

JIM DOYLE

Governor State of Wisconsin

To the Honorable Members of the Senate:

I have approved Senate Bill 40 as 2007 Wisconsin Act 20 and deposited it in the Office of the Secretary of State.

My budget recommendations for the 2007-09 biennium were delivered to the Legislature on February 13, 2007. In that budget, I set forth goals to ensure opportunity for Wisconsin citizens and stronger management of the state's financial resources. Over eight months later, the bipartisan budget I am signing today meets those goals.

The budget is balanced and has a surplus of \$120 million by the end of the biennium. Future commitments to tax cuts and new spending total less than \$900 million. This represents a \$600 million reduction from the prior biennium, and over two-thirds lower than the gap I inherited in January 2003. Use of one-time funding in this budget is nearly 50 percent less than last budget and over \$1.5 billion less than four years ago.

Emerging from the largest budget deficit in state history required a steady and disciplined commitment to fiscal responsibility. My first two budgets cut nearly \$800 million from state agency spending. The budget I introduced in February cut state agency budget requests by over \$400 million and the budget I am signing today cuts state operations an additional \$200 million over the next two years. Implementing these reductions will require continued effective and efficient operation of state government programs. Many of the vetoes I have

made to the budget seek to reduce unnecessary reporting requirements and duplicative legislative oversight that would otherwise impede the cost-effective operation of executive branch agencies.

This budget protects the taxpayer. Over \$2 billion in tax cuts are either funded in the budget or phased-in over the next four years. By continuing tough municipal levy limits, property taxes on the typical home are held in check – growing at the rate of inflation this year and at about \$14 (0.5%) next year. Residential property tax relief is further enhanced through a new "first dollar" tax credit that exempts from school property taxes the first \$4,500 of value on all improved property in the state.

Schools will see an additional \$525 million in direct state aid and school property tax credits in the biennium. Significant investments are made to support small class sizes in early grades, expand 4-year-old kindergarten, implement school breakfast programs, maintain special education services, provide additional property tax relief to school districts that serve communities with high concentrations of poverty, and recognize the unique needs of rural school districts.

One of the top priorities of my administration has been growing Wisconsin's economy. A key catalyst of our economic growth has always been the University of Wisconsin. This budget provides over \$21 million in state support for growth agenda initiatives on University of Wisconsin System campuses. These initiatives will expand our efforts in technology, health care, engineering and other areas critical to our economic success.

The success of our economy requires that all Wisconsin citizens be afforded the opportunity to expand their knowledge through education. I have always made access to higher education a priority. Initiatives in the last two budgets have doubled the amount of funding available for student financial aid. Building on those efforts, this budget implements the Wisconsin Covenant Scholars Program and provides a \$44 million increase in student financial aid, including \$12 million for the Wisconsin GI Bill veterans tuition remission program.

Wisconsin's economic success requires that we continue our efforts to diversify our economy. This budget provides \$22 million for renewable energy grants and loans, expands angel and early stage seed capital investment tax credits and creates a new tax credit for biofuel development. Ensuring our workforce and businesses can maintain a competitive edge is supported by an increase of \$3 million in Workforce Advancement Training grants administered by the Wisconsin Technical College System.

Health care access and costs are a major issue for Wisconsin businesses and families. My budget proposed to ensure that 98 percent of Wisconsin citizens had access to affordable, high-quality care. This budget implements the BadgerCare Plus proposal to cover all children and expands Medicaid coverage to childless adults. Seniors and the disabled will receive comprehensive services in the community by expanding the state's Family Care program. Health care costs are reduced for many in this budget by exempting the entire cost of health insurance premiums paid by families and individuals from state income taxes.

Tobacco-related illnesses create massive costs in our health care system. Experts agree that tax increases on tobacco of at least \$1 per pack, or the equivalent, are the minimum necessary to reduce smoking. This budget includes a \$1 increase in the tobacco tax and a 50 percent

increase in funding for tobacco control and cessation efforts. This revenue increase generates over \$400 million in revenue in support of the state's Medicaid program and will ultimately lead to improved public health through reduced tobacco use.

