



JIM DOYLE

**Governor
State of Wisconsin**

To the Honorable Members of the Assembly:

I have approved Special Session Assembly Bill 1 as 2007 Wisconsin Act 226 and deposited it in the Office of the Secretary of State.

In February 2008, the Legislative Fiscal Bureau issued revisions to the revenue estimates that were used in developing the 2007-09 biennial budget which I signed in October 2007. Those revisions reflected a slowdown in the national economy brought on by a credit crisis in financial markets and higher commodity and fuel prices. The effect of this economic downturn was an estimated \$652 million deficit by the end of the biennium.

My administration took immediate action to reduce this projected deficit by rolling over repayment of short-term borrowing and ordering immediate cuts in cabinet agencies' state operations funding. In early March, as required by law, I introduced Special Session Assembly Bill 1 to bring the state budget back into balance.

I appreciate the Legislature's efforts in responding to the budget deficit. The leaders of both houses did what they could to forge a bipartisan agreement on budget repair legislation. I do not agree with all of those compromises, particularly the continued refusal by Assembly Republicans to secure Wisconsin's fair share of federal Medicaid revenues through a hospital assessment despite the overwhelming support of the state's major business and hospital

associations. This continued shortsightedness reflects a missed opportunity that would have helped the Legislature avoid the accounting tricks I have had to correct through my vetoes.

When I first took office in January 2003, I inherited a \$3.2 billion budget deficit. I closed that deficit by prioritizing spending and protecting the taxpayer. I applied those same principles in the bill I introduced in March and in the vetoes I have made to the final bill.

First and foremost, we cannot solve our problems by not paying our bills. Delaying a school aid payment weakens Wisconsin's financial balance sheet, and more importantly, creates the risk of a significant cut to education in the next biennial budget. I have always been clear that education is my top priority because it is Wisconsin's top priority.

Second, we must look to reduce spending from previously authorized levels in the face of a budget deficit. The Legislature proposed a modest lapse of \$69 million. My budget proposed a \$330 million lapse, offset by \$190 million of GPR-supported general obligation bonds for transportation. Through my vetoes, I will authorize a \$270 million lapse to bring the budget back into balance.

In addition, when facing a budget deficit, it does not make sense to also authorize large spending increases. For example, prior to the budget repair bill, spending for transportation was approximately \$350 million (15 percent) higher in this two-year budget compared with the last biennium. In the budget repair bill, the Legislature spends an additional \$180 million to provide a total increase of approximately \$530 million (22 percent) compared with the previous biennium. After vetoes, the budget repair bill I am signing today retains two of the Legislature's major increases in state spending – \$18.6 million GPR to address caseload increases in the

state's child care subsidy program and \$24.8 million SEG to address higher county highway maintenance costs brought on by one of the worst winters in Wisconsin history. Other spending in the bill and increases provided in 2007 Wisconsin Act 20 will be scaled back in order to protect priorities and meet the \$270 million lapse goal.

Third, we must seek to maximize cost savings in state government. In my 2007-09 budget, I proposed taking advantage of favorable interest rates to refinance tobacco bonds. At that time, this refinancing was estimated to save \$50 million annually to fund increased smoking cessation efforts and to help meet health care costs in the state's Medicaid program. The Legislature included the refinancing plan in Act 20. In the budget repair bill, the Legislature has proposed using state appropriation bonds for this refinancing because this approach will provide even greater interest rate reductions than the Act 20 proposal. I am glad to see that the Legislature agrees with my goal of reducing the cost of the tobacco bonds. However, I do not agree with the Legislature's overreliance on an up-front payment from the refinancing. Therefore, I am directing the Department of Administration secretary to ensure that the tobacco bond refinancing be structured to deliver the greatest economic savings to the state with a more reasonable up-front savings amount.

