



TOMMY G. THOMPSON

**Governor
State of Wisconsin**

To the Honorable Members of the Assembly:

I have approved Assembly Bill 133 as 1999 Wisconsin Act 9 and deposited it in the Office of the Secretary of State.

The signing of this budget bill continues our efforts to reduce taxes in Wisconsin. Making tax reductions our number one priority will help all taxpayers throughout Wisconsin. The extra income made available to citizens will lead to an even stronger economy in the next century.

I have long argued that taxes in Wisconsin are too high at all levels of government. This budget acts on my pledge to work to make our taxes competitive with other states. Under the bill I am signing with vetoes, personal income taxes will be permanently reduced from current levels by 5.8%. For the average home, the property tax bill received in December 1999 will be reduced by an average of 3.6%, or \$76, compared to the December 1998 bill.

To deliver this property tax relief, I used my veto power to restructure the lottery credit mechanism the Legislature adopted. I vetoed out the use of general purpose revenue to pay for administrative expenses of the lottery in prior years. I did this because I have grave doubts about the constitutionality of using general tax revenue to buy back administrative expenses of the state lottery made as long ago as 1995. I also vetoed out the use of general purpose

revenue to pay for ongoing administrative costs of the lottery in fiscal year 2000-2001. I do not believe we should be paying administrative expenses of the lottery with general tax dollars on a permanent basis.

Instead, I have crafted language that redirects the bulk of the money that the Legislature used to fund the lottery credit into other forms of property tax relief. I have used the partial veto to add to current law an additional property tax/rent credit payment of 6.4% of the first \$2,000 of property taxes in tax year 1999, an additional property tax/rent credit payment of 10% of the first \$2,000 of property taxes in tax year 2000, and an increase in the school levy credit of \$60 million to be reflected on the December 2000 property tax bill. Under the budget as vetoed, homeowners will see a \$76 reduction in their December 1999 property tax bills for the typical home. Citizens will also see an increase of up to \$128 in the property tax/rent credit on their tax year 1999 income taxes, an increase of up to \$200 in the property tax/rent credit on their tax year 2000 income taxes, and an average increase of \$22 in the school levy credit applied to the December 2000 property tax bill.

My proposal is constitutional, provides significant property tax relief and is a more equitable way to provide the relief than the expanded lottery credit plan passed by the Legislature. However, I believe the *best* way to return the budget surplus to citizens is to provide a property tax relief rebate check as soon as possible. To this end, I am signing the budget bill with the property tax reduction crafted through my vetoes as described above, but today I am also calling the Legislature back into special session to pass a bill giving citizens a rebate check averaging \$286. If the Legislature can pass this bill by November 11, the deadline for printing the 1999 income tax forms affected by the budget, the property tax plan I crafted through the veto will be replaced by the rebate check. If the Legislature cannot act by this deadline, the

plan I crafted through my budget veto will stand. We will have property tax relief either way, but my preference is to do it *immediately* via a rebate check.

Wisconsin has many other needs that we have also addressed in the budget. We continue to fund two-thirds of K-12 school costs and will now fund significant reductions in class sizes in grades K-3 in many Wisconsin school districts. We recognize the importance of a world class university system by investing in quality improvements in the University of Wisconsin, while increasing financial assistance for students who need it. We fund the BadgerCare program to provide health insurance for 67,500 low-income working families and begin our efforts to streamline how long-term care is provided in Wisconsin. We address the need to reuse Brownfields sites, continue recycling programs and reauthorize the Stewardship Program at a much higher level of funding. We have funded additional prison capacity while also increasing funds for social services that can prevent crime from happening in the first place.

I am proud we are addressing these and other needs. However, two problems in the budget concern me greatly. First, spending in fiscal year 2000-2001, the last year of the biennium, exceeds estimated revenue in that year by \$435 million. This structural imbalance is simply too high. The budget I proposed contained a smaller imbalance, and my original budget did not take into account the additional \$567 million in revenue the state now expects to receive between fiscal year 1998-1999 and fiscal year 2000-2001. This \$435 million structural imbalance is the highest in our history.