Wisconsin's quality of life is second to none. Our outdoor recreation activities are boundless. Hunting, fishing, boating, snowmobiling, hiking – Wisconsin has it all. Those opportunities reflect a long legacy of land, natural resource and environmental protection. Holding true to that legacy, this budget reauthorizes the bipartisan Warren Knowles-Gaylord Nelson Stewardship Program for another 10 years. Over \$850 million in bonding is authorized to protect pristine natural areas, expand state parks and help local governments and conservation groups expand recreational and land protection opportunities.

There is no question that Milwaukee is Wisconsin's economic and cultural hub. It is the foundation of our state's strong manufacturing industry. Milwaukee makes Wisconsin better. I have always believed that and this budget makes significant investments toward supporting and improving our state's largest city. New funding includes \$10 million to help increase math and science achievement of Milwaukee Public Schools students, \$17 million in direct school property tax relief, \$9 million in support of increased research efforts at UW-Milwaukee, \$12 million for translational research efforts at the Medical College of Wisconsin and \$1 million for youth summer jobs. Resources are also provided to enhance public safety in Milwaukee, including law enforcement funding, offender treatment, assessment and diversion, and increased youth aids.

Transportation investments are critical to Wisconsin's economic success. Our highways and local roads move tourists, goods, machinery and workers. Our local transit systems seek to

ensure everyone has access to a job. We have critical transportation infrastructure needs in our state. The soon to be completed Marquette Interchange is the best example of the ongoing commitment Wisconsin needs to make. This budget adds over \$400 million in funding for major highways, highway rehabilitation and maintenance, and local transportation and transit aids. The first phase of reconstruction of the north-south I-94 segment in Milwaukee, Racine and Kenosha counties is funded. Resources for preliminary engineering on the Zoo Interchange in Milwaukee County are included in this budget. Rail and harbor funding is provided in recognition of the diversity of means to transport goods and products to and from Wisconsin.

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

K-12 Education

- Provides \$214 million in general and categorical school aid increases over the biennium which, in combination with \$311 million in increases to the school levy and first dollar tax credits and the state's residential schools, will provide school districts the revenues needed to maintain financial resources at the modest levels needed to provide a high-quality public education, maintain the state's commitment to funding two-thirds of school costs and provide property tax relief to Wisconsin's taxpayers.
- Creates a new aid program to provide Milwaukee Public Schools \$10 million to implement research-based initiatives to improve pupil academic achievement in all grades and reduce the achievement gap for economically disadvantaged students.

- Provides \$21 million over the biennium to reduce the property tax burden in high-poverty school districts where at least 50 percent of pupils qualify for free or reduced-price lunch.
- Increases special education aid by \$55.3 million over the biennium, including \$1.8 million for a new program to offset special education costs in high-need school districts. This is one of the largest biennial increases in special education aid in the state's history.
- Provides \$3.6 million in sparsity aid to low enrollment, rural school districts, where offering a comprehensive, high-quality curriculum poses greater fiscal challenges.
- Provides \$26.8 million to fully fund the state's commitment to increase per pupil payments under the Student Achievement Guarantee in Education (SAGE) small class size initiative from \$2,000 to \$2,250 beginning in the 2007-08 school year.
- Acknowledges the importance of school breakfast with increased funding of \$3.3 million over the biennium, raising the state level of reimbursement per breakfast by 50 percent and increasing the incentive for school districts to implement breakfast programs.

University of Wisconsin System and Student Financial Aid

- Recognizes the importance of the University of Wisconsin System to the state's economy by providing \$158 million GPR over the biennium to fund the cost to continue existing academic programs and support services and to initiate a \$29.4 million GPR and tuition-funded growth agenda to increase the number of Wisconsin adults with college degrees and maintain the system's role as a leader in cutting-edge research.