Finally, I have continually sought to improve the state's long-term financial condition by increasing the state's budget reserves. The Legislature's proposed \$25 million reserve is not prudent under good economic conditions let alone the current national economic uncertainty and is, in fact, lower than amounts kept in reserve after addressing the \$3.2 billion deficit. Through my vetoes, I have restored the \$65 million statutory balance and maintained an overall general fund reserve of approximately \$100 million.

In previous sessions and in Act 20, the Legislature and I have significantly reduced the number of major nonfiscal policy items in budget bills. Unfortunately, this budget repair bill includes a major policy item related to property tax exemptions for low-income housing. While this legislation has a laudable goal, it demands a full public hearing and legislative debate. I look forward to the Legislature putting a low-income housing bill on my desk that is faithful to the legislative committee and public hearing process.

The following is a brief summary of how this budget repair legislation, including my vetoes, will address some of the key issues facing the citizens of Wisconsin:

- Addresses the \$652 million deficit by scaling back spending increases, reducing the cost of borrowing and avoiding tax increases.
- Protects schools from possible future budget cuts and improves the state's long-term fiscal condition by maintaining the current law school aid payment schedule.
- Restores the \$65 million statutory balance, leaves an overall reserve of \$100 million, and maintains the requirement to transfer unanticipated revenues to the budget stabilization fund.
- Authorizes the Department of Administration secretary to lapse \$270 million over the biennium from state agency appropriations. This amount is in addition to the \$200 million lapse authority included in Act 20.

- Protects transportation-related investments and jobs by appropriating transportation revenue bond proceeds to address the \$27.5 million deficit in the transportation fund, allocating \$77 million in new federal funding for major highway construction and state highway rehabilitation projects, providing \$24.8 million for unforeseen winter maintenance costs, and authorizing \$50 million of GPR-supported general obligation bonds for highway rehabilitation projects to help reduce the impact of state agency lapses on the highway program.
- Funds unanticipated caseload growth in the state's child care subsidy program by providing \$18.6 million GPR in fiscal year 2007-08. In light of this funding increase, the Department of Workforce Development will remove the current emergency rule related to attendance-based reimbursement of providers. However, the department's authority to implement rules to base provider reimbursement on attendance is maintained in order to address any unanticipated caseload growth in fiscal year 2008-09.
- Improves the economic savings associated with the Act 20 tobacco refinancing by authorizing state appropriation bonds to replace bonds sold in 2002 by the Badger Tobacco Asset Securitization Corporation.
- Increases the current law funding of \$15 million annually for smoking cessation by \$250,000 in fiscal year 2008-09.
- Closes an unacceptable tax loophole used by multinational corporations to shift profits out of the state to avoid paying Wisconsin taxes.

- Maintains funding to implement the federal REAL ID mandate by vetoing the Legislature's transfer of \$20 million in driver license fee revenue from the transportation fund to the general fund.
- Improves consumer protection by expanding the state's No Call List to include cell phones.
- Includes the following provisions: requires school districts that are phasing in 4-year-old kindergarten to offer the program to all eligible pupils by the 2013-14 school year; clarifies utility aid hold harmless payments; authorizes retired public safety officer annuity payments for health and long-term care insurance; defines custody for purposes of penalties related to escape from probation, parole and extended supervision; exempts nonprofit youth camps from certain town assessments; increases fees for nonresident snowmobile trail use stickers; prohibits the transporting of invasive fish species; and clarifies Act 20 provisions related to long-term care insurance agent training.

Regarding a provision associated with interest expense addback requirements for corporations, I concur with the Legislature's intent that this does not apply to legitimate intra-company loans where both entities of the company are subject to Wisconsin income tax. Some concerns have been raised regarding the interpretation of this language and I am requesting the Department of Revenue secretary ensure that companies are not, in effect, taxed twice due to this provision.

I have used my veto authority to craft a final bill that, while not addressing every issue, protects our priorities and improves the state's financial condition.

On Wisconsin.

Respectfully submitted,

JIM DOYLE
Governor

Date: May 16, 2008