This structural imbalance is a concern because it means that, under the budget bill as passed by the Legislature, the first \$435 million of revenue growth we receive in fiscal year 2001-2002

would have to be devoted simply to continuing the base level of spending from fiscal year 2000-2001. Furthermore, there are additional pressures affecting the next budget because:

- This budget contains over \$75 million in advance commitments that will need to be funded in fiscal year 2001-2002 (the first year of the 2001-2003 budget), and will be a further draw upon available revenue.
- The Legislature pushed back my timetable to increase the required 1% budget balance to 1.1% in fiscal year 2000-2001, leaving a smaller reserve in fiscal year 2000-2001.
- School aids have increased to 40% of total GPR spending and debt service is also on the rise, both of which further constrain budget flexibility in the event of an economic downturn.

The combination of the structural deficit and these additional pressures means that we would need to have revenue growth of approximately 8% in the first year of the next biennium in order to fund our commitments and the unavoidable pressures we face under the bill as passed.

I believe that, in its zeal to be responsive to many different demands, the Legislature has been too ambitious in increasing GPR spending by 6.3% and 7.4% in fiscal year 1999-2000 and fiscal year 2000-2001, respectively. While the budget that passed is balanced in both fiscal years, the ending balance of \$117.8 million in fiscal year 2000-2001 is just \$5 million above the required 1% reserve. It will be extremely difficult to continue current programs in the next budget given the structural imbalance and the very limited balance overall.

My second major concern is the large increase in bonding authorized in the budget, particularly for new programs. Since we must meet our debt service payments once bonds are issued, we

need to be vigilant that debt service does not become an increasing proportion of our total spending. My proposed budget authorized \$572 million in new GPR-supported general obligation bonding in the 1999-2001 biennium, a level calculated specifically to ensure that debt service payments would remain at 3.3% of total GPR revenue over the next decade. The budget passed by the Legislature contains \$698 million in new GPR-supported bonding authorizations. This level of bonding means that debt service will increase as a percentage of total revenue. We should not incur new long-term debt of this magnitude. Debt service payments will increase by 8.5% in fiscal year 2000-2001, while our GPR revenue will increase just 4.0%. Therefore, I vetoed several new bond authorizations to lower the total new bonding authorization amount by \$39 million to reduce the new debt we will incur to a more affordable level.

In order to address these issues, I vetoed a total of \$43 million in additional GPR spending items approved by the Legislature as a means to improve the ending balance. This is the largest amount of GPR budget savings achieved through vetoes during my tenure as Governor. I also exercised a veto to increase the size of the balance we are required to maintain from 1% to 1.2% of GPR spending. Finally, I will support legislation creating a fund to retain any additional revenue we collect during 1999-2001 compared to what the budget assumes, in order to help meet our needs in the following biennium. These are the most responsible ways to begin preparing for what can be expected to be a difficult budget in 2001-2003. It should also be noted that while the net ending balance is now projected to be \$86 million under the budget as vetoed, \$60 million of this must be set aside to pay the December 2000 school levy increase which is not paid under current law until July 2001 (fiscal year 2001-2002).

Total spending under the 1999-2001 budget as passed is \$20.8 billion in fiscal year 1999-2000 and \$21.3 billion in fiscal year 2000-2001, for a biennial total of \$42.1 billion. These figures represent annual spending increases of 7.9% and 2.8%. From general purpose revenue, net spending will be \$10.6 billion in fiscal year 1999-2000 and \$11.4 billion in fiscal year 2000-2001, for a biennial total of \$22.0 billion. These figures represent annual spending increases of 6.3% and 7.4%, primarily due to increases in spending to meet our commitment to fund two-thirds of school costs, to house our prison population, to pay for increased medical assistance costs for our low-income citizens and to make investments in our higher education system.

I am signing this budget with a total of 255 vetoes. Many of these vetoes were needed to reduce spending by a total of \$43 million GPR. Some of these vetoes rolled back tax increases, saving \$43 million. I do not believe we should be increasing taxes when the state has a booming economy. A number of these vetoes are technical in nature and were required to make provisions workable. I also tried to limit the Legislature's involvement in the day-to-day management of state agencies by eliminating the most burdensome new reporting requirements. The Legislature has a legitimate interest in knowing how state programs are working, but it should not micromanage agencies or dictate agency workload.

