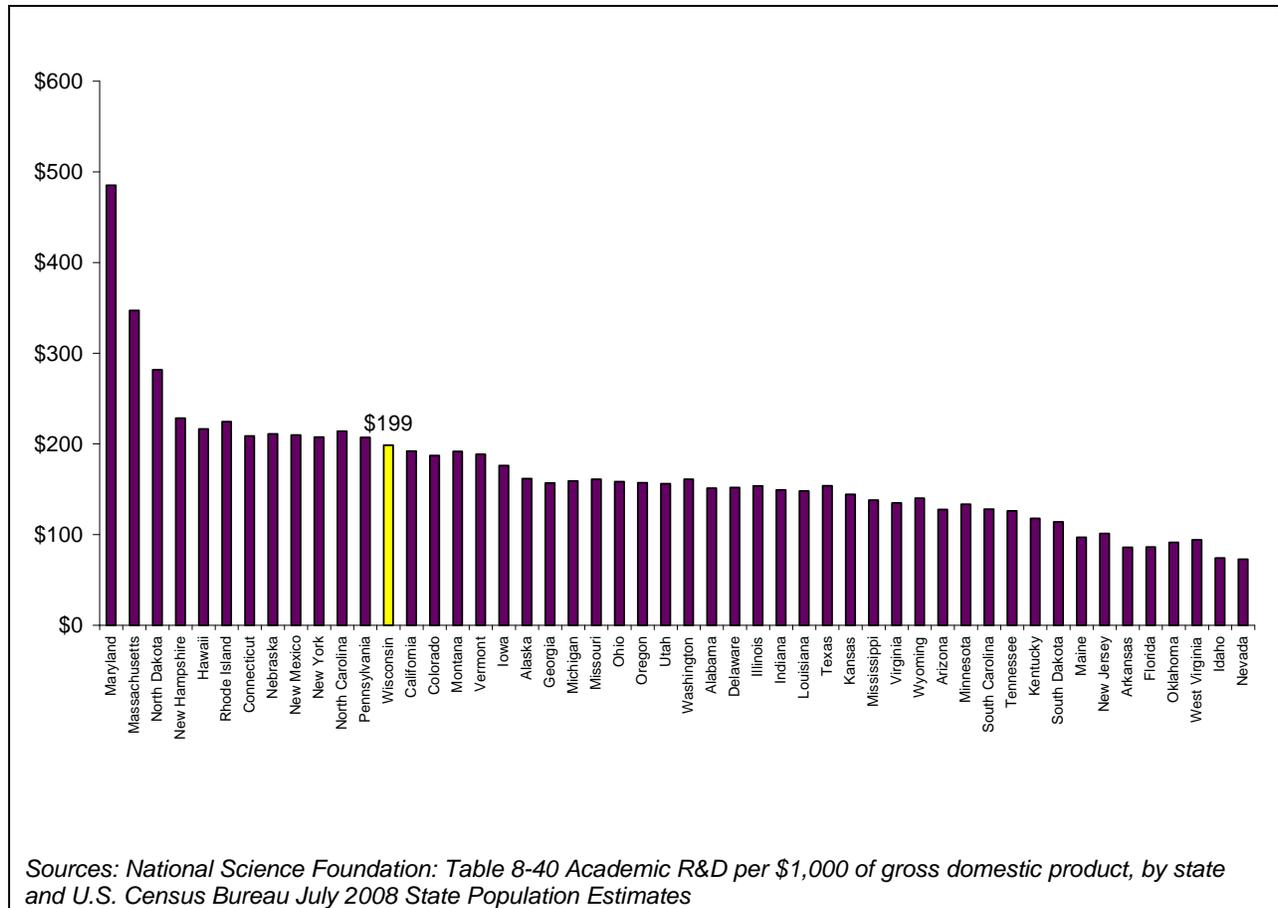
Unfortunately, the state has placed a number of restrictions on these programs that are based more on limiting access and second-guessing the ability of parents to make wise choices than on improving educational quality. It is time to begin eliminating restrictions that have no clear educational benefit and trusting families to make the right choices. Therefore, the Governor recommends the following:

- Eliminate the artificial enrollment caps for both the Milwaukee Parental Choice Program and the virtual charter school program. There is no rationale for limiting the number of students in the choice program to 22,500 and in the virtual charter school program to 5,250. The only rationale is to limit choices for families, and it should be repealed.
- Phase out the income eligibility requirement for the choice program. Beginning in the 2011-12 school year, all students enrolling in choice schools who were not enrolled in a choice school in the 2010-11 school year will be eligible for state support. For those students with family incomes above 325 percent of the federal poverty level as determined at the time of initial application, choice schools will be able to charge students amounts above the state payment, as determined by each participating school. For students below 325 percent, choice schools may not charge students any additional amounts. Phasing in the program will keep the annual cost increases manageable. Eliminating income limits expands family choices and puts the choice schools on a more equal footing with independent charter schools, which are not subject to income eligibility limits as a condition to receive state aid.
- Authorize choice schools to use any nationally-normed test to meet the state's testing requirements. Choice schools must currently use the Wisconsin Knowledge and Concepts Test, which will soon be replaced as part of Wisconsin's participation in the Smarter Balanced Assessment Consortium, a group of 30 states developing a state-of-the-art assessment system for implementation by 2014.
- Allow any school in Milwaukee County to participate in the choice program. While choice enrollment will remain limited to students residing in the City of Milwaukee under the Governor's budget recommendations, expanding the availability of seats will help prevent students from being forced out of the program.
- Provide more transparent information to choice families and schools by placing into statute the current administrative rules regarding indicators that choice schools may not have sound financial practices and requiring the Department of Public Instruction to notify parents prior to the beginning of the school year of any anticipated changes to choice program rules or deadlines.
- Eliminate the geographic limitation on creating independent charter schools and expand chartering entities to include any University of Wisconsin four-year campus. Other than restricting family options, there is no reason to restrict independent charter schools to the City of Milwaukee and one school in the City of Racine.
- Replace the mandate that independent charter school teachers be licensed by the Department of Public Instruction with the requirement that they have at least a bachelor's degree. This change will align teacher requirements for independent charter schools with the existing requirement for choice schools. One of the major goals of having independent charter schools is to spur innovation, not to be carbon copies of public schools. Providing more flexible hiring options will enable charter schools to recruit teachers that have exceptional skills and talents, even if they have not met all the teacher licensing requirements.
- Extend the open enrollment application period from three weeks in February under current law to the first Monday in February through the last weekday in April. The open enrollment program allows parents to enroll their children in other school districts on a space available basis, including virtual charter schools. The current application dates seem more designed to limit participation than to encourage parents to explore options that may better suit their children's needs. Extending the period to the end of April provides ample time for school districts to adjust to enrollment changes in the following school year.

Higher Education

Despite the poorly performing economy, the University of Wisconsin-Madison remained an engine for research and economic development. In 2008, Wisconsin ranked seventh highest nationally for research and development spending per capita. University of Wisconsin-Madison ranked third in the nation for spending on research and development in science and engineering fields in 2009, and surpassed \$1 billion dollars in research grants for the first time in 2010. The Center for World-Class Universities ranked Wisconsin 17th in the world in its 2010 academic rankings.

CHART 11: UNIVERSITY OF WISCONSIN RESEARCH AND DEVELOPMENT PER CAPITA

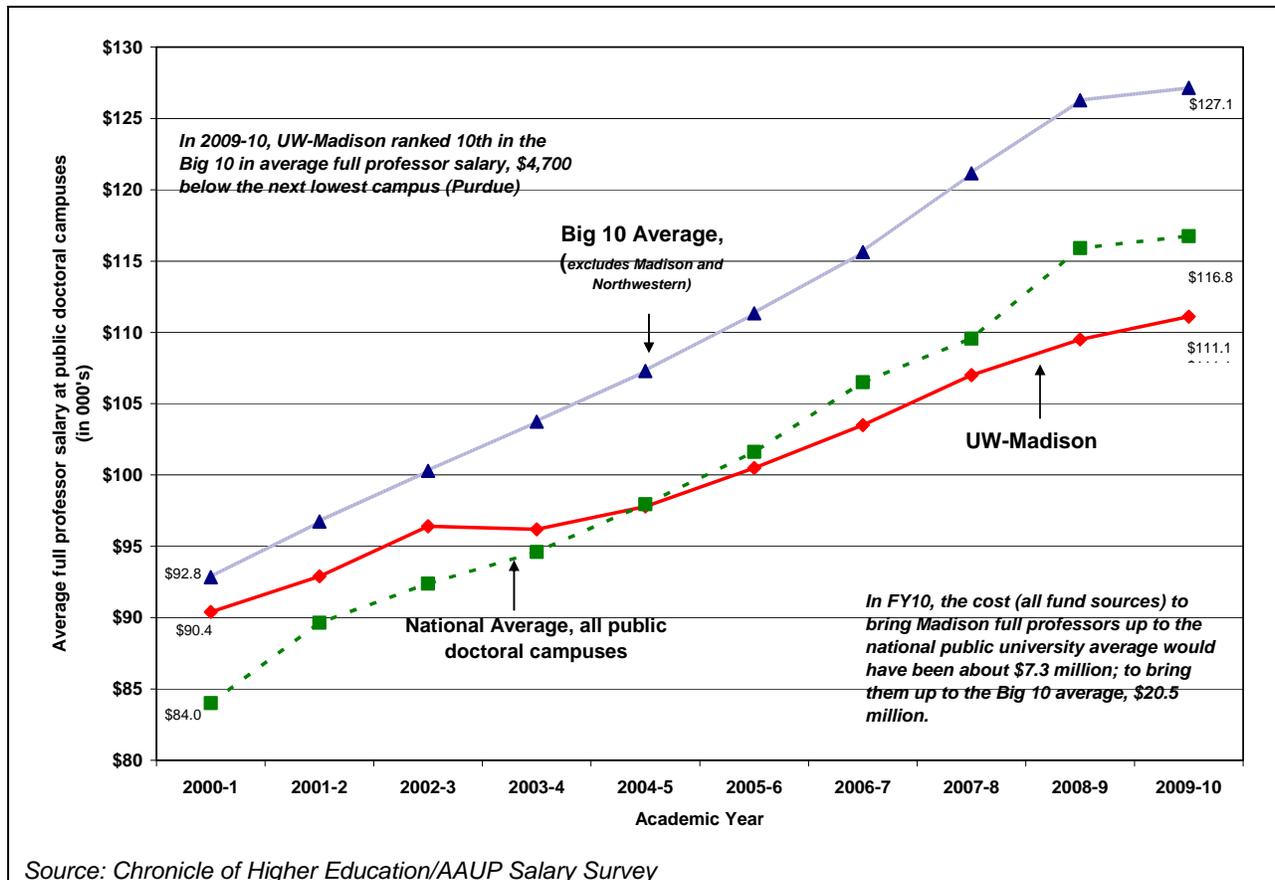


However, for the University of Wisconsin-Madison to remain a world leader in an increasingly competitive higher education marketplace, it will need to have the flexibility to go toe-to-toe with both public and private universities worldwide to attract the outside funding needed to be part of the solution to grow businesses, jobs and the kind of workforce Wisconsin will need in the years ahead. In many ways, successful research universities are collections of entrepreneurs competing in a free market for research funding, top-notch faculty and students. For the University of Wisconsin-Madison to compete effectively, it will need the independence to allow its faculty and staff to operate more businesses.

Under current state law, the University of Wisconsin-Madison is a state agency, subject to regulations, designed more to preserve the status quo than to promote growth and innovation. The university is subject to state control of salary increases, even for faculty who are supported by grant funding, state management of building projects and state limits on tuition. Over one-third of its staff are subject to the

classified civil service system, which slows down the recruitment and hiring process. Full professors at the university are now the lowest paid in the Big 10.

CHART 12: UNIVERSITY OF WISCONSIN-MADISON RANKS LOWER THAN NATIONAL/BIG 10 AVERAGES FOR FULL PROFESSOR SALARY



To maintain the University of Wisconsin-Madison as a competitive university, the Governor recommends the following:

- Effective July 1, 2011, restructure the University Wisconsin-Madison as a public authority separate from the University of Wisconsin System and its remaining 12 campuses. Providing greater independence for the Madison campus will enable it to compete more effectively with other major research universities, both public and private, for high-quality faculty and research funding. In addition, providing more flexibility to access nonstate funding to offset GPR reductions will help the state address its budget shortfall without sacrificing quality.
- Create a 21-member board of trustees to oversee the university, with 11 members appointed by the Governor.
- Transfer all assets, liabilities, including real property, and existing University of Wisconsin-Madison employees to the public authority, but maintain current classified employees as part of the state civil service system until June 30, 2012.

- Provide the University of Wisconsin-Madison with control over setting tuition and employee compensation, but during the 2011-13 biennium require employees to pick up the same share of retirement costs and health insurance benefits as other state employees.
- Provide the University of Wisconsin-Madison with control over bidding and managing construction projects that are built with non-general fund supported borrowing.
- Provide the University of Wisconsin-Madison with control over revenues and interest earnings related to tuition, auxiliaries operations and other revenues earned by the authority through its program revenue-funded operations, but require the university to deposit its net cash balances, except for gift and grant funds, in the local government investment pool.
- Authorize police powers for the University of Wisconsin-Madison as under current law.

The Governor recommends retaining state control and oversight of the University of Wisconsin-Madison in the following major areas:

- Participation of employees in the Wisconsin Retirement System and the Group Insurance Board health plan;
- Building Commission approval of all construction projects over \$500,000;
- Building Commission approval and legislative enumeration of all projects requiring debt financing;
- Public access to records, unless the records relate to ongoing faculty research;
- Participation in the state's risk management program at the University of Wisconsin Madison's request; and
- Access to representation by the Department of Justice.

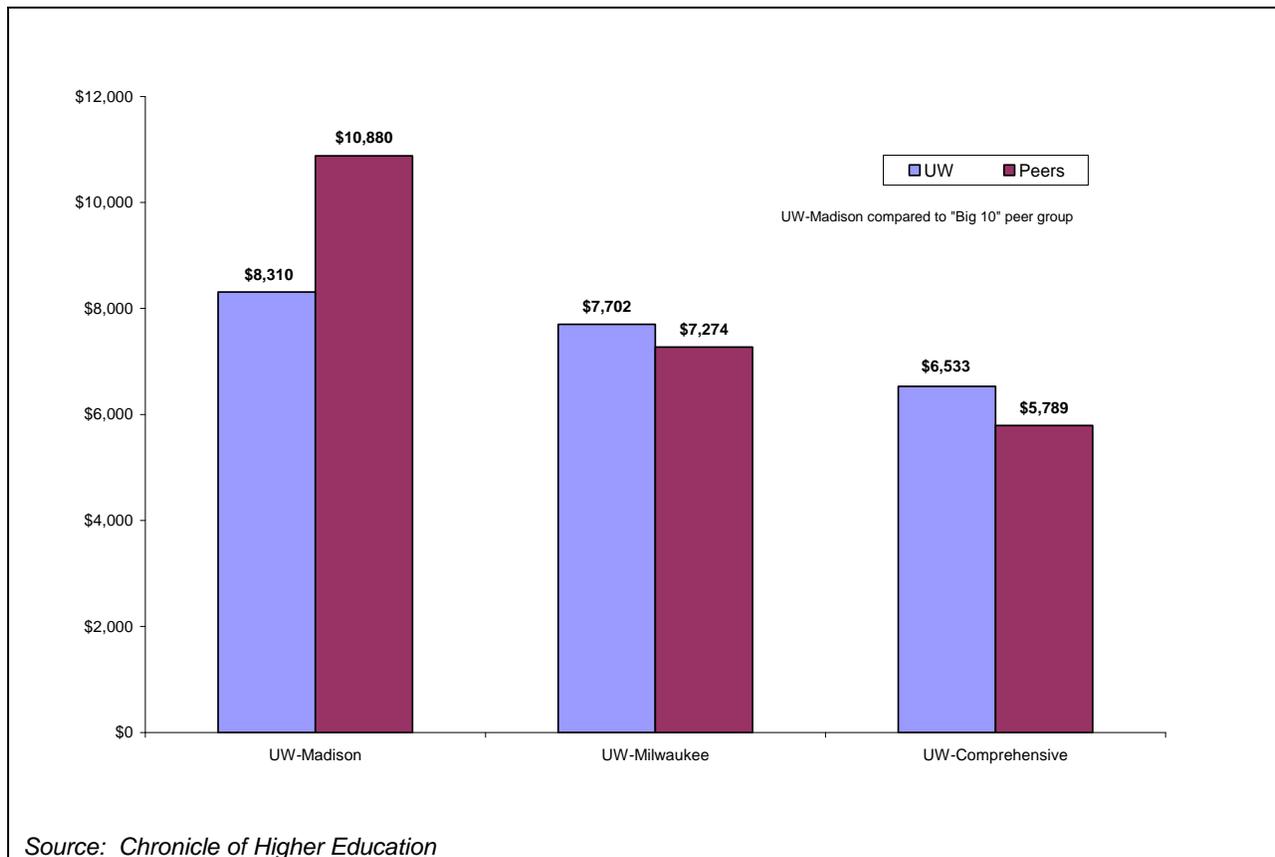
Wisconsin's higher education system continues to create jobs, produce research, attract entrepreneurs and supply a skilled state workforce. The 26 two- and four-year University of Wisconsin System campuses, including the flagship University of Wisconsin-Madison campus, the 16-campus technical college system, and 20 private four-year colleges and universities provide ample opportunities for students and for employers. In 2008, Wisconsin ranked 11th nationally in public bachelor's degrees awarded as a percent of its population. The technical college system remains critical – training highly-skilled graduates and attracting manufacturers to the state.