- Provides an additional \$10 million over the biennium to strengthen the University of Wisconsin System's ability to retain high-demand faculty.
- Strengthens Wisconsin's leadership role in medical research by providing \$2.5 million GPR in fiscal year 2008-09 to help support research on lung cancer and \$400,000 GPR over the biennium to support research on islet transplantation, a promising new treatment for Type I (juvenile) diabetes.
- Helps ensure that college remains affordable for lower income Wisconsin residents by increasing financial aid programs by \$32.2 million GPR over the biennium, including a 40 percent increase to funding for higher education grants for University of Wisconsin students.
- Assists the University of Wisconsin and Wisconsin Technical College systems in paying the cost of tuition remissions for Wisconsin veterans and eligible dependents by providing \$11.6 million GPR over the biennium.
- Increases funding to the technical college system by \$3 million GPR over the biennium for Workforce Advancement Training Grants, which help support the kinds of skill development activities that directly benefit Wisconsin workers and employers.
- Maintains the existing controls on technical college district property tax levies to ensure that these colleges can continue to provide the education and training programs critical to Wisconsin's economic vitality.

Workforce Development

- Ensures that access to affordable child care for low-income working families will be maintained by providing \$69 million in additional funding for subsidized child care.
- Ensures the continued quality of the Wisconsin Child Support Enforcement program by providing \$8.4 million GPR. The additional state contribution will offset federal disinvestment in the Child Support Enforcement program and will draw down an additional \$16.3 million in federal matching funds.

Economic Development and Transportation

- Encourages the growth of Wisconsin's renewable energy industry and energy independence by providing \$22 million over the biennium for the Renewable Energy Grant and Loan Program.
- Targets \$7 million from the Renewable Energy Grant and Loan Program for grants and loans to assist a pulp and paper mill to emerge from bankruptcy and provides \$4 million over the biennium for grants for the construction of soybean crushing facilities.
- Increases recycling grants to municipal and county governments by \$6.5 million per year to offset a portion of recycling expenses.
- Improves skilled employment opportunities for high school students by doubling funding for the Youth Apprenticeship Program, which partners local schools with businesses.

- Increases support for organizations operating homeless shelters and providing transitional housing assistance by \$2 million over the biennium.
- Improves highway safety and supports economic development by providing over \$2 billion for state highway construction and rehabilitation projects over the biennium. This includes a 9.6 percent increase in fiscal year 2007-08 and 3.1 percent in fiscal year 2008-09 for state highway rehabilitation and a 5.2 percent increase in fiscal year 2007-08 and 2.7 percent in fiscal year 2008-09 for major highway development.
- Provides funding to continue the enhancement of a crucial piece of the state's economy, the Southeast Wisconsin freeway system. In particular, the budget provides \$181.6 million to continue preliminary engineering of and begin construction on the I-94 North-South Corridor, and \$24 million for preliminary studies of reconstruction of the Zoo Interchange.
- Increases transportation aids by 3 percent annually and transit assistance by 2.5 percent annually plus an additional \$6 million. Elderly and disabled transportation aids, the local roads improvement program and aeronautics assistance also received 2 percent increases.
- Invests in Southeast Wisconsin economic development by providing \$800,000 SEG to continue preliminary engineering on a commuter rail line in Kenosha, Racine and Milwaukee counties and by providing \$1 million over the biennium to add a passenger car to the Amtrak Hiawatha rail line.
- Ensures that Wisconsin's highways are adequately maintained during winter months by providing an additional \$44,294,300 in funding for the state highway maintenance program.

- Allows the Department of Transportation to move forward on implementing the federally-mandated REAL ID Act so that Wisconsin residents will be able to use their driver's licenses as identification under the federal law in 2013.