The budget I introduced and the Legislature passed moves Wisconsin forward, blazing a trail for other states to follow. Among the highlights are the following items:

Tax and Local Government Finance

- Enacts a comprehensive individual income tax reform and reduction package which makes Wisconsin's tax code simpler and more progressive.

- Reduces income taxes on a permanent basis in the second year of the biennium by \$331 million, a 5.8% decrease. This will result in a tax cut of \$200 for the average Wisconsin taxpayer in tax years 2000 and 2001. These income tax cuts are in addition to the 2.5% income tax cut enacted in the last biennium.
- Reduces all income tax rates in tax years 2000 and 2001, creating new rates for married joint filers in tax year 2001 and thereafter of 4.60% for taxable income below \$10,000, 6.15% for income from \$10,000 to \$20,000, 6.50% for income from \$20,000 to \$150,000, and 6.75% for income over \$150,000.
- Dramatically increases the base standard deduction from \$9,040 to \$12,970 for joint filers and from \$5,280 to \$7,200 for single filers and raises the ceiling for using the sliding scale standard deduction to \$70,380 for individuals and \$80,150 for married, joint filers.
- Creates a new personal exemption for each tax filer, spouse and dependent of \$600 for tax year 2000 and \$700 for tax year 2001 and provides elderly filers with an added \$200 exemption in 2000, which would increase to \$250 in 2001.
- Increases the school property tax rent credit to 16.4% in tax year 1999 and continues the 10% credit into tax year 2000.
- Increases the married couple credit by raising the income ceiling to \$16,000 from \$14,000. The maximum credit would increase to \$480 in tax year 2001.
- Increases the homestead income ceiling from \$19,154 to \$24,500.
- Reduces the typical homeowner's property tax bill by 3.6% in December 1999.
- Increases the lottery credit by \$77 million in fiscal year 1999-2000.

- Increases the school levy tax credit by \$60 million for December 2000.
- Increases funding for the expenditure restraint program by \$9.0 million (19%), for the small municipalities shared revenue program by \$1.0 million (10%), for the county mandate relief program by \$600,000 (3%) and for the payments for municipal services program by \$3.5 million (19%).
- Provides \$64 million in fiscal year 1999-2000 and \$71 million in fiscal year 2000-2001 to fully fund the personal property exemption for computer equipment effective January 1999.

Economic Development and Transportation

- Improves highway safety and enhances economic development by increasing state and federal support for highway construction projects and local transportation aids by over \$150 million over the biennium.
- Establishes a new municipal street improvement program funded at \$2 million over the biennium and increases local road improvement funding by a total of 9.3% for critical transportation infrastructure projects.
- Establishes mechanisms to ensure that state and federal transportation aid is dedicated to infrastructure improvement.
- Increases local transportation aids by 6.75% to meet rehabilitation and maintenance costs and to limit growth in property taxes.
- Establishes a four-tier transit aid distribution structure, creates performance-measurement and cost-effectiveness mechanisms for transit systems, and increases state assistance to local systems by 7.5%.
- Increases highway safety and law enforcement efforts by authorizing 14 new State Patrol troopers.

- Provides over \$6 million in new funding for brownfields assessment, remediation and redevelopment efforts.
- Expands funding to promote Wisconsin tourism destinations by over 25% through use of gaming compact revenues.
- Provides \$9 million from gaming compact revenues for support of economic development and diversification through grants to businesses.

Environmental Protection and Resource Management

- Reauthorizes the Warren Knowles-Gaylord Nelson Stewardship 2000 Program at \$460 million for the next decade, or \$46 million annually, almost doubling the size of the current program.
- Continues state assistance for local recycling programs at the current levels.
- Provides \$40 million to leverage up to \$200 million of federal funds for farmer water quality and habitat improvement efforts through the Conservation Reserve Enhancement Program.
- Increases funding for water quality protection efforts by 32% for rural nonpoint source pollution abatement projects and by 72% for urban nonpoint source pollution abatement, municipal flood control and riparian restoration projects.
- Enhances environmental cleanup and redevelopment efforts through expanded responsible and voluntary party exemptions from liability, additional site cleanup approval staff and implementation of the Brownfields Study Group recommendations.
- Improves the Petroleum Environmental Cleanup Fund Administration (PECFA) Program by authorizing \$270 million in revenue bonds to reduce state interest costs, increasing claimant deductibles, reducing claimant interest rate cost reimbursements, implementing

risk-based site assessment and cleanup processes and requiring competitive bidding for site cleanup activities.