In many states, higher education institutions have sustained deep cuts, resulting in steep tuition increases due to state budget deficits. Since 2008, declining state revenues have forced 43 states, including Wisconsin, to decrease higher education funding.

Wisconsin's public higher education system must be part of the solution for addressing the state's budget deficit. State funding for higher education is the second largest state expenditure, behind school aids. At the same time, tuition must remain affordable for both recent high school graduates and returning adult students without sacrificing the quality of instruction or capping enrollment. Despite the nationwide economic decline, University of Wisconsin-Milwaukee and University of Wisconsin-Comprehensive median tuition and fees remain near the peer median in 2010.

The University of Wisconsin-Madison earned the *Kiplinger's Personal Finance* "Best Value" 9th place ranking among public universities. Compared to the Big 10 Conference, the University of Wisconsin-Madison's in-state tuition and fees ranked 9th lowest in 2009-10 and 2010-11, above only the University of Iowa and \$1,322 below the Big 10 median.

CHART 13: MEDIAN RESIDENT UNDERGRADUATE TUITION AND FEES 2009-10



To address the state's budget deficit and maintain an affordable and competitive higher education system, the Governor recommends the following:

- Reduce state aid by \$250 million over the biennium to University of Wisconsin System institutions and University of Wisconsin-Madison to help address the state budget deficit. The reduction would be split equally between the University of Wisconsin-Madison and the University of Wisconsin System campuses.
- Promote administrative efficiency and reduce the impact of the state aid reduction on University of Wisconsin System campuses by requiring system administration to absorb a greater share of the cut. Twenty-five percent of the system's general program operations will be reduced compared to 11 percent reductions for comprehensive, two-year centers and the University of Wisconsin-Extension.
- Provide for modest annual tuition increases at University of Wisconsin System institutions to keep resident undergraduate tuition affordable without sacrificing quality.
- Expand the Wisconsin GI tuition and fee reimbursement to provide full remission of academic fees for 128 credits or eight semesters, whichever is longer, without regard to the number of credits the veteran students received under federal veterans program.
- To help working families maintain access to affordable higher education, exempt state-funded financial aid programs from reductions.

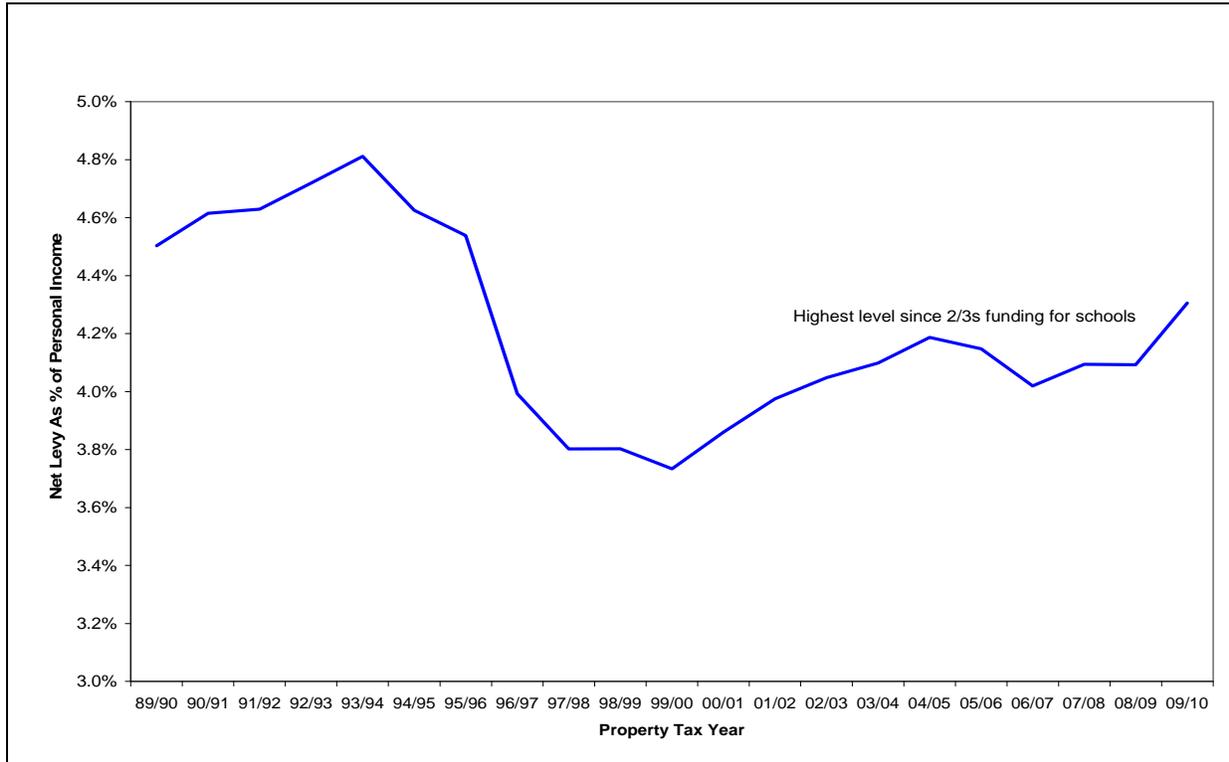
- Protect student financial aid programs by limiting the Wisconsin Covenant Scholars program to students who have signed the pledge before September 30, 2011. The program will admit no additional students after that date, but will provide a full four years of covenant scholar grants to those students who satisfy the eligibility requirements.
- Reduce state aid by \$71.6 million (30 percent annually) over the biennium to technical college districts to help address the state budget deficit. While the reduction appears disproportionately large, it represents only 2 percent of technical college revenues. In addition, campus savings from increased employee contributions to retirement and health care benefits should more than offset the reductions.
- To avoid state aid reductions being offset with property tax increases, prohibit technical college districts from increasing property taxes above the amounts levied in fiscal year 2010-11, or 1.5 mills, whichever is less.

The Governor also recommends eliminating nonresident tuition and fee exemptions for undocumented persons at University of Wisconsin System campuses, the University of Wisconsin-Madison and technical college campuses. Resident tuition, which is subsidized by Wisconsin taxpayers, should only be available to Wisconsin residents who are in the United States legally.

Property Tax Relief and Local Government

In challenging economic times, Wisconsin property taxpayers continue to have among the highest property tax burdens in the country. According to U.S. Census data, Wisconsin ranked ninth among the 50 states in property tax burden as a proportion of personal income in 2008 and has been in the top ten states most of the past three decades. In 2010, property taxes as a percentage of personal income rose to their highest level since 1996 as levy growth exceeded the growth in personal income.

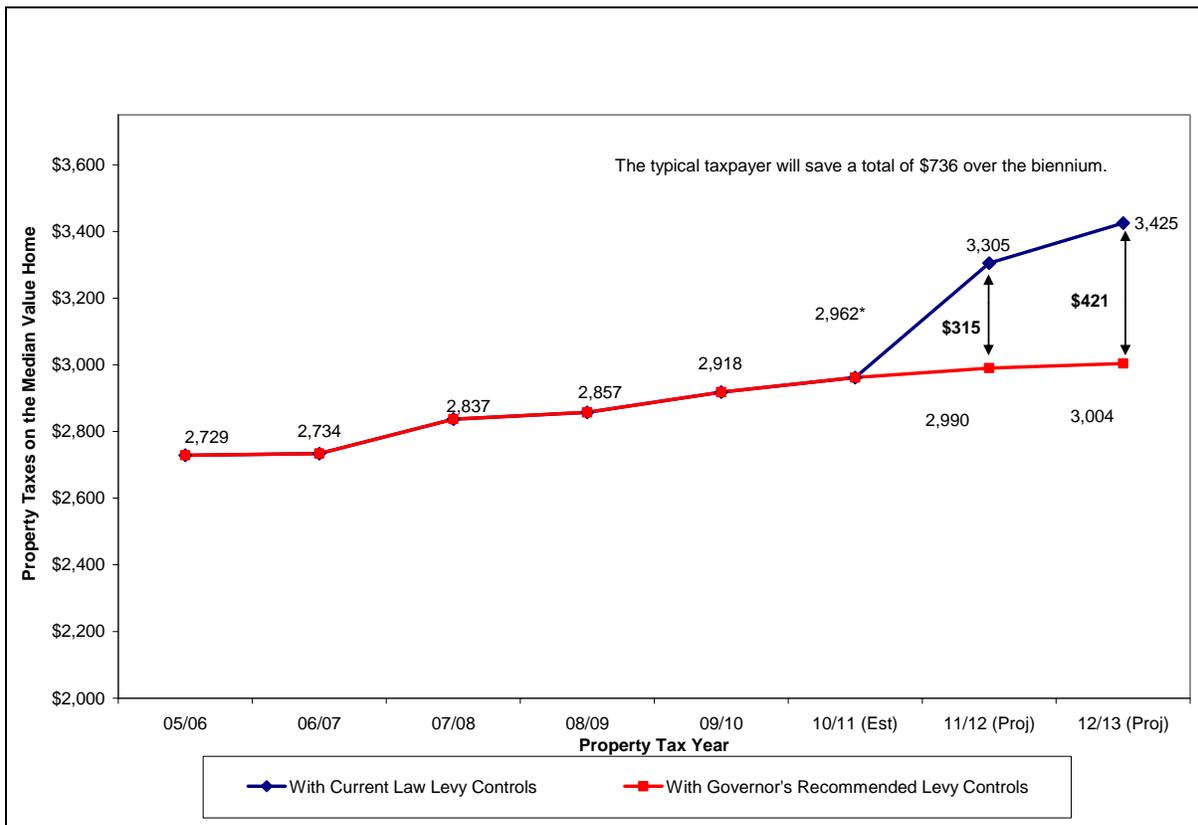
**CHART 14: PROPERTY TAXES HAVE RISEN AS A SHARE OF PERSONAL INCOME
IN THE PAST 10 YEARS**



Despite the significant budget challenges facing the state, the Governor recommends maintaining nearly \$900 million in general fund support for direct property tax credits, including funding a \$5 million annual increase in the first dollar credit enacted in the previous biennium. The Governor also recommends restraining the growth in property tax levies by extending county and municipal levy limits for the next two years and limiting the growth in levies to the greater of 0 percent or the change in equalized value due to net new construction. To further protect property taxpayers, the Governor recommends limiting the base allowable levy to the actual prior year levy. Additionally, if debt service would be lower in the budgeted year than in the prior year, counties and municipalities must pass those savings on to the taxpayers by reducing allowable levies accordingly.

In the context of local government aid reductions for schools, technical colleges, counties and municipalities, strong levy controls are important to avoid aid reductions from becoming tax increases for property owners and renters. Under current law, levies could be increased to offset the amount of the aid reductions, placing a significantly larger burden on property taxpayers.

CHART 15: WITHOUT LEVY CONTROLS, PROPERTY TAX BILLS WILL INCREASE DRASTICALLY



Due to state budget constraints, current funding of county and municipal aid cannot be maintained. The Governor recommends reducing county and municipal aid payments by \$96 million in calendar year 2012, with reductions to municipalities of \$59.5 million and reductions to counties of \$36.5 million. Recognizing that aid reductions may put a strain on local government budgets, the Governor, in his budget repair bill, has recommended providing the necessary flexibility to local governments to meet these reductions without a significant degradation of essential public services.

To provide assistance to local governments in meeting the constraints of diminished resources, county and municipal aid reductions would be allocated in a targeted manner so that low population and low value communities that will not be able to realize significant labor cost savings will see modest aid reductions. Due to larger full-time labor forces in more populous municipalities, measures to reduce labor cost pressures for those governments will yield greater savings, so those governments are generally better able to manage reductions in state aid. Low population, low value municipalities that rely heavily on county and municipal aid due to limited tax bases generally will see smaller savings from higher employee contributions to pensions and health insurance. To address these mismatches, the allocation of county and municipal aid reductions has been structured with aid reduction maximums based on valuation that rise with the population of municipalities to match the general tendency of compensation savings to be concentrated in larger municipalities. While individual municipalities will have varying abilities to meet these state aid adjustments, the allocation of aid reductions has been designed to align with the ability of local governments to absorb the reductions.

General transportation aids for counties and municipalities have been reduced by 10 percent for calendar year 2012 and will remain flat through calendar year 2013. The reductions in general transportation aids for municipalities are also targeted to lessen the impact for less populous communities. This was done by lowering the aid rate per mile of road by only 3 percent, protecting small communities with many miles of

road and shifting reductions to larger communities with both the tax base and the employee compensation savings to absorb larger reduction amounts.

Other Local Government Initiatives

The Governor recommends providing additional tools to local governments to manage expenditures by:

- Removing recycling mandates;
- Allowing municipalities to merge police and fire departments to create greater operational efficiencies; and
- Eliminating library maintenance of effort funding requirements.

B. ECONOMIC DEVELOPMENT AND TRANSPORTATION

Economic Development

With the enactment of the Wisconsin Economic Development Corporation during the recent special session on job creation, the state took a huge step forward in terms of its ability to increase economic development in Wisconsin. As a public-private authority, this entity will be more nimble, creative and most importantly, faster in its response to the needs of the businesses that Wisconsin is trying to retain, grow and attract from other states. To that end, the bill provides \$98.8 million in fiscal year 2011-12 and \$97.5 million in fiscal year 2012-13 to fund economic development programs and operations. This amount includes ongoing funding for regional economic development organizations.

The corporation will have responsibility for administering tax credit certification and the brownfields grant program. Rather than having every economic development grant and loan program enumerated in statutes, however, the corporation will establish by-laws that will direct the use of grant and loan resources.

Aside from the corporation's by-laws and policies, the corporation will be governed by a 13 member board. In addition to the Governor and his appointees, both the majority and minority parties of both the Assembly and the Senate will be represented, as well as individuals from the private sector. All members of the board will be subject to standard state ethics rules and regulations and all, including private sector representatives, will be required to file full financial disclosures before serving on the board. Additional accountability and transparency will be achieved through annual reports the Wisconsin Economic Development Corporation is statutorily required to submit to the Joint Legislative Audit Committee, an audit of economic development programs throughout the state, and biennial financial and performance evaluation audits by the Legislative Audit Bureau. Finally, the board is required to establish quantifiable goals for all programs, and mandates recipients of grants and loans greater than \$100,000 to provide verified statements detailing their expenditures.

By transferring functions that were not directly focused on economic development from the current Department of Commerce to other state agencies, the Wisconsin Economic Development Corporation will be able to focus on attracting and retaining businesses that will bring much-needed jobs to Wisconsin. To that end, funding and positions related to the Divisions of Environmental and Regulatory Services, and Safety and Buildings, as well as the funding and positions related to certification for woman-owned, minority-owned and disabled veteran-owned businesses will transfer to the Department of Regulation and Licensing, which is to be renamed the Department of Safety and Professional Services. This consolidation of similar functions will lead to greater administrative efficiency, resulting in timelier processing of business and professional licenses.

In an effort to consolidate and streamline statewide housing policy, the Department of Commerce's housing assistance program and associated funding will be transferred to the Wisconsin Housing and Economic Development Authority. Lastly, the Dairy 2020 program and the administration of the dairy

manufacturing facility investment credit will be transferred to the Department of Agriculture, Trade and Consumer Protection to align recipients of the tax credit with available resources at the department.

The bill contains several other provisions that are aimed at improving existing tax credit programs. First, the treatment of capital gains that are invested in Wisconsin-based businesses has been modified in two ways to make businesses in this state more attractive to investors. The first of these changes is providing a 100 percent exclusion for capital gains realized on Wisconsin-based capital assets held for five or more years. To qualify, a business must be certified by the Wisconsin Economic Development Corporation to have 50 percent or more of its payroll and property located in Wisconsin during three of the first five years of the period during which the asset is held. The Governor also recommends providing a 100 percent capital gains realization for gains reinvested in Wisconsin-based businesses at the time the investment is made to provide an incentive to investors who are realizing gains to reinvest in Wisconsin.

Second, the job tax credit, which is aimed at business attraction and expansion and is only available to certified businesses that increase new employment, is modified to delete the upper wage limit, but establish a maximum annual credit of \$10,000 per job. As long as the state does not incur any additional cost, there is no reason to discourage companies with high-paying jobs from establishing their businesses in Wisconsin.

Third, to encourage private investment in entrepreneurial activities, the bill will allow tax-option corporations that are nonoperating entities to claim angel investments credits for investments in new business ventures. In addition, the holding period will be extended from one to three years for early stage seed or angel investments made after December 31, 2007.

The Governor also recognizes the important role that tourism plays in the Wisconsin economy by increasing the amount of funds available to the Department of Tourism to invest in marketing from \$9.9 million in fiscal year 2010-11 to \$12.5 million in fiscal year 2011-12 and to \$15 million in fiscal year 2012-13, thereby achieving the goal set by the Tourism Federation of Wisconsin.