Environmental Protection and Resource Management

- Reauthorizes the Warren Knowles-Gaylord Nelson Stewardship Program at \$86 million in general obligation bonding authority per year from fiscal year 2010-11 to fiscal year 2019-20.
- Increases funding by \$1.8 million in fiscal year 2007-08 and \$2.8 million in fiscal year 2008-09, increases cost-sharing grants for projects to control aquatic invasive species, and expands eligibility for the grants to include public or private entities.
- Protects Wisconsin's waters by providing \$25 million in general obligation bonding authority to continue funding for urban and rural nonpoint source pollution cleanup and prevention projects and \$6 million SEG to increase cost-share grants to landowners for nutrient management planning to prevent nonpoint source water pollution.
- Provides \$17 million in general obligation bonding authority to leverage \$31 million in federal funds for contaminated sediment removal from the Great Lakes and tributary rivers.
- Provides \$4.5 million over the biennium to compensate for costs of transporting PCB contaminated sediment to an out-of-state hazardous waste facility.

- Creates the Lower Fox River Remediation Authority, which would issue assessment bonds for eligible waterway improvement costs related to the cleanup of the Lower Fox River.
- As part of the Managed Forest Law program, creates a \$1 million grant program to maintain the amount of land to which the public has access for recreation and enjoyment.

Health Care

- Expands BadgerCare Plus coverage to families, children and pregnant women through reallocation of funding within the current BadgerCare program. This expansion will provide access to affordable health care to families under 200 percent of the poverty level, and to children and pregnant women up to 300 percent of the poverty level. Families with higher incomes will be able to buy their children BadgerCare Plus benchmark health plan coverage at cost to ensure that every child in Wisconsin has access to affordable, comprehensive health care.
- Expands health care access to childless adults with family incomes at or below 200 percent of poverty.
- Provides an increase in Medicaid reimbursement rates to noninstitutional providers, with a special emphasis on rate increases for home health and personal care services.
- Identifies additional GPR savings in the Medicaid programs in fiscal year 2008-09 from increased federal financial support, improvements in the management of services, and a thorough review of potential options for modifying pharmacy services that are currently provided through managed care contracts.

Long-Term Care

- Expands the Family Care program which provides managed long-term care services to elderly and disabled recipients throughout Wisconsin.
- Provides a five percent GPR rate increase for nursing homes in fiscal year 2008-09. Implementation of this increase will provide much needed relief to nursing homes in financial distress.

Public Health

- Provides funding to the city of Racine Health Department to reduce the rate of infant mortality.
- Provides an additional \$3 million in fiscal year 2008-09 to the federally qualified community health centers which serve low-income or uninsured people.
- Increases resources for tobacco control and cessation efforts by 50 percent, to a total annual commitment of \$15 million.

Children and Families

- Creates a stronger and more coordinated focus on the needs of Wisconsin's families by creating a new Department of Children and Families that will consolidate the state's child welfare and family support programs in one agency.

- Provides over \$1.7 million GPR funding to increase foster care rates by ten percent over the biennium. Payments to foster families support basic food, clothing and living expenses for children in foster care.
- Provides \$10.6 million GPR to fully fund projected costs of child welfare efforts in Milwaukee County, including support for case manager retention, training and education.
- Provides \$500,000 GPR to support a comprehensive early childhood initiative in Dane County that links low-income families to employment and family support services.
- Provides \$1 million in tribal gaming funds to support the needs of tribal children living in foster care or other costly out-of-home care placements.
- Increases domestic abuse grants by providing an additional \$1,673,700 GPR for shelter, counseling and education services.
- Provides additional funding and positions to staff new beds in the expansion at the Sand Ridge Secure Treatment Center for sexual predators.

Public Safety

- Provides \$5.8 million GPR and 71.10 GPR FTE positions to implement 2005 Wisconsin Act 431, pertaining to global positioning tracking of serious child sex offenders.
- Increases state funding to counties for Youth Aids by \$23 million GPR over the biennium.