- Provides over \$3 million for local land use planning activities, establishes statewide local land use goals and links local land use activities to those goals through the new Smart Growth program.
- Provides nonuser fee support of \$5 million for fish and wildlife programs from gaming compact revenues, and contains no increase in fish and wildlife fees.
- Increases public access to Lake Michigan and recreational opportunities in the City of Milwaukee by providing \$9 million for development of Lakeshore State Park, the first new state park in 25 years.

Education and Training

- Creates a new Work-Based Learning Board, chaired by the Governor, which will consolidate and strengthen efforts to expand work-based learning activities statewide and adds \$4 million GPR biennially to increase opportunities for students in the youth apprenticeship program.
- Provides \$28 million GPR to the University of Wisconsin System (UWS) in fiscal year 2000-2001 to freeze tuition for Wisconsin resident undergraduate students for the 2000-2001 school year.
- Provides a \$19 million GPR biennial increase to the UW-Madison to allow the UW System's flagship campus to attract the best and brightest Wisconsin high school graduates, hire and retain the best faculty, continue cutting edge research and help maintain Wisconsin's competitiveness in the global economy.
- Provides \$16 million over the biennium in new GPR to support UW systemwide initiatives to expand the use of instructional technology, provide increased opportunities for students

and faculty to study abroad, enhance library services and holdings, increase diversity and increase funding for Area Health Education Centers.

- Provides the Board of Regents of UWS with more flexibility to set tuition to take advantage of an expanded educational marketplace and new opportunities and methods to deliver educational programs.
- Provides \$11.2 million over the biennium to increase financial aid programs for students at Wisconsin's public and private universities and colleges.
- Provides \$6.6 million to the Wisconsin Technical College System to create a new grant program that will provide \$500 annually, for up to two years, to every recent high school graduate who attends a technical college full-time in an associate degree or technical training program.
- Increases general aid funding to the technical college system by \$7.3 million over the biennium.
- Enhances the ability of Wisconsin technical colleges to expand and create programs and course sections in high skill occupational areas to address skilled workforce needs by providing \$7.2 million GPR in two new grant programs.
- Maintains the state's commitment to fund two-thirds of school costs by providing increases in state school aid of \$237 million for the 1999-2000 school year and an additional \$239 million in fiscal year 2000-01.
- Significantly expands the Student Achievement Guarantee in Education (SAGE) program to lower class size by providing \$47.2 million (a 260% increase) in new GPR over the biennium, adding an estimated 400 schools to the program.
- Increases funding for school district special education programs by \$53 million GPR over the biennium.

- Provides \$5 million in fiscal year 2000-2001 to establish alternative education programs for students who are not achieving in traditional educational environments.
- Increases the low-spending revenue limit exemption for school districts from the 1998-99 level of \$6,100 per pupil to \$6,300 in 1999-2000 and \$6,500 in 2000-2001.
- Adjusts the allowable increase in school district revenue limits from \$209 per pupil in 1998-99 to an estimated \$212 in 1999-2000 and \$217 in 2000-2001.
- Makes permanent the 75% hold harmless provision for school districts experiencing declining enrollment.
- Provides \$2 million to increase aid for public library systems by 11.3% over the biennium.
- Expands opportunities for middle and high school age minority students to attend precollege programs at Wisconsin postsecondary institutions by providing a \$1.4 million GPR increase over the biennium to the UW System and DPI for precollege programs.