TABLE 9: TOURISM FUNDING

	FY11	FY12	FY13
Tourism Base Marketing Funding	\$9,909,700	\$9,909,700	\$9,909,700
Additional GPR Funding			2,344,100
Additional Tribal Gaming Funding		1,191,000	1,191,000
Arts Board Funding		<u>1,563,100</u>	<u>1,563,100</u>
Total	\$9,909,700	\$12,663,800	\$15,007,900

Tourism businesses include lodging, restaurants, retail, campgrounds, historic sites, museums, art galleries, community and cultural events, and much more. Dollars spent by travelers are then recirculated back into the local economy benefiting other industries, such as agriculture, manufacturing, health care, local governments, construction and service industries that directly support tourism businesses. In calendar year 2009, nearly \$1.96 billion was returned to state and local governments in tax revenue from traveler spending. For calendar year 2009, traveler spending in Wisconsin is estimated at \$12.1 billion. Tourism supported 286,000 full-time equivalent jobs in 2009 and \$3.38 billion in wages and salaries.

Finally, the Governor is recommending that the Arts Board and the film production tax credit be transferred to the Department of Tourism. The funding for these functions will be focused on those activities that both support the arts and grow the economy.

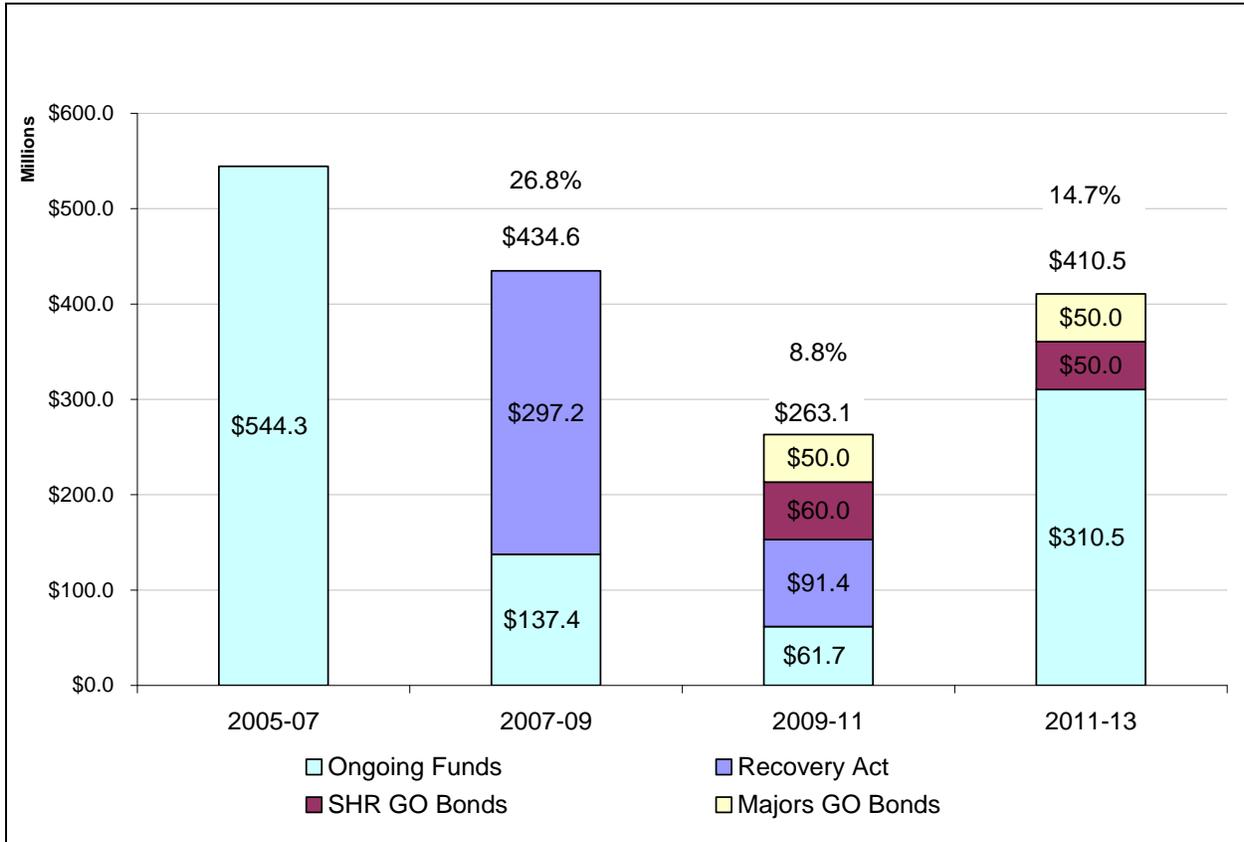
Transportation

The Governor recognizes that the efficient and safe movement of people and goods across the state is essential to economic development and the well-being of Wisconsin's citizens, businesses and visitors. The Governor's budget recommends that funding be budgeted to protect the state's investment in its highway system. Recent harsh winters have strained the state's ability to properly plow and salt roads. The Governor's budget recommends providing a 2 percent increase in the state highway maintenance budget, to partially alleviate the impact of recent winters. A \$110.8 million increase over base funding will also be provided to the State Highway Rehabilitation Program to ensure pavement integrity is maintained throughout the year.

One of the Governor's top priorities is ensuring the safe and efficient movement of traffic through Southeast Wisconsin. Given its current, deteriorated state and its status as the state's busiest interchange, the Governor recommends accelerating the reconstruction of the Zoo Interchange by dedicating a total of \$225 million over the biennium to the project. The Governor also recognizes the importance of continuing the reconstruction of Interstate 94 between the Illinois border and the Mitchell Interchange, and recommends providing a total of \$195 million to complete vital interchange construction on the project. These funds will be expended through a new program dedicated to completing highway projects in Southeast Wisconsin that cost more than \$500 million.

The Transportation Projects Commission has identified four projects that are important to the economic growth of the state, including the expansion of Interstate 39/90 between Illinois and Madison. The Governor's budget recommends enumerating these projects and providing a \$59.1 million increase over base funding amounts to partially fund these and other priority major highway improvement projects. The Governor's budget also reduces the total reliance of the Major Highway Program on bond revenue, setting the transportation revenue bonding percentage at 42.2 percent.

CHART 16: HIGHWAY PROGRAM CHANGE FROM BASE



The Governor understands the importance of a strong freight transportation network in fostering business growth in the state. The Governor recommends investing \$60 million in the state's freight rail system and \$12.5 million into the harbor infrastructure to ensure Wisconsin's goods reach customers in the state and around the world. The Governor also recommends providing transportation options by maintaining passenger rail service between Milwaukee and Chicago.

Motor vehicle related taxes and fees are user fees that should be reinvested into transportation infrastructure. To strengthen the relationship between user fees and transportation investments, the Governor recommends depositing \$95.1 million in existing automobile-related user fees into the transportation fund, including 7.5 percent of existing sales and use tax revenue from automobile-related sales in fiscal year 2012-13. The percentage of sales and use tax revenue from automobile-related sales deposited in the transportation fund will increase to 10 percent in fiscal year 2013-14 and proceed to increase by 5 percent increments each year until 50 percent of sales and use tax revenue from automobile-related sales is deposited in the transportation fund. Other motor vehicle-related fee revenues that will be deposited in the transportation fund include a title fee that previously was dedicated to environmental clean-up and a portion of petroleum inspection fee revenues. In addition, the Governor recommends shifting the funding source of operating aids for transit to the general fund. These changes strengthen the position of the transportation fund over the current biennium and put it on a more sustainable path in the future. Finally, the Governor recommends issuing \$115 million general fund supported bonds to support the highway program to help offset diversions of transportation revenues in prior budgets.

Department of Transportation Initiatives

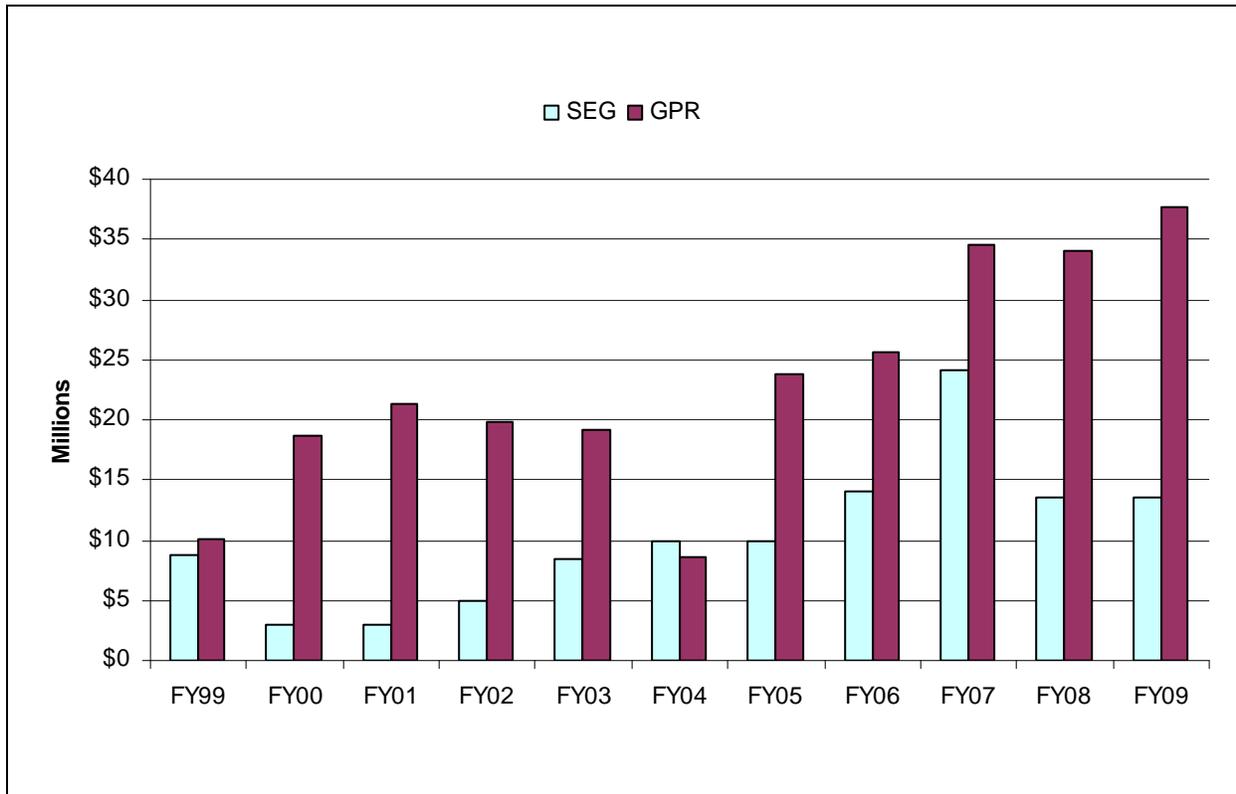
- Provide an additional \$95.1 million in transportation fund revenue by depositing the proceeds from existing automobile-related taxes and fees into the transportation fund, including a portion of sales taxes collected on automobile-related purchases, vehicle title fees and a portion of revenues from the petroleum inspection fund. These additional revenue sources will strengthen the relationship between taxes and fees on motor vehicles and the state's investment in transportation.
- Provide a total of \$420 million in funding for construction on the Zoo Interchange project and the I-94 North-South corridor. Of this amount, \$225 million will go towards addressing immediate infrastructure needs related to the Zoo Interchange. The remaining \$195 million will support continued reconstruction on the most vital remaining aspects of the I-94 North-South corridor project. These projects will serve generations of Wisconsin residents and businesses, and because of their long-term projected life, \$151.2 million of project costs will be funded with 20-year transportation fund SEG-supported general obligation bonds.
- Transfer state and federal funding associated with the expiring Southeast Wisconsin freeways rehabilitation appropriations to the department's state highway rehabilitation appropriations, and allow projects funded from the expiring appropriations to be funded from the state highway rehabilitation appropriations.
- Enumerate four new major highway projects, as recommended by the Transportation Projects Commission. The four projects are: I 39/90 in Dane and Rock counties; STH 38 in Racine and Milwaukee counties; USH 10/STH 441 in Winnebago and Calumet counties; and STH 15 in Outagamie County.
- Provide \$12.7 million in bonding authority for harbor projects and \$60 million for the Freight Rail Preservation program over the biennium.
- Fund Wisconsin's portion of increased operating costs of Amtrak service between Milwaukee and Chicago by providing \$4.3 million in state funds and \$3.4 million in federal funds over the biennium.
- Allow the department to conduct more business with customers and businesses electronically.
- Provide \$6.2 million over the biennium to meet federal requirements related to state patrol communication equipment, commercial driver license changes, and driver's license and identification card changes.

C. ENVIRONMENTAL AND NATURAL RESOURCES MANAGEMENT

The Governor recognizes the importance of balancing the protection of Wisconsin's natural resources and outdoor recreational opportunities with reasonable regulations to build a stronger economy, and remains committed to preserving public access to the state's land and waters. The budget promotes economic development while still protecting air and water quality, and, despite tremendous fiscal pressures, does not increase hunting and fishing license fees.

The budget also maintains funding for the Knowles-Nelson Stewardship Program, but refocuses priorities so that state dollars are used wisely and stronger access requirements are put in place to ensure that residents can fully enjoy Stewardship properties when engaging in nature-based outdoor activities. Nearly 500,000 acres have been purchased through the Stewardship Program and additional acres will be purchased under this budget. However, as expenditures related to debt service on Stewardship purchases totaled more the \$50 million in fiscal year 2008-09 (paid from the general fund and conservation fund), it is important to prioritize the purchase of properties that most benefit the citizens of the state. Through debt restructuring mechanisms, debt service expenditures decreased for fiscal year 2009-10 through fiscal year 2011-12, but expenditures will return to previous levels in fiscal year 2012-13.

CHART 17: STEWARDSHIP DEBT SERVICE



Local governments will have a chance to add input when the Department of Natural Resources considers purchases under the program and all purchases over \$250,000 will be reviewed by the Joint Committee on Finance. Together, these changes strengthen the Stewardship Program through the purchase of properties where multiple partners agree that the purchase is in the best interest of the state and its residents.

Wisconsin's natural resources are a vital piece of the marketability of the state, both for tourism and business development. In 2009 over \$12 billion in tourism dollars were expended in the state by 36 million overnight visitors. The direct draw of the state parks resulted in over 270,000 camping reservations in 2009 and, along with the southern forests, received an estimated 14.4 million visits in fiscal year 2009-10. Protecting these vital resources is imperative for the quality of life in the state and to attract visitors. The budget does not include any fee increases to ensure visiting one of Wisconsin's many recreational properties remains affordable.

Economic Development and Regulatory Changes

- Convert the recycling and renewable energy fund to the economic development fund. Transfer a portion of the recycling tipping fee and current appropriations that are for purposes related to the environment to the environmental fund.
- Maintain a program for brownfields redevelopment and enhance its economic development potential by giving the authority to issue grants to the Wisconsin Economic Development Corporation.
- Streamline regulatory authority by transferring soil erosion control regulation for commercial sites from the Department of Natural Resources to the new Department of Safety and Professional Services.

- Remove the requirement that a conversion fee be paid for having land zoned out of a farmland preservation zoning district, and eliminate the Purchase of Agricultural Conservation Easements Program and \$12 million in GPR-supported general obligation bonds associated with the program.
- Provide \$70,900 PR and 1.0 FTE position in each year to administer the Endangered Resources Review Program. This program has undergone rule changes that now include an expedited review of proposed development projects which allows business transactions to happen at a quicker pace.
- Strengthen Wisconsin's meat industry by authorizing additional meat inspectors to ensure food safety and support business growth.

Mandate Relief for Local Government

- Remove the requirement that a municipality or county operate a recycling program to manage solid waste in compliance with the disposal restrictions and eliminate the financial assistance program for local governmental recycling programs.
- Reform regulations for effluent limitations on phosphorous so that Wisconsin's regulations are no more stringent than neighboring states, and repeal and recreate the Municipal Separate Storm Sewer Systems stormwater standard requiring communities to reduce their total suspended solids 40 percent by 2013 so the standard is no more stringent than federal law and take into account its cost to municipalities.

Water Quality Initiatives

- Protect the Great Lakes and other waters by providing \$5 million in bond revenues to clean up contaminated sediments in the Great Lakes or its tributaries.
- Ensure the safety of Wisconsin's dams by providing \$4 million for grants to be used for dam repair, reconstruction and removal projects, and allow for greater flexibility by removing the deadline for making a request for a grant under the program.
- Protect our lakes and rivers and improve water quality in Wisconsin by providing an additional \$20 million over the biennium to reduce nonpoint source water pollution through increased nutrient management planning and other pollution abatement practices.
- Continue to investigate and remedy environmental contamination by providing \$3 million in bond revenues for contaminated site repair.