- Provides over \$15 million GPR over the biennium to address criminal justice issues in Milwaukee.
- Provides additional resources for the Taycheedah Correctional Institution to improve medical and mental health treatment.
- Provides 31.0 FTE positions, \$6.9 million GPR and \$845,000 PR to address the backlog of processing DNA evidence at the state crime labs.
- Increases staffing for the Internet Crimes Against Children Task Force by 5.0 FTE positions and funding by \$350,000 GPR in each year.
- Provides funding for civil legal services to indigent persons to help on targeted issues, including guardian ad litem and obtaining child support.
- Provides 2.75 FTE district attorney positions in fiscal year 2007-08 and 5.75 FTE district attorney positions in fiscal year 2008-09.
- Adds two new circuit court branches as follows: one in Juneau County with an effective term date of August 1, 2008, and one in Kenosha County with an effective term date of August 1, 2009.

Government Efficiency

- Lapses \$100 million annually from state agencies to account for ongoing savings from state administrative efficiency efforts.

- Provides funding to upgrade state accounting, payroll, procurement and human resources systems in support of more effective use of existing state resources.
- Deposits an estimated \$40 million in net proceeds from the sale of state-owned buildings and land into the general fund.

Veterans

- Provides 15.0 FTE positions (including 4.0 FTE registered nurse positions) and \$1,511,900 PR for direct care needs at the Veterans Home at King.
- Approves \$300,000 SEG for capital projects planning and feasibility studies relating to possible future development of new veterans nursing care facilities and cemeteries in Outagamie County, Douglas County and Chippewa Falls.
- Approves \$159,000 GPR for funds to continue Mission Welcome Home outreach and for assistance to returning veterans suffering from posttraumatic stress disorder.
- Provides \$192,000 SEG biennially for assistance to needy veterans for subsistence aid and health care costs.
- Provides \$15,000 GPR in each year for grants to the Center for Veterans Issues to offer outreach services to homeless veterans in the Milwaukee area.
- Increases grants by \$55,400 SEG for County Veterans Service Officers in Jackson, Taylor, Calumet, Polk, Dunn, Monroe and Sheboygan counties.

- Provides \$85 million of additional bonding authority for the Veterans Primary Mortgage Loan Program.
- Provides \$165,000 GPR for Korean War Memorial Refurbishment in Plover.

Building Program

- Enumerates the acquisition of \$12 million in translational research program equipment in Wauwatosa at the Medical College of Wisconsin. Approves \$10 million in general fund supported bonding for installation.
- Authorizes \$2,250,000 in general fund supported bonding for Hmong Cultural Centers in Dane County (\$2 million) and La Crosse County (\$250,000).
- Approves \$500,000 in general fund supported bonding for a Civil War Exhibit at the Kenosha Public Museum.
- Approves \$1 million in general fund supported bonding for the Oconto Bond Health Center Project.
- Authorizes \$710,988,000 from all funds for 31 projects at University of Wisconsin System campuses.

Employment Relations Commission

- Broadens provisions of the budget to make alternate disciplinary appeals procedures available to both law enforcement officers and firefighters.

Property Tax Relief

- Creates a new \$75 million first dollar property tax credit to pay school property taxes on the first \$4,498 of the value of Wisconsin homes and businesses.
- Caps county and municipal levy increases at the greater of 3.86 percent or the gain in value from net new construction in the first year of the biennium and 2 percent or net new construction in the second. Extends county and municipal levy limits for an additional two years.

Revenue and General Fund Taxes

- Funds over \$600 million in tax reductions enacted in previous biennia that take effect in the 2007-09 biennium, including full exemption of Social Security income (\$145.6 million), full implementation of the single sales factor apportionment in the corporate income tax (\$41 million) and the school levy tax credit (\$247.6 million).
- Increases the cigarette tax by \$1.00 to \$1.77 per pack and creates a weight-based tobacco products tax, increasing state revenue by \$163 million in fiscal year 2007-08 and \$247.9 million in fiscal year 2008-09.
- Expands the income tax deduction for health insurance premiums paid by employees who pay part of their premiums. This expansion will be phased-in over four years beginning in tax year 2008, reducing income taxes by \$11.8 million in fiscal year 2008-09.
- Supports investment in Wisconsin's dairy industry through a dairy manufacturing facility investment tax credit in the 2007-09 biennium.