Human Resources

- Provides \$9.8 million GPR over the biennium to fully fund existing Community Option Program (COP) placements and to add 581 additional placements.
- Provides an additional \$11.3 million GPR to fund the Family Care pilot this biennium.
- Increases the SSI Caretaker Supplement program from \$100 to \$250 for the first child and from \$100 to \$150 for each additional child.
- Provides \$56.6 million GPR over the biennium to fully fund the BadgerCare program, which is available to all low-income children and their parents not covered by Medical Assistance.
- Provides \$7.9 million GPR over the biennium to fund a 5% nursing home wage pass-through initiative directed to nurse assistants.
- Provides \$3.7 million GPR over the biennium to increase reimbursement for personal care workers from \$11.50 per hour to \$12.25 per hour.

- Provides \$50 million in Temporary Assistance for Needy Families (TANF) funds to create several new initiatives, including the Workforce Attachment Fund, Early Child Excellence Centers and Community Youth Grant programs to assist TANF families at all stages of life.
- Expands W-2 child care eligibility in several ways, including reducing the co-payment amount to no more than 12% of a family's income, increasing eligibility to 185% of the federal poverty level, excluding certain types of income, eliminating the asset test and covering disabled children up to age 19.
- Includes provisions that protect the confidentiality of health care information of patients and providers.

Justice

- Increases funding for programs that assist victims of crime by \$6.3 million over the biennium and creates the Office of Victim Services in the Department of Corrections.
- Provides resources to monitor, treat and evaluate sex offenders and to prosecute sex predators.
- Provides funding to staff the new 500-bed Supermax prison at Boscobel, the 750 -bed Redgranite Correctional Facility, the 600-bed Milwaukee Probation and Parole hold/AODA facility, and initial start-up costs for the 375-bed New Lisbon Correctional Facility.
- Provides funding for 2,616 contract prison beds to help relieve prison overcrowding.
- Provides capital funding to expand, improve and acquire correctional facilities, including funding for two 150-bed work houses.
- Authorizes 6.0 FTE assistant district attorney positions in Milwaukee County to be designated as special assistant U.S. attorneys to prosecute gun violations in federal courts under Project Ceasefire.

- Increases resources for law enforcement including investments in new DNA analysis methods at the state crime labs, expansion of the state DNA data bank to include all convicted felons, and provision of an additional \$576,400 over the biennium for law enforcement training.
- Increases resources for criminal justice information systems to upgrade and maintain these systems, including additional funding for the Department of Corrections, the Circuit Court Automation Program (CCAP), the State Public Defender, the automation of district attorneys' offices and the development of integrated justice information systems projects.
- Increases funding for Youth Aids by providing an additional \$6 million GPR over the biennium.
- Increases funding for the Serious Juvenile Offender (SJO) program by providing an additional \$4,160,200 GPR over the biennium.
- Increases funding for Circuit Court Support Payments by providing an additional \$4,500,000 GPR over the biennium.

State Government Operations

- Provides \$232,000 GPR annually for grants to local housing organizations to fund projects similar to Madison's Operation Fresh Start program.
- Provides \$1.5 million (SEG) to continue automating information systems in the Department of Employee Trust Funds to improve service to employers and participants.
- Creates a private employer health care coverage program and purchasing alliance, providing small businesses a means to offer group health coverage for their employees.
- Adds \$420,000 GPR to continue state support of the Department of Military Affairs Youth Challenge program for young adults aged 16 to 18 who are high school dropouts or truants who will not graduate from high school.

- Redefines Wisconsin residency requirements making more veterans eligible to receive benefits from most state veterans programs.
- Adds \$213 million in bonding authority for the veterans home loan program.
- Authorizes bonding and operating support for a second veterans home in Southeast Wisconsin.
- Increases funding by \$568,600 biennially for the veterans health care aid grant program, \$218,200 for employment and training programs and \$104,200 for subsistence aid grants.

There are also several budget provisions I did not veto that warrant discussion.