Conservation

- Respond to the current economic challenges by keeping hunting and fishing license fees at current levels. Savings from employee compensation and program reductions will keep overall fish and wildlife revenues in balance with expenditures.
- Strengthen the Stewardship Program by requiring that lands purchased under the Stewardship Program allow full public access, with limited exceptions; limiting purchases of easements and no longer purchasing development rights; eliminating payments for aids in lieu of taxes for newly purchased lands; and requiring local governments affected by these purchases to pass a nonbinding resolution in support or opposition to the purchase that the Department of Natural Resources must consider before making a final purchase.
- Provide \$926,500 in fiscal year 2011-12 and \$623,000 in fiscal year 2012-13 to support conservation wardens and rangers across the state, including radio and laptop replacement and law enforcement equipment in state parks.

- Provide \$439,900 in fiscal year 2011-12 and \$431,900 in fiscal year 2012-13 to support new facilities and campsites at state parks and southern forests throughout the state.

D. HEALTH AND HUMAN SERVICES

Medicaid

The Wisconsin Medicaid programs, including Medical Assistance, BadgerCare Plus, Family Care and SeniorCare, are an essential safety net for low-income individuals and families who lose or cannot afford employer-sponsored health insurance, and are the main source of health care coverage for many people with significant disabilities and individuals in need of nursing home care. The broad eligibility criteria and comprehensive benefits offered by the program have helped Wisconsin maintain the second highest rate of health insurance coverage in the country. However, the cost of the programs has grown tremendously, exerting pressure on all other areas of the state budget and putting the future of the programs at risk.

Over the past five years, expenditures for the Medicaid programs have increased an average of 11 percent per year, growing from \$4.4 billion all funds in fiscal year 2005-06 to \$6.6 billion in fiscal year 2009-10.

TABLE 10: MEDICAID AND BADGERCARE PLUS
(\$ in millions)

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>
General Program Revenue	\$1,361	\$1,766	\$1,756	\$1,102	\$1,286
Federal Revenue	2,706	2,774	2,906	3,879	4,675
Program Revenue	7	9	45	64	67
Segregated Revenue	<u>360</u>	<u>127</u>	<u>212</u>	<u>876</u>	<u>635</u>
All Funds	\$4,435	\$4,677	\$4,920	\$5,921	\$6,663
Change over prior year		5%	5%	20%	13%

Detail may not add precisely to total due to rounding.

Over the same five-year period, enrollment in the programs grew an average of 7 percent annually, from 834,000 individuals per month in fiscal year 2005-06 to 1,149,000 individuals during the first half of fiscal year 2010-11. In January 2011, the programs covered more than 1.16 million individuals, which is over 20 percent of the state's population, including a third of all children in the state.

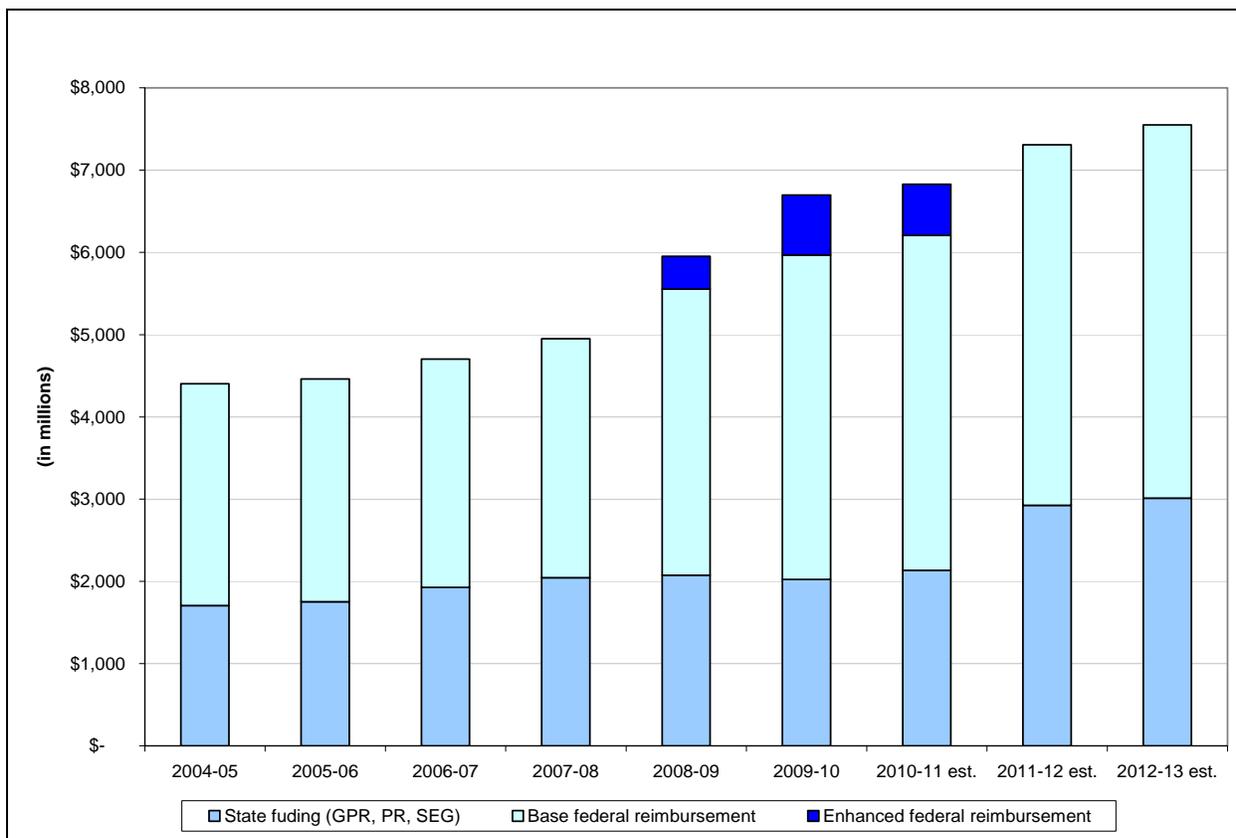
TABLE 11: MEDICAID AND BADGERCARE PLUS ENROLLMENT

	<u>FY06</u>	<u>FY07</u>	<u>FY08</u>	<u>FY09</u>	<u>FY10</u>	<u>FY11 (1st Half)</u>
Low-Income Parents and Children	491,356	491,604	524,465	595,100	685,926	720,580
At-Risk Children and Young Adults	20,197	20,039	20,403	20,658	21,764	22,083
Elderly, Blind and People With Disabilities	170,067	170,163	172,728	177,590	184,871	190,878
Adults Without Dependent Children				6,199	50,627	54,745
Miscellaneous Full Benefit Recipients	389	494	686	1,179	1,867	2,368
Limited Benefit Plans	<u>152,019</u>	<u>167,330</u>	<u>154,947</u>	<u>147,317</u>	<u>149,811</u>	<u>158,800</u>
Total Medicaid and BadgerCare Plus Enrollment	834,027	849,630	873,229	948,043	1,094,866	1,149,452
Change Over Prior Year		2%	3%	9%	15%	5%
Change in General Fund Revenues		5%	3%	-7%	0%	5%

The rate of growth in the Medicaid programs is unsustainable. While Medicaid spending has grown by 50 percent, state general fund tax collections have remained flat and collections of individual income taxes and sales taxes have decreased by 1 percent and 4 percent respectively. The increase in Medicaid costs must be offset by reductions elsewhere, squeezing funding for education, public safety, property tax relief and other essential government functions.

The majority of the Medicaid growth over the past two years was supported by a temporary increase in federal funding for the program. Under the American Recovery and Reinvestment Act and the Education Jobs Act, the share of Medicaid costs reimbursed by the federal government increased between 5 percent and 10 percent between October 2008 and June 2011. While total expenditures increased an average of 12 percent per year between fiscal years 2008-09 and 2010-11, state funding for the program increased 1 percent annually. The additional federal funding totaled \$630.5 million in fiscal year 2010-11, which will require the state to replace \$1,261 million of Medicaid expenditures with state funding in the next biennium.

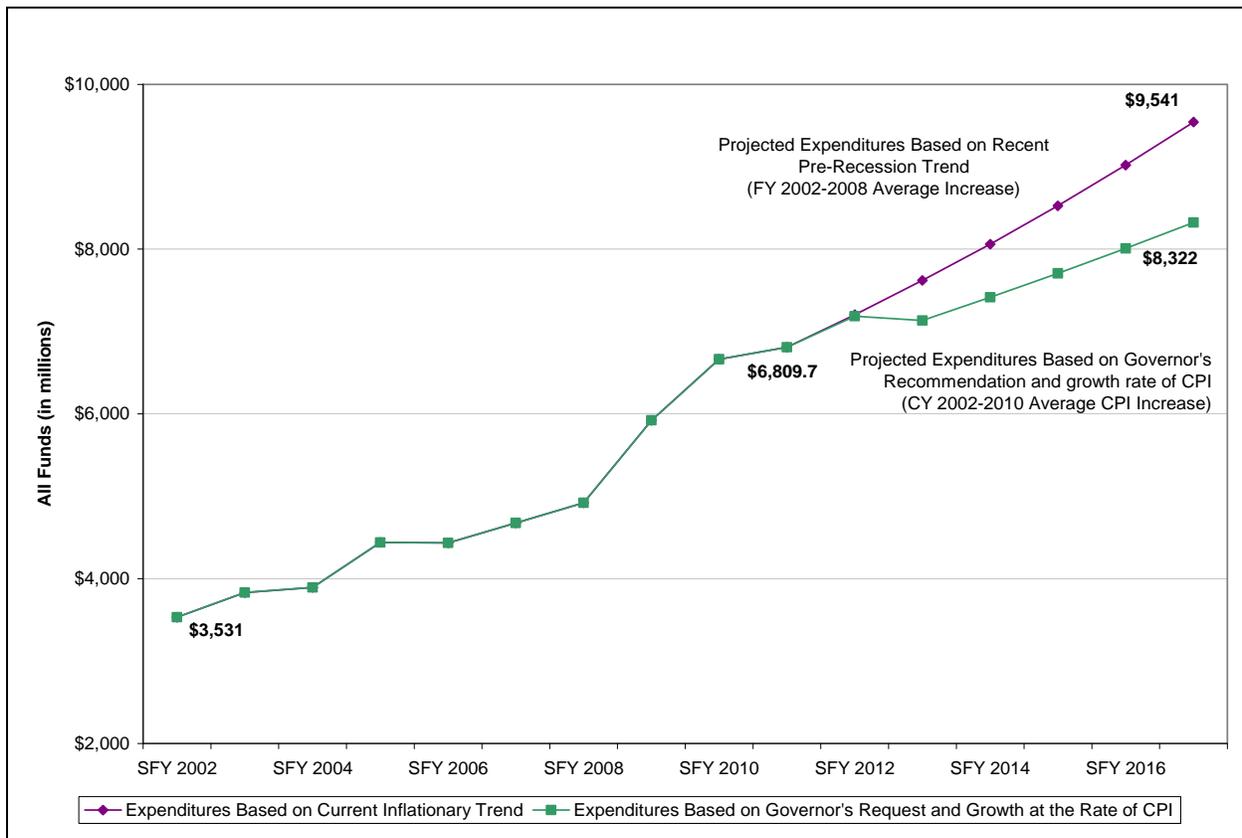
CHART 18: MEDICAID EXPENDITURES BY FUND SOURCE



Instead of reducing benefits across-the-board or cutting provider reimbursement rates to levels that shift costs on to other payers, as many other states have been forced to do, the Governor is recommending a package of fundamental program reforms that will increase the cost-effectiveness of the benefit delivery system, realign provider incentives to achieve better outcomes, bring the coverage of working families back in line with private insurance and meaningfully manage the care provided to high needs individuals to prevent avoidable complications and minimize the provision of unnecessary services.

Making these common sense, focused changes will allow the state to bend the cost curve on program expenditures. Even prior to the recession, Medicaid expenditures grew by almost 6 percent per year while the consumer price index for medical care increased by less than 4 percent. Wisconsin's Medicaid program requires significant, immediate reform in order to become sustainable and to continue to serve the populations that depend on it. Failure to implement meaningful changes now only increases the scope of the challenges to be faced in the future, putting the program and the people who rely on it at risk.

CHART 19: BENDING THE COST CURVE THROUGH MEDICAID REFORM



The Governor's plan for Medicaid will reduce expenditures by over \$500 million in the next biennium, compared to the prerecession trend. For future years, those savings continue to grow, totaling \$1.2 billion all funds by fiscal year 2016-17.

Medicaid is a joint federal-state program that must be operated according to federal requirements laid out in law, regulations and the Medicaid state plan. These federal restrictions can be an impediment to achieving the efficiencies necessary to preserving the Medicaid safety net. For example, federal law, enacted as part of the Patient Protection and Affordable Care Act, prohibits states from reducing eligibility levels or changing eligibility standards for most adults until 2014 and for children until 2019. States facing a budget deficit may reduce eligibility for nondisabled adults with family incomes over 133 percent of the federal poverty level. Under this federal law, Wisconsin can eliminate Medicaid coverage for 70,000 adults who are not pregnant or disabled, but cannot make reasonable changes to the eligibility determination process, such as ending coverage for an individual who is no longer eligible after a ten-day notice period instead of the end of the month, a practice that would reduce costs by \$25 million over the biennium.

As a result of these restrictions, many states are forced to find Medicaid savings from other, allowable sources by eliminating optional benefits for adults, including prescription drugs, vision, personal care and dental services, and significantly cutting health care provider rates, making it difficult for recipients to access care. At least six states have begun discussions on eliminating their Medicaid programs entirely.

Wisconsin is one of 33 states seeking additional flexibility from the U.S. Department of Health and Human Services through a waiver of this eligibility requirement. Approval of the waiver will permit the Department of Health Services to enact reasonable policies to reduce the crowd-out of private health insurance, improve the accuracy of eligibility determinations, ensuring that only qualified individuals are enrolled in

Medicaid, and require that individuals enroll in all other available programs prior to becoming eligible for Medicaid. These changes to the eligibility criteria are necessary to ensure that program resources are targeted to those who have no other means to access health care. Without the waiver, Medicaid expenditures will exceed the budget by over \$100 million during the biennium.

The Governor's plan for Medicaid preserves the current income eligibility levels, recognizing the importance of Medicaid as a safety net for low-income and working families. However, if the federal government does not allow the state to realize the needed savings through improvements in eligibility policies, a provision in the budget repair bill will require the Department of Health Services to eliminate coverage of nondisabled, nonpregnant adults with family incomes over 133 percent of the federal poverty level on July 1, 2012, if the federal waiver is not approved by January 1, 2012.

SeniorCare

Preserving the SeniorCare drug assistance program, even in very difficult fiscal conditions, is a priority of the Governor. SeniorCare is the only program of its kind left in the country that provides state and federal Medicaid funding to help seniors pay their prescription drug costs. Many seniors depend on the program to fill the gaps left by Medicare Part D, particularly the "donut hole" and classes of drugs that are not covered under the Part D formularies.

The Medicaid program was created to be a safety net for the uninsured and a supplementary health program for individuals with particularly high-care needs, and is the payer of last resort for individuals who are enrolled in other coverage. Under the Governor's plan, benefits and income eligibility levels for the SeniorCare drug assistance program will not change. However, effective January 1, 2012, the Department of Health Services will require eligible individuals to enroll in Medicare Part D drug coverage as a condition of SeniorCare enrollment. This policy change will reduce SeniorCare expenditures by \$15 million GPR over the biennium while ensuring that Wisconsin seniors still have access to the best prescription drug coverage in the country.

Family Care

Over the past four years, the Family Care community-based long-term care program has expanded rapidly from five pilot counties in 2006 to 56 counties covering 80 percent of the state's population in January 2011. The program now accounts for over \$1.3 billion in Medicaid expenditures each year. During that expansion, there has not been an adequate review of the effectiveness of the program in meeting the care needs of participants and providing services in a cost-effective and accountable manner. As a result of issues raised by Family Care providers, advocates for the elderly and people with disabilities, and Family Care members and families, the Legislative Audit Bureau is conducting a comprehensive audit of the Family Care program. In concert with the audit, the Governor recommends reviewing the Family Care program and fully funding the cost of current enrollees.

Children and Families

While the recessionary economy has put more stress on families already subject to multiple risk factors, we must not lose sight of the fact that the best way out of poverty is a job. The Governor believes that the path from welfare to unsubsidized employment is grounded in work experience and for too long the Wisconsin Works (W-2) program has lost focus on this most basic tenet of welfare reform. The Governor believes that by restoring many of the basic policies which guided the creation of the W-2 program, individuals who have struggled to gain a foothold in the state's workforce will become more accountable and able to move from welfare to sustained work. To address this priority, the Governor recommends the following changes to increase accountability in the W-2 program and increase efficiencies in state government.

- Reform the W-2 cash assistance program rules to ensure participants are personally accountable to meaningfully participate in work experience in order to receive cash assistance. These include restoring the requirement that full-time participants spend at least 28 to 30 hours per week in work

- To further encourage W-2 recipients to recognize that the goal of W-2 is for participants to secure unsubsidized employment, reduce the monthly benefit check by \$20.
- Transfer the FoodShare, State Supplement to Federal Supplemental Security Income and Caretaker Supplement programs from the Department of Health Services to the Department of Children and Families to consolidate economic welfare programs into one agency and streamline state services.