- Cuts taxes for Wisconsin's seniors by excluding a portion of retirement income from state income taxes.
- Provides additional targeted tax relief and credits for families, individuals and businesses for college tuition, child and dependent care expenses, E-health care investment, biodiesel production, and community rehabilitation.

This budget embraces many of the key goals I set forth back in February. Unfortunately, several key initiatives were dropped from my budget as part of the Legislature's efforts to reach compromise. Those items include:

Insurance mandate for autism services: My budget included a requirement that insurance companies cover autism services. Having an autistic child presents many challenges for parents. Families living with autism should not face needless hurdles in getting the services their children need to thrive. That is what insurance is meant to do – meet the health care needs of those who own the insurance. I will continue to work tirelessly to secure passage of legislation that makes sure insurance companies treat autistic children and their families with fairness and dignity.

Additional federal Medicaid revenues for hospital rate increases: My budget proposed securing over \$400 million in new federal Medicaid revenues through adoption of an assessment of less than 1 percent on hospital revenues. Used by at least 17 states and approved by the federal government for implementation in Wisconsin, the hospital assessment would have increased Medicaid rate payments to hospitals by over 20 percent. Hospitals, in turn, could have used this revenue to reduce health care costs for individuals, insurance companies and businesses.

Opposition to this proven financing mechanism is shortsighted and shortchanges Wisconsin. Our state ranks near the bottom nationally in the amount of federal dollars returned to the state. I will continue to push for this proposal – new federal dollars help to reduce the tax burden on Wisconsin citizens.

Shared revenue and homestead tax relief: My budget included a \$15 million increase in shared revenue payments to local governments. This would have been the first increase in five years. I will continue to seek an increase in shared revenue and have partially vetoed the municipal levy limits for calendar year 2008 to provide some limited relief to local governments in the absence of a shared revenue increase. My budget also included \$26 million to begin indexing the homestead tax credit to inflation. This tax credit helps low income home owners, primarily seniors, by reducing income taxes to offset property taxes paid by an individual. Income levels in the homestead tax credit program have not been increased in eight years. I will continue to seek an indexing factor in the formula for this program as a means of reducing the property tax burden on Wisconsin's seniors.

In addition to the items removed from my original budget, there was one item that I could not veto that warrants discussion. This budget expands the amount of tax credits available to angel and early stage seed capital investors. The intent of the provision was to make it easier for companies to raise funds from angel investors. There may need to be corrective legislation to ensure these tax credits are as effective as possible at stimulating investment in high-growth companies.

While this budget includes many positive elements, it was forged in a process that left much to be desired. Wisconsin is ill-served by legislators who believe that a better deal can be achieved

simply by waiting one more day or that operating without a budget is a realistic alternative.

A budget is a financial plan. It needs to get done and get done on time.

I signed my first two budgets by the third week of July. Signing the budget in the third month after July is unacceptable. Wisconsin has always prided itself on the effective operation of its government services compared to other states. I was four days away from starting to shut down those services of government not directly related to health and safety so that we would not exhaust our revenues before the end of the fiscal year.

This should never happen again. Ultimately, the timetable for adopting a budget is up to the Legislature. I urge its leaders to establish the measures necessary to avoid this situation in the future.

Creating opportunity and strengthening our fiscal management. Those were my simple goals when I introduced the budget, and the goals that have been met through my vetoes in signing the budget. This budget continues to deliver property tax relief, invests in our schools and university system, expands health care, protects the environment and our citizens, and promotes economic growth.

This is the third budget I have signed into law. I witnessed the darkest fiscal crisis in the state's history in my first budget. Today, in my third budget, we have made great progress. Our fiscal house is in the strongest shape in years. For the first time, our rainy day fund has a meaningful balance – over \$55 million. We will finish the biennium with \$120 million in the bank.

Wisconsin has always been a great state. This budget takes great strides toward making it great for every citizen. We all share in Wisconsin's future. The budget I sign today, after vetoes, creates that opportunity for everyone.

On Wisconsin.

Respectfully submitted,

JIM DOYLE
Governor

Date: October 26, 2007