1. Summer School Enrollment – Beginning in 2000-01, the bill allows school districts to increase their revenue limits to recognize 40% of their summer school enrollment. Notwithstanding this increase, I will propose rolling back the increase to 25% in future legislation because I believe this lower percentage more accurately reflects the increased spending authority school boards require to provide summer instruction.
2. Public Library System Aids – The budget provides \$2,000,000 GPR over the biennium to increase public library systems aid. I am approving this aid with the expectation that the Northern Waters Library Service apply any systems aid increase it receives to the continuation of bookmobile services within the library system's boundaries.
3. School Start Date – The budget prohibits school boards from beginning the school term prior to September 1, unless the school board holds a public hearing on the issue and passes a resolution specifying a date earlier than September 1. While I am concerned about the provision allowing school boards to opt out of the requirement, in an effort to

resolve the stalemate that delayed passage of this bill, I agreed to sign this provision into law without any changes. However, I will be introducing legislation to modify the opt-out mechanism in a manner that protects educational quality for students and equitably balances the prerogatives of school boards and the interests of the state's tourism industry. In addition, I urge school boards not to opt out of the September 1 start date due to the need for consistent start dates statewide.

4. **Respite Care** – The budget bill contains funding for a private nonprofit organization to conduct life-span respite care projects in five regions of the state. I have not vetoed the funding despite my reservations about creating a new long-term care service when one of the objectives of Family Care is to consolidate current funding for long-term care programs. Thus, I am directing the Department of Health and Family Services secretary to coordinate this new respite care program with the Family Care pilots.

5. **Video Gambling Machines** – Currently there is inconsistent enforcement of video gambling machine laws across the state. In response, the Legislature has now reduced the penalty for having five or fewer of these machines in a tavern. While operating gaming machines in taverns is illegal, it should not rise to the level of imprisonment, especially in an already crowded prison system. I also intend to come back with a proposal to reduce the number of gaming machines that would fall under the misdemeanor penalty from five to three. This change should create more uniformity in the prosecution of minimal gaming activities and make the penalty fit the crime. In the future, I still feel gaming machines should be licensed, regulated and taxed in Wisconsin.

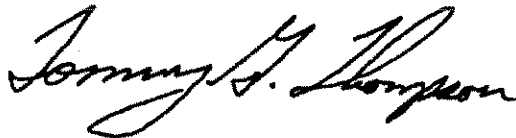
6. TIF Laws – I am concerned with the frequency of case-by-case exemptions from the tax incremental financing (TIF) law contained in this budget and in prior legislation. Resorting to such case-by-case exceptions and exemptions undermines the serious purpose of the original law – targeted and focused economic development. Such frequent tampering with the law's general provisions suggests the tax incremental finance law needs reform. I am requesting the Department of Revenue secretary to convene a working group to study the TIF law and recommend needed revisions.

7. Light Rail –The budget contains a bipartisan agreement that prohibits local governments from expending certain federal and state transportation funding for contracts related to a light rail transit system. This provision sunsets at the end of the 1999-2001 biennium and responds to the multiple perspectives concerning any implementation of this transit alternative in Milwaukee. Furthermore, this provision does not apply to either the Kenosha trolley system that is under construction nor the study of transit alternatives associated with the Highway 12 agreement in Dane and Sauk counties. In addition, as an independent authority, the Wisconsin Center district is not limited by this provision in its efforts to conduct a downtown Milwaukee connector study. I also intend, in cooperation with Wisconsin's Congressional delegation, to make it clear to the U.S. Department of Transportation (USDOT) that the \$241 million of federal Interstate Cost Estimate funding must be released in a timely manner to support several key Milwaukee projects, including reconstruction of the Sixth Street Viaduct. Federal legislation released one-half of these funds to state oversight and the other half to joint state and local oversight. In keeping with federal law, implementation of the agreement reached on use of this funding should not be hindered by USDOT.

I also believe while the final product of the budget deliberations was positive, the budget process left much to be desired and needs to be improved. I will consider proposing changes to the process in my next budget.

The budget I am signing represents a transition from the 20th Century to the 21st Century. The budget also provides a foundation for our states future, a future with unlimited potential in which our taxes are competitive with other states, our schools are the best in the nation and all our citizens find productive employment. That future begins today.

Respectfully submitted,

A handwritten signature in cursive script that reads "Tommy G. Thompson". The signature is written in dark ink and is positioned above the printed name and title.

TOMMY G. THOMPSON
Governor

Date: October 27, 1999

VETO MESSAGE
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