Historically, the Wisconsin Shares child care subsidy program expenditure growth has continued at an unsustainable rate. In early 2009, media brought attention to rampant fraud in the Wisconsin Shares system, prompting a statewide focus on ending fraud in the system and ensuring taxpayer dollars weren't misspent on fraudulent activity. The Governor recognizes that Wisconsin must continue its intense and thorough investigation of suspected fraud in the Wisconsin Shares child care subsidy program in order to ensure that taxpayer dollars provide incentives to improve child care quality. Already, the Department of Children and Families' efforts have resulted in decreased taxpayer funded expenditures for child care by \$30.7 million in fiscal year 2010-11.

Additionally, the Governor is committed to providing parents with information on child care providers to empower them to make informed choices when choosing child care services and ensure that taxpayer dollars only fund high-quality child care. To address these priorities, the Governor recommends the following:

- Continue the Department of Children and Families' child care fraud detection and investigation work without reducing staff and resources to combat fraud in the Wisconsin Shares program.
- Authorize the Department of Children and Families to implement several cost saving measures for the Wisconsin Shares program, including implementing a waiting list, increasing copayments that individuals who receive a subsidy pay, adjusting the amount of reimbursement paid to child care providers and adjusting the gross income levels for eligibility for child care subsidies.
- Continue implementation of the five-star tiered reimbursement structure for child care providers that rewards providers who improve the quality of their services with an adjustment to increase the maximum rates paid by the state. Rates for lower quality providers will be reduced by tier from the maximum rates paid by the state.

For children most vulnerable to abuse and neglect it continues to be a challenge for government to ensure their safety when placed in out-of-home care. The challenges are especially acute in the Bureau of Milwaukee Child Welfare and have only been intensified by reduction in the federal government's investment in child welfare services.

While much work remains to be done, the Governor is committed to protecting Wisconsin's children and the Department of Children and Families' leadership has already identified priorities and strategies that will strengthen the state's ability to protect children from abuse and neglect by providing the Bureau of Milwaukee Child Welfare with the resources necessary to react to suspected cases of abuse and neglect in a timely manner.

In addition to the decline in federal reimbursement, Wisconsin's child welfare system has been challenged by decreases in the number of foster care families and rising costs for children placed in treatment oriented care, such as group homes and residential care centers. To maintain his commitment to children and families, and improve efficiency and consistency for children across the State of Wisconsin, the Governor recommends the following:

- Provide \$2.7 million GPR over the biennium to fund out-of-home care expenditures in the Bureau of Milwaukee Child Welfare due to increasing caseloads and previous federal disinvestment in child welfare.

- Provide \$324,300 GPR and 5.0 FTE positions in fiscal year 2011-12 and \$488,800 and 6.0 FTE positions in fiscal year 2012-13 to implement a regulated rate system for group homes, residential care centers and treatment foster care agencies.

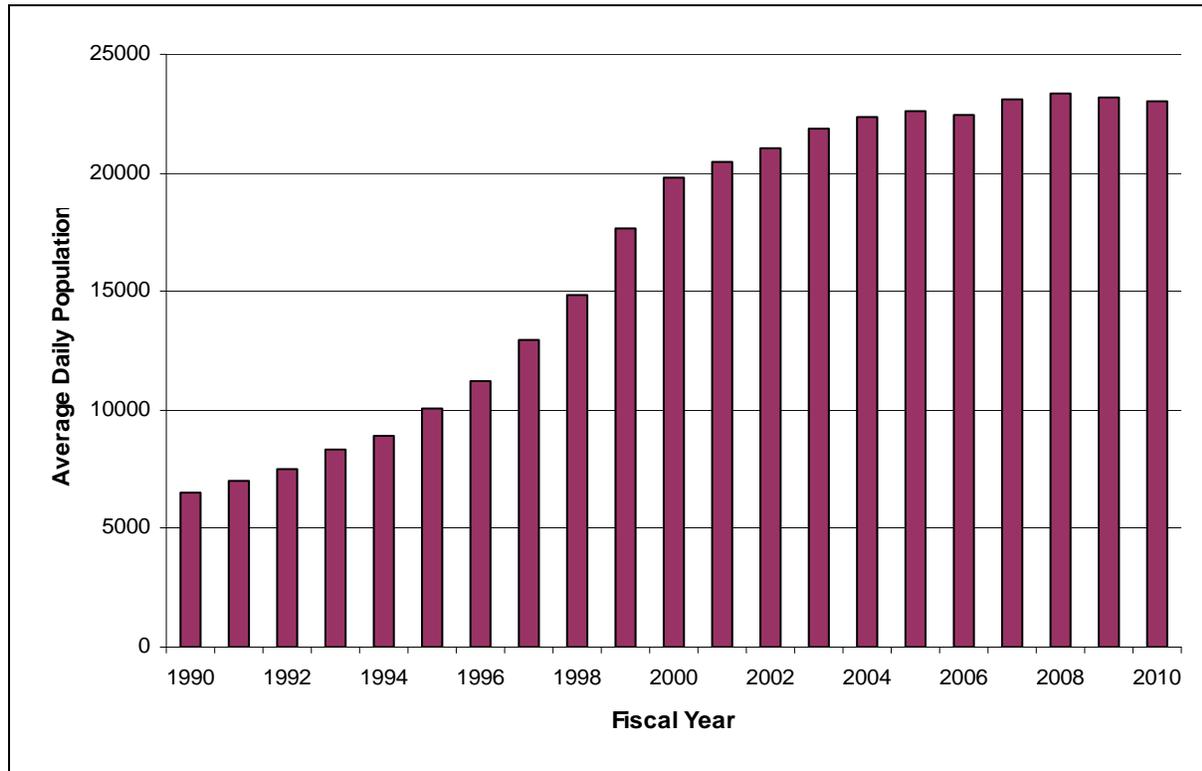
E. JUSTICE

The Governor places a high priority on public safety. That is why his budget provides funding to hire quality public defenders to represent indigent offenders and retain experienced prosecutors. The budget increases resources to ensure timely processing of DNA submissions, and increase investigations of on-line predators that prey on children. It also provides funding to ensure that first responders will be able to communicate during emergencies, and expands protections for victims of crime by providing funding for the Victim Information and Notification Everyday system to ensure that victims throughout the state can receive notification of offender status and location. The budget further provides funding and position authority to ensure that the Department of Corrections will be able to supervise offenders placed on community supervision as a result of strengthening drunken driving penalties in 2009 Wisconsin Act 100.

It is especially important to protect public safety in times of scarce resources. The budget restores the integrity of truth-in-sentencing and reinforces the importance of public protection as a high priority. Early release provisions put in place in 2009 Wisconsin Act 28 are repealed and the Parole Commission is restored to its duties and responsibilities that existed prior to Act 28.

Prison populations across the country fell from 2009 to 2010 for the first time in nearly 40 years.

CHART 20: ADULT CORRECTIONS POPULATION

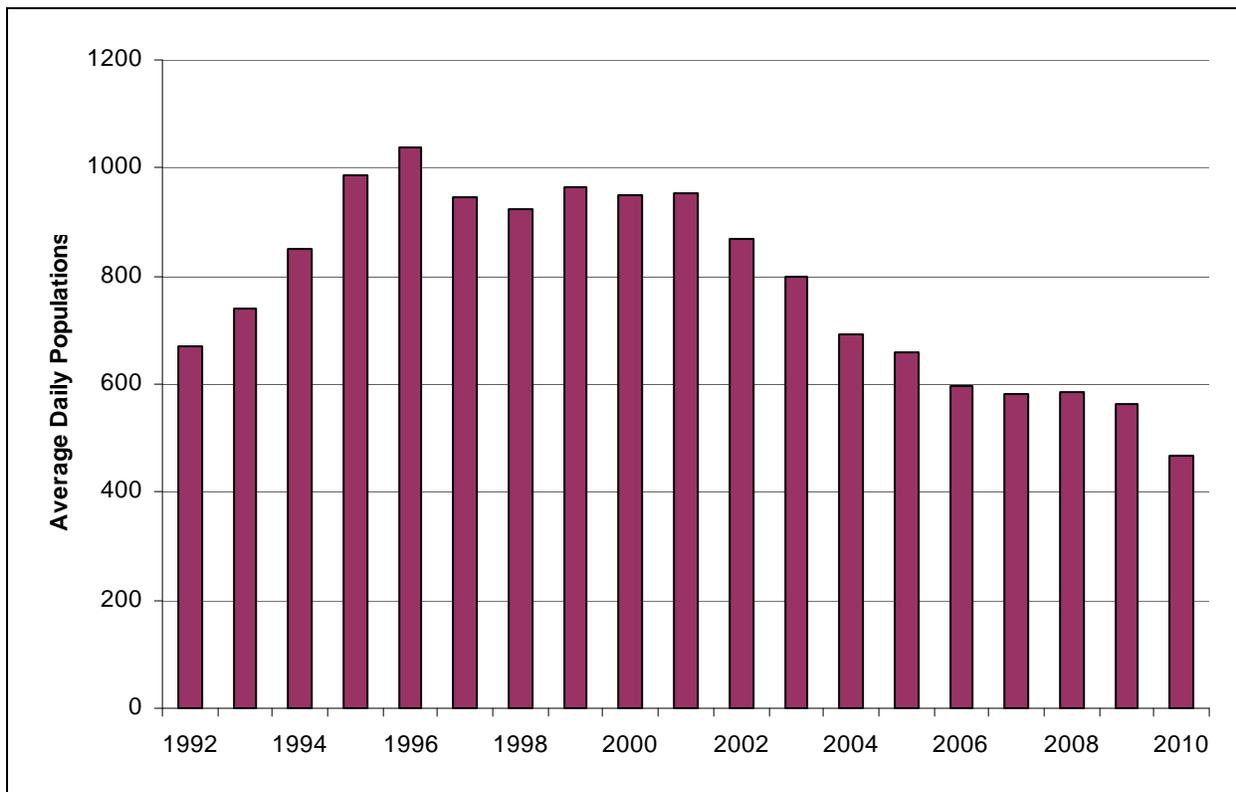


Wisconsin has followed that trend with decreases in each of the last two years. In fiscal year 2009-10, the average daily population in adult institutions was 23,015, compared to 23,341 in fiscal year 2007-08.

The projected average daily population in fiscal year 2012-13 is 21,217. These population decreases result in significant savings in the Department of Corrections and allow the department to focus its scarce resources on ensuring that inmates remain in prison for the duration of their sentences.

The number of juvenile offenders sent to correctional institutions has fallen dramatically over the last several years.

CHART 21: JUVENILE INSTITUTION CORRECTIONS POPULATIONS



In fiscal year 2009-10, the juvenile institution average daily population was 466, compared to 587 in fiscal year 2007-08. The projected average daily population in fiscal year 2012-13 is 340. This is good news for families throughout Wisconsin. However, this also means that the Department of Corrections can no longer afford to operate three separate juvenile facilities. The department faces a \$21 million deficit by the end of fiscal year 2010-11, a number that will continue to grow and, if no action is taken, would result in rates of more than \$500 per day for counties to send a juvenile to a correctional facility. As a result of consolidating the juveniles at Lincoln Hills School for boys and creating the Copper Lake School for girls at Lincoln Hills, the rates paid by counties will increase from the current \$275 per day to \$284 in fiscal year 2011-12 and \$289 in fiscal year 2012-13, including \$17 per day to reduce the deficit over the next ten years.

TABLE 12: JUVENILE DAILY RATES

	<u>FY12</u>	<u>FY13</u>
Governor's Budget (Includes Deficit Elimination Over Ten Years)	\$284	\$289
Facility Closure and No Deficit Reduction	\$267	\$272
Facility Closure and Deficit Elimination Over Biennium	\$351	\$356
No Facility Closure and No Deficit Reduction	\$454	\$458
No Facility Closure and Deficit Elimination Over Ten Years	\$471	\$475
No Facility Closure and Deficit Elimination Over Biennium	\$538	\$543

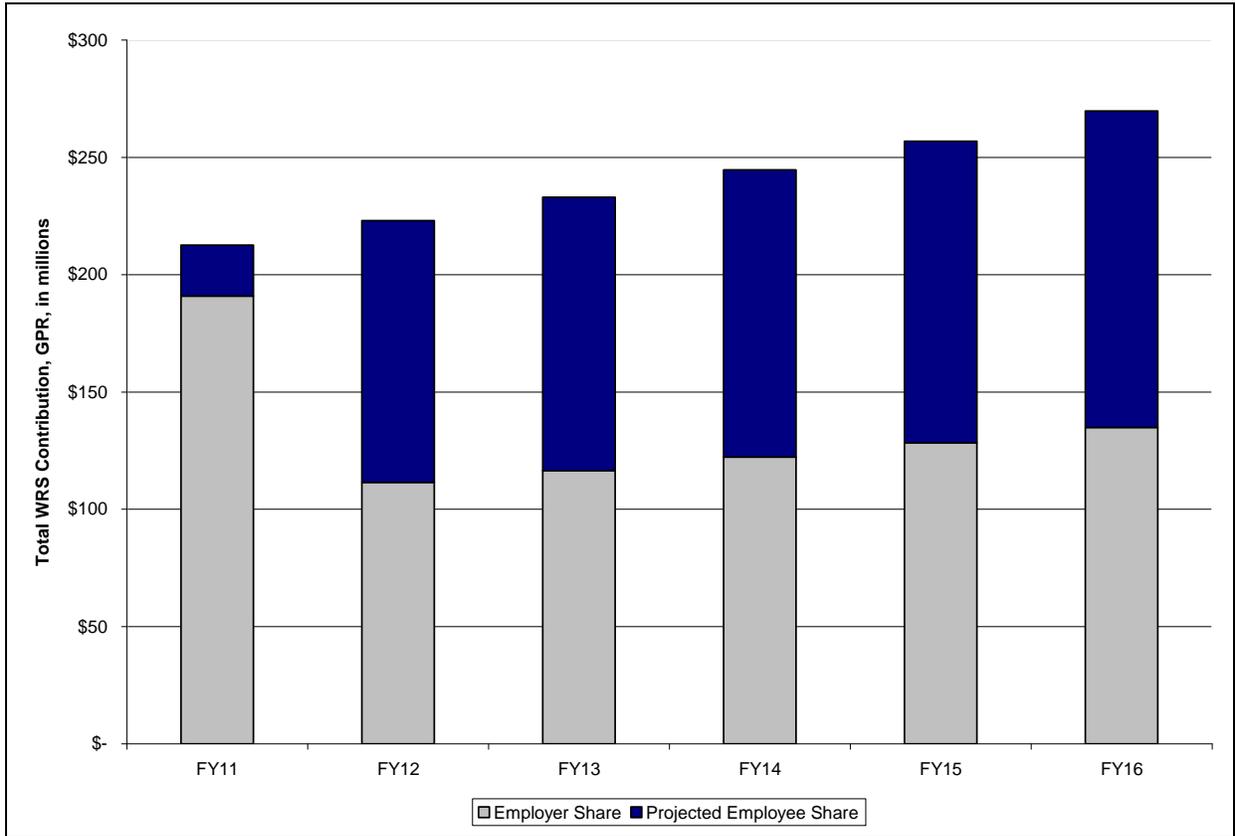
F. GOVERNMENT OPERATIONS AND EFFICIENCY

The Governor believes that the amount state and local government employees pay toward their pension and health insurance benefits should be comparable to those paid by private sector workers and government employees in other states. Currently, state, school district and municipal employees that are members of the Wisconsin Retirement System generally pay little or nothing toward their pensions. Many private sector companies do not even offer a defined benefit plan any longer and for those that do offer a retirement plan, an employee contribution equal to at least 5 percent of their wages is common. At the state level, employees on average pay 6 percent of the health insurance premium under current law. Based on national data from the Kaiser Foundation, the percent of health insurance premium paid by private sector employees ranges from 20 percent to 30 percent.

As such, the budget repair bill contained the following provisions that increase state and local employee contributions towards pension and health insurance costs. The annualized savings related to those modifications have been included in the budget bill. The benefit to the general fund is approximately \$300 million over the biennium.

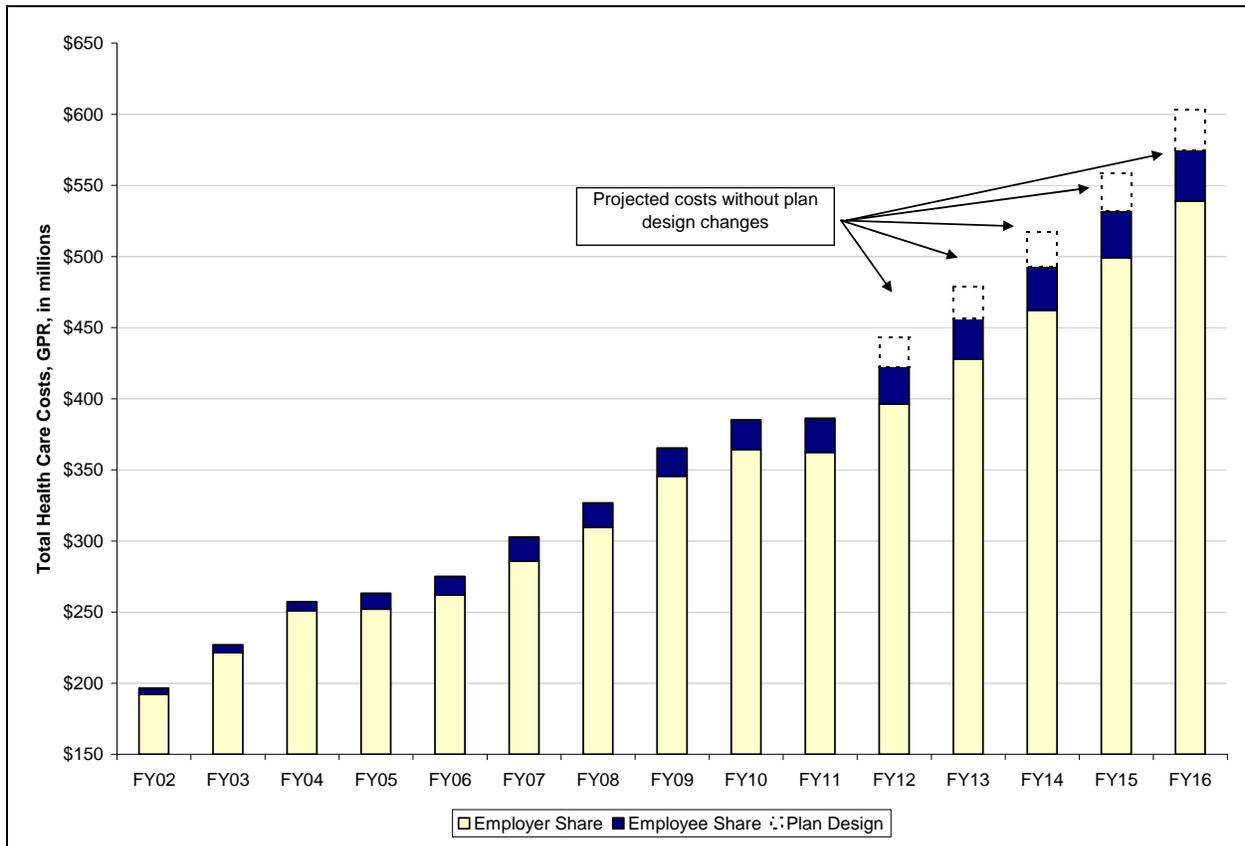
First, state and local employees that participate in the Wisconsin Retirement System will generally pay 50 percent of the total required retirement contribution, which for calendar year 2011 equals 5.8 percent of salary.

CHART 22: ADDITIONAL EMPLOYEE CONTRIBUTIONS TO WRS IN FY12 AND FY13 WILL SAVE \$228 MILLION GPR



Second, state employees will pay at least 12.6 percent of the average cost of annual premiums. In addition, the bill would require changes to the plan design necessary to reduce current premiums by 5 percent. Local employers participating in the Public Employers Group Health Insurance will be prohibited from paying more than 88 percent of the lowest cost plan. The Department of Employee Trust Funds will be directed to use \$28 million of excess balances in reserve accounts for health insurance and pharmacy benefits to reduce health insurance premium costs.

CHART 23: ADDITIONAL EMPLOYEE CONTRIBUTIONS AND PLAN DESIGN CHANGES WILL REDUCE HEALTH INSURANCE COST GROWTH TO THE STATE BY \$98 MILLION GPR IN FY12 AND FY13



Third, the Department of Employee Trust Funds and the Group Insurance Board will be directed to implement health risk assessments and similar programs aimed at participant wellness, collect certain data related to assessing health care provider quality and effectiveness, and verify the status of dependents participating in the state health insurance program.

Fourth, the pension calculation for elected officials and unclassified executives will be modified to be the same as general occupation employees and teachers. Current law requires a larger employer contribution into the pension fund because individuals in those positions receive a higher multiplier for pension calculation than general classification employees. For elected officials, this formula benefit change will be effective at the beginning of their next term of office due to provisions of the State Constitution.

Fifth, to control growth in future benefit costs, the Department of Administration, Office of State Employment Relations and Department of Employee Trust Funds will be directed to study and report on possible changes to the Wisconsin Retirement System, including instituting defined contribution plans for new and existing employees, allowing employees to opt-out of paying the employee share and consequently receiving a lower benefit, and requiring a vesting period before receiving pension benefits. The three agencies must also study and report on changes to the current state health insurance plans on items such as having state employees participate in the health insurance purchasing exchange, development of a purchasing pool for state and local governments as well as Medicaid, and inclusion of high-deductible insurance options.

In conjunction with the modifications to employee compensation, the Governor is committed to making government run as efficiently and cost-effectively as possible. The budget takes several steps toward that end. First, all positions that have been vacant for longer than 12 months will be eliminated. Second, the Department of Administration secretary will be authorized to eliminate additional vacancies if it is determined that the agency can meet its mission without them. Third, the budgets of most agencies have been reduced in two ways – a 10 percent across-the-board cut to non-personnel budgets and a reduction related to absorbing the 2 percent pay increase that represented staff received in the June 2009. Fourth, the budget authorizes the Department of Administration secretary to lapse an additional \$145 million over the biennium from executive branch agencies.

The Governor has also directed agencies to continue to seek approval from the Department of Administration prior to filling any vacant position and to submit any out-of-state travel requests through a similar process. In these tight economic times, agencies will have to continue to perform core functions with fewer staff and less overall resources.

Several additional actions have been taken to streamline state government, including transferring the College Savings Program and the local government investment pool to the Department of Administration, consolidating certain administrative functions from the State Treasurer and the Secretary of State into the Departments of Administration and Financial Institutions, eliminating the Office of Energy Independence, and folding the Arts Board into the Department of Tourism.

The budget also includes provisions relating to procurement of goods and services to: (a) increase the statutory threshold required for official sealed bids and official sealed proposals from \$25,000 to \$50,000; (b) eliminate the requirement to conduct uniform cost-benefit analyses for contractual service contracts; (c) remove the requirement that agencies and the University of Wisconsin campuses use specifications in purchasing bids that conform to the specifications of prison industries; (d) replace comparable price terminology with price equal to or lesser than in regards to purchases from prison industries; (e) exempt equipment from energy standards when the purchase amount is less than \$5,000 per unit; (f) exempt equipment from energy standard purchasing requirements if no energy standard exists; and (g) permit the Bureau of Procurement to maintain a list of bidders or contractors who have been convicted of criminal offenses.

Finally, the Governor has established a bipartisan commission to identify waste, fraud and abuse in state spending programs and recommend solutions. The seven-person commission is comprised of a private sector chairman, an at-large private sector member, the deputy secretary of the Department of Administration, and a majority and minority member from each house of the Legislature appointed by the respective leader in each house. The commission is charged with going through the budget line-by-line to identify waste, fraud and abuse that might otherwise have gone undetected for years. By taking advantage of savings that have already been publicly identified, such as Wisconsin Shares fraud and excessive overtime, the commission aims to save at least \$300 million per year.

G. REVENUE AND GENERAL FUND TAXES

Reducing taxes on Wisconsin individuals and businesses is vital to restoring vibrant economic growth in Wisconsin, which is necessary for the long-term fiscal health of the state. National rankings of business climate consistently give a relatively low ranking to Wisconsin's tax climate.

To improve Wisconsin's business tax climate and spur job creation and investment, the Governor recommends two changes to the treatment of capital gains that are invested in Wisconsin-based businesses to make businesses in this state more attractive to investors. The first of these changes is providing a 100 percent exclusion for capital gains realized on Wisconsin-based capital assets held for five or more years. To qualify, a business must be certified by the Wisconsin Economic Development Corporation to have 50 percent or more of its payroll and property located in Wisconsin during three of the first five years of the period during which the asset is held. The Governor also recommends providing a 100 percent capital gains tax deferral for gains reinvested in Wisconsin-based businesses at the time the investment is made to provide an incentive to investors who are realizing gains to reinvest in

Wisconsin. These two measures will increase capital investment in Wisconsin businesses and create jobs.

Additionally, the Governor recommends increasing the period that businesses may carryforward net losses for purposes of offsetting tax liability and allowing businesses filing combined returns to share a portion of carryforward losses incurred prior to 2009 among members of the combined group. This will allow businesses to adjust their tax burdens to more accurately represent the performance of their businesses. The Governor also recommends streamlining the state's combined reporting law to remove administrative hurdles to compliance by disallowing the Department of Revenue's ability to overturn combined group elections to provide certainty to businesses that their tax filing status will be maintained.

The Governor also recommends updating Wisconsin's tax code to conform with several recently enacted provisions in the Internal Revenue Code regarding the treatment of Roth IRA accounts in 457(b) retirement plans, the tax treatment of tax credit bonds and the tax treatment of certain annuity products. All of these changes simplify tax compliance for individual taxpayers. These changes are expected to generate \$230,000 in tax revenue in fiscal year 2011-12 and decrease tax revenues by \$347,000 in fiscal year 2012-13.

These actions are in addition to the several significant actions enacted in the 2011 January Special Session. These actions included: (a) federalizing the tax treatment of health savings accounts to make more attractive the use of such accounts by removing the state tax on qualified deductions; (b) the creation of tax credits and deductions for businesses that relocate to Wisconsin; (c) a job creation tax deduction for businesses that add to their Wisconsin payroll; (d) increases in the amount of authority in the economic development tax credit; and (e) tighter controls on the Legislature's ability to increase tax rates. In total, taxes will be reduced \$200 million over the biennium, spurring job creation and reducing the burden on Wisconsin's taxpayers.

TABLE 13: TAX CHANGES
(\$ in millions)

	<u>FY12</u>	<u>FY13</u>
<u>2011 January Special Session</u>		
Health Savings Account Federalization	\$21.2	\$28.0
Job Creation Tax Deduction	33.5	33.5
Relocated Businesses Tax Credits and Deductions	0.5	0.5
Expanded Economic Development Tax Credit	<u>0.0</u>	<u>0.0</u>
<i>Subtotal Special Session</i>	\$55.2	\$62.0
<u>2011-13 Biennial Budget</u>		
Capital Gains Tax Deferral for Wisconsin-based Businesses	16.1	20.2
Capital Gains Tax Exclusion for Wisconsin-based Businesses	0.0	0.0
Carryforward Loss Sharing Under Combined Reporting	9.2	37.2
Internal Revenue Code Updates	-0.2	0.3
Modular Home Sales Tax Exemption	0.3	0.3
Personal Renewable Fuel Sales Tax Exemption	<u>Minimal</u>	<u>Minimal</u>
<i>Subtotal Biennial Budget</i>	\$25.4	\$58.0
Total Relief to Taxpayers	\$80.6	\$120.0

V. ECONOMIC ASSUMPTIONS AND REVENUE ESTIMATES

NATIONAL ECONOMY

The Legislative Fiscal Bureau's 2011-13 revenue estimates are based on the January 2011 national economic forecast from IHS Global Insight, Inc. (Global Insight). Global Insight forecasts that the economy will continue to improve because of several actions taken by the federal government, including the passage of the federal Tax Relief Act of 2010, projected moderation of federal spending, and the expectation that the Federal Reserve will keep the federal funds rate near 0 percent until March 2012. Many of the major economic indicators have turned, and are expected to remain, positive through 2013.

- **Real Growth.** Real Gross Domestic Product (GDP) will increase by 3.2 percent in 2011, by 2.9 percent in 2012 and by 3.1 percent in 2013.
- **Employment.** Employment is expected to continue to slowly recover after a significant decline in 2009 that continued into 2010. Total employment will increase by 1.4 percent in 2011 and 2.0 percent annually in 2012 and 2013.
- **Inflation.** Inflation is expected to continue to remain low. The inflation rate will increase by 1.6 percent in 2011, by 1.9 percent in 2012 and by 2.0 percent in 2013.
- **Profits.** After a strong return in 2010, profits are expected to moderate. Profits will decrease by 18.6 percent in 2011, then increase by 2.3 percent in 2012 and 22.3 percent in 2013.
- **Incomes.** As employment improves, income is also expected to grow. Personal income is expected to increase by 4.9 percent in 2011, 3.3 percent in 2012 and 4.6 percent in 2013.
- **Retail Sales.** Retail sales are also expected to improve as consumers become more confident in the economy and release pent up demand for goods and services. Retail sales are expected to increase by 6.7 percent in 2011, 5.5 percent in 2012 and 4.4 percent in 2013.

TABLE 14: SUMMARY OF THE NATIONAL ECONOMIC OUTLOOK

Economic Indicators	Actual		Forecast		
	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Gross Domestic Product					
Nominal GDP	-1.7	3.8	4.3	4.1	4.7
Real GDP	-2.6	2.9	3.2	2.9	3.1
Prices and Wages					
GDP Deflator	0.9	0.9	1.1	1.2	1.5
Consumer Price Index	-0.3	1.7	1.6	1.9	2.0
Compensation Per Hour	1.9	2.0	2.5	2.9	3.0
Production and Other Measures					
Total Nonfarm Employment	-4.3	-0.5	1.4	2.0	2.0
Industrial Production	-9.3	5.6	3.8	3.4	4.0
Housing Starts (Millions)	0.554	0.590	0.685	1.092	1.435
Light Vehicle Sales (Millions)	10.40	11.52	13.13	14.93	16.01
Retail Sales	-6.3	6.6	6.7	5.5	4.4
Profits and Income					
Corporate Profits Before Tax	-1.2	39.1	-18.6	2.3	22.3
Personal Income	-1.7	3.0	4.9	3.3	4.6

All numbers are annual percent change except as noted.

WISCONSIN ECONOMY

In 2010, Wisconsin's economy began to improve along with the national economy. Wisconsin's unemployment rate continued to be below the national rate, with Wisconsin's rate averaging 8.2 percent in 2010 compared to the national average of 9.7 percent in 2010. Wisconsin's income growth (up 1.0 percent), however, trailed the national personal income growth rate of 3.0 percent.

TABLE 15: SUMMARY OF THE WISCONSIN ECONOMIC OUTLOOK

Economic Indicators	Actual		2011	Forecast	
	2009	2010		2012	2013
Total Nonfarm Employment (in thousands)	2,748.3	2,724.4	2,751.3	2,810.9	2,865.0
Percent Change	-4.5	-0.9	1.0	2.2	1.9
Unemployment Rate – Percent of Labor Force	8.5	8.2	7.7	7.1	6.5
Personal Income Percent Change	4.3	2.6	3.4	2.8	3.3

For the coming biennium, Wisconsin's economy is expected to continue to improve, similar to the rest of the country.

- **Employment.** The state's overall employment changes will be similar to the national employment changes. In 2011, total nonfarm employment will increase by 1.0 percent. In 2012 and 2013, employment growth will be 2.2 percent and 1.9 percent, respectively. The state's unemployment rate is expected to remain below the national rate, but follow the same projected trend. Wisconsin's unemployment rate is expected to decline to 7.7 percent in 2011, 7.1 percent in 2012 and 6.5 percent in 2013. In comparison, the national unemployment rate is expected to decrease to 9.3 percent in 2011, 8.7 percent in 2012 and 8.1 percent in 2013.
- **Income.** Wisconsin's personal income growth will also be similar to the national trend. Wisconsin's total personal income should increase by 3.4 percent in 2011, 2.8 percent in 2012 and 3.3 percent in 2013. This compares to national income growth estimates of 4.9 percent in 2011, 3.3 percent in 2012 and 4.6 percent in 2013.

REVENUE ESTIMATES

TABLE 16: GENERAL PURPOSE REVENUE ESTIMATES
(\$ in millions)

<u>Current Law Estimates</u>	Actual <u>FY10</u>	Estimate <u>FY11</u>	Estimate <u>FY12</u>	Estimate <u>FY13</u>
Individual Income	\$6,089.2	\$6,350.0	\$6,650.0	\$7,000.0
General Sales and Use	3,944.2	4,150.0	4,350.0	4,485.0
Corporation Franchise and Income	834.5	935.0	900.0	925.0
Public Utility	319.4	339.5	344.6	352.6
Excise				
Cigarette	644.3	620.0	615.0	610.0
Liquor and Wine	44.2	45.4	46.4	47.5
Tobacco Products	59.9	64.0	66.5	69.0
Beer	9.6	9.5	9.5	9.5
Insurance Companies	130.7	132.0	133.3	134.6
Miscellaneous	<u>55.8</u>	<u>46.0</u>	<u>49.0</u>	<u>57.0</u>
Total GPR Taxes	\$12,131.7	\$12,691.4	\$13,164.3	\$13,690.2
Change Over Prior Year				
Amount		\$559.7	\$472.9	\$525.9
Percent		4.6%	3.7%	4.0%

Detail may not add precisely to total due to rounding.

The Governor recommends several initiatives to encourage investment and create jobs in Wisconsin. These are described earlier under general fund tax changes and are summarized in Table 13. The principal tax change for individual income tax is the capital gains exclusion for investments in Wisconsin-based businesses. The principal sales tax changes included in the Governor's budget bill are exempting sales of modular homes that will be located outside of Wisconsin and sales of personal renewable fuel, and depositing a portion of sales tax revenue related to automobile-related purchases in the transportation fund beginning in fiscal year 2012-13.

The principal corporate tax changes are allowing combined groups to share members' carryforward losses that were incurred prior to 2009 and extending the time period that losses may be carried forward from 15 years to 20 years. These changes will allow combined groups to more accurately reflect the group's taxable income. The Governor also recommends conforming to recent changes in the federal tax code.

**TABLE 17: GENERAL PURPOSE REVENUE ESTIMATES UNDER
GOVERNOR'S RECOMMENDATIONS**
(\$ in millions)

<u>Current Law Estimates</u>	Actual <u>FY10</u>	Estimate <u>FY11</u>	Estimate <u>FY12</u>	Estimate <u>FY13</u>
Individual Income	\$6,089.2	\$6,350.0	\$6,634.1	\$6,979.5
General Sales and Use	3,944.2	4,150.0	4,349.8	4,449.6
Corporation Franchise and Income	834.5	935.0	890.8	887.8
Public Utility	319.4	339.5	344.6	352.6
Excise				
Cigarette	644.3	620.0	615.0	610.0
Liquor and Wine	44.2	45.4	46.4	47.5
Tobacco Products	59.9	64.0	66.5	69.0
Beer	9.6	9.5	9.5	9.5
Insurance Companies	130.7	132.0	133.3	134.6
Miscellaneous	<u>55.8</u>	<u>46.0</u>	<u>49.0</u>	<u>57.0</u>
Total GPR Taxes	\$12,131.7	\$12,691.4	\$13,139.0	\$13,597.1
Change Over Prior Year				
Amount		\$559.7	\$447.6	\$458.1
Percent		4.6%	3.5%	3.5%

Detail may not add precisely to total due to rounding.

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 FY11 for fiscal year 2010-11, 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 in 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 in the general fund.

Program Revenue – Other (PR or 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 or reimbursement for the cost of services provided to an individual or organization which is not another state agency.

Program Revenue – 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 transportation 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 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 – FY12

	<u>FY 11 Base</u>	<u>FY 12 Recommended</u>	<u>Change From Base (Amt)</u>	<u>Change Percent</u>
Administration, Dept.	932,700,800	919,309,500	-13,391,300	-1.4
Aging and Long-Term Care, Board	2,580,700	2,544,800	-35,900	-1.4
Agriculture, Trade, and Consumer	101,666,900	103,628,500	1,961,600	1.9
Arts Board	3,722,400	0	-3,722,400	-100.0
Building Commission	28,425,700	15,709,300	-12,716,400	-44.7
Child Abuse and Neglect Prev.	3,784,800	2,970,700	-814,100	-21.5
Children and Families, Dept.	1,127,210,300	1,256,132,900	128,922,600	11.4
Circuit Courts	95,790,000	90,382,400	-5,407,600	-5.6
Commerce, Dept.	183,228,200	0	-183,228,200	-100.0
Corrections, Dept.	1,299,019,700	1,208,898,200	-90,121,500	-6.9
Court of Appeals	10,162,000	10,016,400	-145,600	-1.4
District Attorneys	44,672,000	46,339,900	1,667,900	3.7
Educational Communications Board	18,718,600	16,949,100	-1,769,500	-9.5
Employee Trust Funds, Dept.	30,993,800	31,901,000	907,200	2.9
Employment Relations Commission	3,125,000	3,198,000	73,000	2.3
Environmental Improvement Program	56,374,800	23,874,100	-32,500,700	-57.7
Financial Institutions, Dept.	17,536,200	17,606,900	70,700	0.4
Fox River Navigational System Authority	125,400	125,400	0	0.0
Government Accountability Bd.	5,158,600	4,718,000	-440,600	-8.5
Governor's Office	4,233,200	4,144,700	-88,500	-2.1
Health and Educational Facilities Authority	0	0	0	0.0
Health Services, Dept.	8,129,035,600	8,778,640,100	649,604,500	8.0
Higher Educational Aids Board	162,813,100	150,087,800	-12,725,300	-7.8
Historical Society	21,574,800	19,879,700	-1,695,100	-7.9
Insurance, Commissioner	103,963,200	103,937,300	-25,900	0.0
Investment Board	30,022,600	28,888,600	-1,134,000	-3.8
Judicial Commission	245,800	358,300	112,500	45.8
Judicial Council	127,600	127,700	100	0.1
Justice, Dept.	94,088,700	88,450,800	-5,637,900	-6.0
Legislature	74,712,600	75,276,800	564,200	0.8
Lieutenant Governor	390,800	393,500	2,700	0.7
Lower Fox River Remediation Authority	0	0	0	0.0
Lower WI State Riverway Board	202,700	202,600	-100	0.0
Medical College of Wisconsin	6,983,700	6,071,000	-912,700	-13.1
Military Affairs, Dept.	81,776,500	79,632,700	-2,143,800	-2.6
Miscellaneous Appropriations	158,692,300	152,506,300	-6,186,000	-3.9
Natural Resources, Dept.	564,717,100	475,667,600	-89,049,500	-15.8
Office of State Employment Relations	5,994,200	5,678,100	-316,100	-5.3
People with Developmental Disabilities, Bd.	1,404,500	1,301,700	-102,800	-7.3
Program Supplements	17,066,300	50,519,300	33,453,000	196.0
Public Defender Board	78,197,800	81,655,600	3,457,800	4.4
Public Instruction, Dept.	6,497,429,400	5,967,623,900	-529,805,500	-8.2
Public Lands	1,556,400	1,547,200	-9,200	-0.6
Public Service Commission	25,052,200	23,981,900	-1,070,300	-4.3
Regulation and Licensing, Dept.	13,746,500	68,190,800	54,444,300	396.1
Revenue, Dept.	180,586,600	173,725,600	-6,861,000	-3.8
Secretary of State	725,700	513,600	-212,100	-29.2
Shared Revenue and Tax Relief	2,397,352,000	2,419,508,600	22,156,600	0.9
State Fair Park Board	18,738,200	18,726,000	-12,200	-0.1
Supreme Court	31,260,400	30,053,700	-1,206,700	-3.9
Technical College System	185,850,300	146,295,300	-39,555,000	-21.3
Tourism, Dept.	13,974,600	16,587,600	2,613,000	18.7
Transportation, Dept.	2,813,000,800	2,694,638,100	-118,362,700	-4.2
Treasurer, State	7,445,700	4,861,100	-2,584,600	-34.7
University of Wisconsin-Madison	0	493,632,200	493,632,200	0.0
UW Hospitals & Clinics Board	153,739,500	0	-153,739,500	-100.0
University of Wisconsin System	5,412,493,400	2,735,197,600	-2,677,295,800	-49.5
Veterans Affairs, Dept.	142,725,600	132,704,000	-10,021,600	-7.0
WHEDA	0	40,709,100	40,709,100	0.0
Wisconsin Economic Development Corporation	0	98,845,500	98,845,500	0.0
Workforce Development, Dept.	<u>349,364,500</u>	<u>335,661,000</u>	<u>-13,703,500</u>	<u>-3.9</u>
TOTALS	31,746,280,800	29,260,728,100	-2,485,552,700	-7.8

APPENDIX 2
Summary of All Funds Appropriations
Governor's Recommendation – FY13

	<u>FY 12</u> <u>Recommended</u>	<u>FY 13</u> <u>Recommended</u>	<u>Change From</u> <u>FY 12 (Amt)</u>	<u>Change</u> <u>Percent</u>
Administration, Dept.	919,309,500	1,176,391,500	257,082,000	28.0
Aging and Long-Term Care, Board	2,544,800	2,544,800	0	0.0
Agriculture, Trade, and Consumer Protection,	103,628,500	105,926,900	2,298,400	2.2
Arts Board	0	0	0	0.0
Building Commission	15,709,300	50,485,400	34,776,100	221.4
Child Abuse and Neglect Prev.	2,970,700	2,970,700	0	0.0
Children and Families, Dept.	1,256,132,900	1,220,371,800	-35,761,100	-2.8
Circuit Courts	90,382,400	90,481,100	98,700	0.1
Commerce, Dept.	0	0	0	0.0
Corrections, Dept.	1,208,898,200	1,272,775,600	63,877,400	5.3
Court of Appeals	10,016,400	10,016,400	0	0.0
District Attorneys	46,339,900	45,996,500	-343,400	-0.7
Educational Communications Board	16,949,100	19,161,800	2,212,700	13.1
Employee Trust Funds, Dept.	31,901,000	31,139,200	-761,800	-2.4
Employment Relations Commission	3,198,000	3,198,000	0	0.0
Environmental Improvement Program	23,874,100	47,286,000	23,411,900	98.1
Financial Institutions, Dept.	17,606,900	17,649,600	42,700	0.2
Fox River Navigational System Authority	125,400	125,400	0	0.0
Government Accountability Bd.	4,718,000	5,398,200	680,200	14.4
Governor's Office	4,144,700	4,144,700	0	0.0
Health and Educational Facilities Authority	0	0	0	0.0
Health Services, Dept.	8,778,640,100	8,725,655,000	-52,985,100	-0.6
Higher Educational Aids Board	150,087,800	160,712,000	10,624,200	7.1
Historical Society	19,879,700	21,638,900	1,759,200	8.8
Insurance, Commissioner	103,937,300	103,937,300	0	0.0
Investment Board	28,888,600	28,888,600	0	0.0
Judicial Commission	358,300	290,900	-67,400	-18.8
Judicial Council	127,700	127,700	0	0.0
Justice, Dept.	88,450,800	88,370,400	-80,400	-0.1
Legislature	75,276,800	75,278,600	1,800	0.0
Lieutenant Governor	393,500	393,500	0	0.0
Lower Fox River Remediation Authority	0	0	0	0.0
Lower WI State Riverway Board	202,600	202,600	0	0.0
Medical College of Wisconsin	6,071,000	7,938,900	1,867,900	30.8
Military Affairs, Dept.	79,632,700	82,987,200	3,354,500	4.2
Miscellaneous Appropriations	152,506,300	129,475,700	-23,030,600	-15.1
Natural Resources, Dept.	475,667,600	540,989,000	65,321,400	13.7
Office of State Employment Relations	5,678,100	5,643,100	-35,000	-0.6
People with Developmental Disabilities, Bd.	1,301,700	1,301,700	0	0.0
Program Supplements	50,519,300	4,885,300	-45,634,000	-90.3
Public Defender Board	81,655,600	83,370,300	1,714,700	2.1
Public Instruction, Dept.	5,967,623,900	5,985,690,900	18,067,000	0.3
Public Lands	1,547,200	1,547,200	0	0.0
Public Service Commission	23,981,900	23,981,900	0	0.0
Regulation and Licensing, Dept.	68,190,800	68,190,800	0	0.0
Revenue, Dept.	173,725,600	173,489,500	-236,100	-0.1
Secretary of State	513,600	513,600	0	0.0
Shared Revenue and Tax Relief	2,419,508,600	2,365,255,100	-54,253,500	-2.2
State Fair Park Board	18,726,000	21,147,300	2,421,300	12.9
Supreme Court	30,053,700	30,025,000	-28,700	-0.1
Technical College System	146,295,300	146,295,300	0	0.0
Tourism, Dept.	16,587,600	18,931,700	2,344,100	14.1
Transportation, Dept.	2,694,638,100	2,953,783,900	259,145,800	9.6
Treasurer, State	4,861,100	4,861,100	0	0.0
University of Wisconsin-Madison	493,632,200	582,609,500	88,977,300	18.0
UW Hospitals & Clinics Board	0	0	0	0.0
University of Wisconsin System	2,735,197,600	2,830,576,800	95,379,200	3.5
Veterans Affairs, Dept.	132,704,000	139,816,100	7,112,100	5.4
WHEDA	40,709,100	40,709,100	0	0.0
Wisconsin Economic Development Corporation	98,845,500	97,501,400	-1,344,100	-1.4
Workforce Development, Dept.	<u>335,661,000</u>	<u>331,238,100</u>	<u>-4,422,900</u>	<u>-1.3</u>
TOTALS	29,260,728,100	29,984,314,600	723,586,500	2.5

APPENDIX 3
Summary of GPR Appropriations
Governor's Recommendations – FY12

	<u>FY 11 Base</u>	<u>FY 12 Recommended</u>	<u>Change From Base (Amt)</u>	<u>Change Percent</u>
Administration, Dept.	386,207,700	381,345,300	-4,862,400	-1.3
Aging and Long-Term Care, Board	1,016,900	1,077,200	60,300	5.9
Agriculture, Trade, and Consumer Protection,	27,311,200	26,186,800	-1,124,400	-4.1
Arts Board	2,417,700	0	-2,417,700	-100.0
Building Commission	25,283,100	12,502,100	-12,781,000	-50.6
Child Abuse and Neglect Prev.	1,107,600	999,600	-108,000	-9.8
Children and Families, Dept.	346,928,600	495,954,700	149,026,100	43.0
Circuit Courts	95,790,000	90,248,400	-5,541,600	-5.8
Commerce, Dept.	26,824,100	0	-26,824,100	-100.0
Corrections, Dept.	1,145,678,800	1,092,180,900	-53,497,900	-4.7
Court of Appeals	10,162,000	10,016,400	-145,600	-1.4
District Attorneys	42,289,100	41,684,600	-604,500	-1.4
Educational Communications Board	7,833,300	5,797,900	-2,035,400	-26.0
Employee Trust Funds, Dept.	671,600	555,200	-116,400	-17.3
Employment Relations Commission	2,570,200	2,574,800	4,600	0.2
Environmental Improvement Program	47,374,800	15,874,100	-31,500,700	-66.5
Financial Institutions, Dept.	0	0	0	0.0
Fox River Navigational System Authority	0	0	0	0.0
Government Accountability Bd.	2,437,600	2,627,000	189,400	7.8
Governor's Office	4,233,200	4,144,700	-88,500	-2.1
Health and Educational Facilities Authority	0	0	0	0.0
Health Services, Dept.	2,132,224,600	2,645,359,500	513,134,900	24.1
Higher Educational Aids Board	160,144,700	147,285,300	-12,859,400	-8.0
Historical Society	13,498,200	12,178,700	-1,319,500	-9.8
Insurance, Commissioner	0	0	0	0.0
Investment Board	0	0	0	0.0
Judicial Commission	245,800	358,300	112,500	45.8
Judicial Council	127,600	127,700	100	0.1
Justice, Dept.	41,579,800	41,084,300	-495,500	-1.2
Legislature	72,689,600	73,342,500	652,900	0.9
Lieutenant Governor	390,800	393,500	2,700	0.7
Lower Fox River Remediation Authority	0	0	0	0.0
Lower WI State Riverway Board	0	0	0	0.0
Medical College of Wisconsin	6,736,200	5,823,500	-912,700	-13.5
Military Affairs, Dept.	22,960,800	19,542,000	-3,418,800	-14.9
Miscellaneous Appropriations	129,912,900	124,200,700	-5,712,200	-4.4
Natural Resources, Dept.	119,601,700	63,494,300	-56,107,400	-46.9
Office of State Employment Relations	0	0	0	0.0
People with Developmental Disabilities, Bd.	19,800	25,900	6,100	30.8
Program Supplements	14,677,000	50,519,300	35,842,300	244.2
Public Defender Board	76,775,100	80,366,100	3,591,000	4.7
Public Instruction, Dept.	5,487,973,700	5,085,024,800	-402,948,900	-7.3
Public Lands	0	0	0	0.0
Public Service Commission	0	0	0	0.0
Regulation and Licensing, Dept.	0	2,873,100	2,873,100	0.0
Revenue, Dept.	95,648,700	91,107,800	-4,540,900	-4.7
Secretary of State	0	0	0	0.0
Shared Revenue and Tax Relief	2,196,487,400	2,188,182,600	-8,304,800	-0.4
State Fair Park Board	2,363,100	1,196,600	-1,166,500	-49.4
Supreme Court	14,842,100	14,442,700	-399,400	-2.7
Technical College System	144,590,700	108,247,300	-36,343,400	-25.1
Tourism, Dept.	2,876,500	3,502,100	625,600	21.7
Transportation, Dept.	76,374,600	43,066,300	-33,308,300	-43.6
Treasurer, State	0	0	0	0.0
University of Wisconsin-Madison	0	377,696,000	377,696,000	0.0
UW Hospitals & Clinics Board	0	0	0	0.0
University of Wisconsin System	1,149,513,300	574,914,700	-574,598,600	-50.0
Veterans Affairs, Dept.	2,244,500	1,573,300	-671,200	-29.9
WHEDA	0	5,063,000	5,063,000	0.0
Wisconsin Economic Development Corporation	0	18,743,700	18,743,700	0.0
Workforce Development, Dept.	<u>24,946,800</u>	<u>23,921,100</u>	<u>-1,025,700</u>	<u>-4.1</u>
TOTALS	14,165,583,500	13,987,426,400	-178,157,100	-1.3

APPENDIX 4
Summary of GPR Appropriations
Governor's Recommendations – FY13

	<u>FY 12</u> <u>Recommended</u>	<u>FY 13</u> <u>Recommended</u>	<u>Change From</u> <u>FY 12 (Amt)</u>	<u>Change</u> <u>Percent</u>
Administration, Dept.	381,345,300	643,082,300	261,737,000	68.6
Aging and Long-Term Care, Board	1,077,200	1,077,200	0	0.0
Agriculture, Trade, and Consumer Arts Board	26,186,800	27,977,100	1,790,300	6.8
Arts Board	0	0	0	0.0
Building Commission	12,502,100	46,447,900	33,945,800	271.5
Child Abuse and Neglect Prev.	999,600	999,600	0	0.0
Children and Families, Dept.	495,954,700	505,903,400	9,948,700	2.0
Circuit Courts	90,248,400	90,248,400	0	0.0
Commerce, Dept.	0	0	0	0.0
Corrections, Dept.	1,092,180,900	1,155,644,500	63,463,600	5.8
Court of Appeals	10,016,400	10,016,400	0	0.0
District Attorneys	41,684,600	41,684,600	0	0.0
Educational Communications Board	5,797,900	8,010,900	2,213,000	38.2
Employee Trust Funds, Dept.	555,200	460,600	-94,600	-17.0
Employment Relations Commission	2,574,800	2,574,800	0	0.0
Environmental Improvement Program	15,874,100	39,286,000	23,411,900	147.5
Financial Institutions, Dept.	0	0	0	0.0
Fox River Navigational System Authority	0	0	0	0.0
Government Accountability Bd.	2,627,000	2,664,700	37,700	1.4
Governor's Office	4,144,700	4,144,700	0	0.0
Health and Educational Facilities Authority	0	0	0	0.0
Health Services, Dept.	2,645,359,500	2,614,886,100	-30,473,400	-1.2
Higher Educational Aids Board	147,285,300	157,909,500	10,624,200	7.2
Historical Society	12,178,700	13,943,800	1,765,100	14.5
Insurance, Commissioner	0	0	0	0.0
Investment Board	0	0	0	0.0
Judicial Commission	358,300	290,900	-67,400	-18.8
Judicial Council	127,700	127,700	0	0.0
Justice, Dept.	41,084,300	41,113,200	28,900	0.1
Legislature	73,342,500	73,327,500	-15,000	0.0
Lieutenant Governor	393,500	393,500	0	0.0
Lower Fox River Remediation Authority	0	0	0	0.0
Lower WI State Riverway Board	0	0	0	0.0
Medical College of Wisconsin	5,823,500	7,691,400	1,867,900	32.1
Military Affairs, Dept.	19,542,000	23,896,500	4,354,500	22.3
Miscellaneous Appropriations	124,200,700	100,894,300	-23,306,400	-18.8
Natural Resources, Dept.	63,494,300	129,673,300	66,179,000	104.2
Office of State Employment Relations	0	0	0	0.0
People with Developmental Disabilities, Bd.	25,900	25,900	0	0.0
Program Supplements	50,519,300	4,885,300	-45,634,000	-90.3
Public Defender Board	80,366,100	82,080,800	1,714,700	2.1
Public Instruction, Dept.	5,085,024,800	5,120,426,200	35,401,400	0.7
Public Lands	0	0	0	0.0
Public Service Commission	0	0	0	0.0
Regulation and Licensing, Dept.	2,873,100	2,873,100	0	0.0
Revenue, Dept.	91,107,800	91,107,800	0	0.0
Secretary of State	0	0	0	0.0
Shared Revenue and Tax Relief	2,188,182,600	2,131,795,600	-56,387,000	-2.6
State Fair Park Board	1,196,600	3,363,800	2,167,200	181.1
Supreme Court	14,442,700	14,414,000	-28,700	-0.2
Technical College System	108,247,300	108,247,300	0	0.0
Tourism, Dept.	3,502,100	5,846,200	2,344,100	66.9
Transportation, Dept.	43,066,300	268,774,300	225,708,000	524.1
Treasurer, State	0	0	0	0.0
University of Wisconsin-Madison	377,696,000	462,233,100	84,537,100	22.4
UW Hospitals & Clinics Board	0	0	0	0.0
University of Wisconsin System	574,914,700	639,136,400	64,221,700	11.2
Veterans Affairs, Dept.	1,573,300	2,516,200	942,900	59.9
WHEDA	5,063,000	5,063,000	0	0.0
Wisconsin Economic Development Corporation	18,743,700	16,399,600	-2,344,100	-12.5
Workforce Development, Dept.	23,921,100	23,921,100	0	0.0
TOTALS	13,987,426,400	14,727,480,500	740,054,100	5.3

APPENDIX 5
Summary of All Funds Positions
Governor's Recommendations – FY12

	<u>FY 11 Base</u>	<u>FY 12 Recommended</u>	<u>Change From Base (FTE)</u>
Administration, Dept.	1,058.42	983.77	-74.7
Aging and Long-Term Care, Board	35.00	33.00	-2.0
Agriculture, Trade, and Consumer Protection,	599.32	591.39	-7.9
Arts Board	10.00	0.00	-10.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	7.00	6.00	-1.0
Children and Families, Dept.	692.71	690.05	-2.7
Circuit Courts	527.00	527.00	0.0
Commerce, Dept.	392.85	0.00	-392.9
Corrections, Dept.	10,594.22	10,261.37	-332.9
Court of Appeals	75.50	75.50	0.0
District Attorneys	436.10	423.65	-12.5
Educational Communications Board	62.18	56.68	-5.5
Employee Trust Funds, Dept.	243.20	249.70	6.5
Employment Relations Commission	26.00	25.50	-0.5
Environmental Improvement Program	0.00	0.00	0.0
Financial Institutions, Dept.	135.54	136.54	1.0
Fox River Navigational System Authority	0.00	0.00	0.0
Government Accountability Bd.	17.75	17.75	0.0
Governor's Office	37.25	37.25	0.0
Health and Educational Facilities Authority	0.00	0.00	0.0
Health Services, Dept.	5,574.71	5,686.51	111.8
Higher Educational Aids Board	10.50	11.00	0.5
Historical Society	143.54	125.54	-18.0
Insurance, Commissioner	144.00	143.00	-1.0
Investment Board	124.25	124.25	0.0
Judicial Commission	2.00	2.00	0.0
Judicial Council	1.00	1.00	0.0
Justice, Dept.	595.39	588.99	-6.4
Legislature	777.97	777.97	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower Fox River Remediation Authority	0.00	0.00	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.	433.36	417.31	-16.1
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	2,709.22	2,639.94	-69.3
Office of State Employment Relations	55.50	48.65	-6.9
People with Developmental Disabilities, Bd.	7.75	6.25	-1.5
Program Supplements	0.00	0.00	0.0
Public Defender Board	580.85	579.85	-1.0
Public Instruction, Dept.	634.29	615.62	-18.7
Public Lands	8.50	8.50	0.0
Public Service Commission	167.00	151.00	-16.0
Regulation and Licensing, Dept.	122.32	379.60	257.3
Revenue, Dept.	1,114.43	1,036.08	-78.4
Secretary of State	7.50	4.00	-3.5
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	38.90	38.90	0.0
Supreme Court	220.75	219.75	-1.0
Technical College System	82.30	63.00	-19.3
Tourism, Dept.	34.45	35.00	0.5
Transportation, Dept.	3,495.48	3,346.52	-149.0
Treasurer, State	14.70	9.95	-4.8
University of Wisconsin-Madison	0.00	0.00	0.0
UW Hospitals & Clinics Board	2,609.38	0.00	-2,609.4
University of Wisconsin System	33,501.34	16,081.05	-17,420.3
Veterans Affairs, Dept.	1,113.10	1,092.60	-20.5
WHEDA	0.00	0.00	0.0
Wisconsin Economic Development Corporation	0.00	0.00	0.0
Workforce Development, Dept.	<u>1,828.09</u>	<u>1,561.48</u>	<u>-266.6</u>
TOTALS	71,108.61	49,916.46	-21,192.1

APPENDIX 6
Summary of All Funds Positions
Governor's Recommendations – FY13

	<u>FY 12</u> <u>Recommended</u>	<u>FY 13</u> <u>Recommended</u>	<u>Change From</u> <u>FY 12 (FTE)</u>
Administration, Dept.	983.77	969.51	-14.3
Aging and Long-Term Care, Board	33.00	33.00	0.0
Agriculture, Trade, and Consumer Protection,	591.39	597.39	6.0
Arts Board	0.00	0.00	0.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	6.00	6.00	0.0
Children and Families, Dept.	690.05	691.05	1.0
Circuit Courts	527.00	527.00	0.0
Commerce, Dept.	0.00	0.00	0.0
Corrections, Dept.	10,261.37	10,253.37	-8.0
Court of Appeals	75.50	75.50	0.0
District Attorneys	423.65	420.90	-2.8
Educational Communications Board	56.68	56.68	0.0
Employee Trust Funds, Dept.	249.70	249.70	0.0
Employment Relations Commission	25.50	25.50	0.0
Environmental Improvement Program	0.00	0.00	0.0
Financial Institutions, Dept.	136.54	136.54	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Government Accountability Bd.	17.75	17.75	0.0
Governor's Office	37.25	37.25	0.0
Health and Educational Facilities Authority	0.00	0.00	0.0
Health Services, Dept.	5,686.51	5,677.25	-9.3
Higher Educational Aids Board	11.00	11.00	0.0
Historical Society	125.54	125.54	0.0
Insurance, Commissioner	143.00	143.00	0.0
Investment Board	124.25	124.25	0.0
Judicial Commission	2.00	2.00	0.0
Judicial Council	1.00	1.00	0.0
Justice, Dept.	588.99	590.99	2.0
Legislature	777.97	777.97	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower Fox River Remediation Authority	0.00	0.00	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.	417.31	416.31	-1.0
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	2,639.94	2,636.94	-3.0
Office of State Employment Relations	48.65	48.65	0.0
People with Developmental Disabilities, Bd.	6.25	6.25	0.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	579.85	579.85	0.0
Public Instruction, Dept.	615.62	610.12	-5.5
Public Lands	8.50	8.50	0.0
Public Service Commission	151.00	151.00	0.0
Regulation and Licensing, Dept.	379.60	379.60	0.0
Revenue, Dept.	1,036.08	1,036.08	0.0
Secretary of State	4.00	4.00	0.0
Shared Revenue and Tax Relief	0.00	0.00	0.0
State Fair Park Board	38.90	39.90	1.0
Supreme Court	219.75	219.75	0.0
Technical College System	63.00	63.00	0.0
Tourism, Dept.	35.00	35.00	0.0
Transportation, Dept.	3,346.52	3,286.52	-60.0
Treasurer, State	9.95	9.95	0.0
University of Wisconsin-Madison	0.00	0.00	0.0
UW Hospitals & Clinics Board	0.00	0.00	0.0
University of Wisconsin System	16,081.05	16,081.05	0.0
Veterans Affairs, Dept.	1,092.60	1,092.60	0.0
WHEDA	0.00	0.00	0.0
Wisconsin Economic Development Corporation	0.00	0.00	0.0
Workforce Development, Dept.	<u>1,561.48</u>	<u>1,522.98</u>	<u>-38.5</u>
TOTALS	49,916.46	49,784.19	-132.3

APPENDIX 7
Summary of GPR Positions
Governor's Recommendations – FY12

	<u>FY 11 Base</u>	<u>FY 12 Recommended</u>	<u>Change From Base (FTE)</u>
Administration, Dept.	91.46	89.58	-1.9
Aging and Long-Term Care, Board	15.53	14.73	-0.8
Agriculture, Trade, and Consumer Protection,	205.50	206.50	1.0
Arts Board	4.00	0.00	-4.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	1.00	1.00	0.0
Children and Families, Dept.	218.03	217.69	-0.3
Circuit Courts	527.00	527.00	0.0
Commerce, Dept.	59.15	0.00	-59.2
Corrections, Dept.	9,679.57	9,654.22	-25.4
Court of Appeals	75.50	75.50	0.0
District Attorneys	380.90	380.90	0.0
Educational Communications Board	37.44	35.14	-2.3
Employee Trust Funds, Dept.	0.00	0.00	0.0
Employment Relations Commission	21.00	20.50	-0.5
Environmental Improvement Program	0.00	0.00	0.0
Financial Institutions, Dept.	0.00	0.00	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Government Accountability Bd.	14.30	14.30	0.0
Governor's Office	37.25	37.25	0.0
Health and Educational Facilities Authority	0.00	0.00	0.0
Health Services, Dept.	2,229.72	2,344.29	114.6
Higher Educational Aids Board	10.50	11.00	0.5
Historical Society	106.15	99.15	-7.0
Insurance, Commissioner	0.00	0.00	0.0
Investment Board	0.00	0.00	0.0
Judicial Commission	2.00	2.00	0.0
Judicial Council	1.00	1.00	0.0
Justice, Dept.	367.08	374.08	7.0
Legislature	758.17	758.17	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower Fox River Remediation Authority	0.00	0.00	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.	88.82	80.63	-8.2
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	300.69	268.10	-32.6
Office of State Employment Relations	0.00	0.00	0.0
People with Developmental Disabilities, Bd.	0.00	0.00	0.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	575.85	574.85	-1.0
Public Instruction, Dept.	261.46	250.25	-11.2
Public Lands	0.00	0.00	0.0
Public Service Commission	0.00	0.00	0.0
Regulation and Licensing, Dept.	0.00	4.00	4.0
Revenue, Dept.	892.73	848.28	-44.5
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	115.50	114.50	-1.0
Technical College System	30.25	23.25	-7.0
Tourism, Dept.	30.45	30.00	-0.4
Transportation, Dept.	0.00	0.00	0.0
Treasurer, State	0.00	0.00	0.0
University of Wisconsin-Madison	0.00	0.00	0.0
UW Hospitals & Clinics Board	0.00	0.00	0.0
University of Wisconsin System	18,483.93	11,447.50	-7,036.4
Veterans Affairs, Dept.	0.00	0.00	0.0
WHEDA	0.00	0.00	0.0
Wisconsin Economic Development Corporation	0.00	0.00	0.0
Workforce Development, Dept.	<u>135.73</u>	<u>126.46</u>	<u>-9.3</u>
TOTALS	35,761.66	28,635.82	-7,125.8

APPENDIX 8
Summary of GPR Positions
Governor's Recommendations – FY13

	<u>FY 12</u> <u>Recommended</u>	<u>FY 13</u> <u>Recommended</u>	<u>Change From</u> <u>FY 12 (FTE)</u>
Administration, Dept.	89.58	89.20	-0.4
Aging and Long-Term Care, Board	14.73	14.73	0.0
Agriculture, Trade, and Consumer Protection,	206.50	209.50	3.0
Arts Board	0.00	0.00	0.0
Building Commission	0.00	0.00	0.0
Child Abuse and Neglect Prev.	1.00	1.00	0.0
Children and Families, Dept.	217.69	217.69	0.0
Circuit Courts	527.00	527.00	0.0
Commerce, Dept.	0.00	0.00	0.0
Corrections, Dept.	9,654.22	9,654.22	0.0
Court of Appeals	75.50	75.50	0.0
District Attorneys	380.90	380.90	0.0
Educational Communications Board	35.14	35.14	0.0
Employee Trust Funds, Dept.	0.00	0.00	0.0
Employment Relations Commission	20.50	20.50	0.0
Environmental Improvement Program	0.00	0.00	0.0
Financial Institutions, Dept.	0.00	0.00	0.0
Fox River Navigational System Authority	0.00	0.00	0.0
Government Accountability Bd.	14.30	14.30	0.0
Governor's Office	37.25	37.25	0.0
Health and Educational Facilities Authority	0.00	0.00	0.0
Health Services, Dept.	2,344.29	2,344.29	0.0
Higher Educational Aids Board	11.00	11.00	0.0
Historical Society	99.15	99.15	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
Judicial Council	1.00	1.00	0.0
Justice, Dept.	374.08	377.08	3.0
Legislature	758.17	758.17	0.0
Lieutenant Governor	4.00	4.00	0.0
Lower Fox River Remediation Authority	0.00	0.00	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.	80.63	80.63	0.0
Miscellaneous Appropriations	0.00	0.00	0.0
Natural Resources, Dept.	268.10	291.10	23.0
Office of State Employment Relations	0.00	0.00	0.0
People with Developmental Disabilities, Bd.	0.00	0.00	0.0
Program Supplements	0.00	0.00	0.0
Public Defender Board	574.85	574.85	0.0
Public Instruction, Dept.	250.25	250.25	0.0
Public Lands	0.00	0.00	0.0
Public Service Commission	0.00	0.00	0.0
Regulation and Licensing, Dept.	4.00	4.00	0.0
Revenue, Dept.	848.28	848.28	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	114.50	114.50	0.0
Technical College System	23.25	23.25	0.0
Tourism, Dept.	30.00	30.00	0.0
Transportation, Dept.	0.00	0.00	0.0
Treasurer, State	0.00	0.00	0.0
University of Wisconsin-Madison	0.00	0.00	0.0
UW Hospitals & Clinics Board	0.00	0.00	0.0
University of Wisconsin System	11,447.50	11,447.50	0.0
Veterans Affairs, Dept.	0.00	0.00	0.0
WHEDA	0.00	0.00	0.0
Wisconsin Economic Development Corporation	0.00	0.00	0.0
Workforce Development, Dept.	<u>126.46</u>	<u>126.46</u>	<u>0.0</u>
TOTALS	28,635.82	28,664.44	28.6

ABOUT THE BUDGET DOCUMENTS

The 2011-13 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.

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 2009-10.

The Executive Budget, Budget in Brief and Budget Message can be found on the Internet at: www.doa.state.wi.us/executivebudget.

The Summary of Tax Exemption Devices can be found on the Internet at: <http://www.revenue.wi.gov/report/index.html>.

The state's Publishing Services Center printed and bound the documents.