

JIM DOYLE

**Governor
State of Wisconsin**

To the Honorable Members of the Assembly:

I have approved Assembly Bill 100 as 2005 Wisconsin Act 25 and deposited it in the Office of the Secretary of State.

Over five months ago, I introduced a budget that addressed a \$1.6 billion deficit by focusing on two simple goals – protecting Wisconsin's taxpayers and investing in Wisconsin's priorities. My budget froze property taxes for the next two years, but in a way that was responsible and did not sacrifice the quality of our schools and vital local services. As with my previous budget, we solved this deficit without raising any taxes – income, sales, corporate or excise. Instead, we set priorities and funded them by using savings gained by making state government more efficient and additional revenue generated from economic growth.

After five months of debate – too often in the wee hours of the morning and out of sight of public scrutiny – the Legislature returned a budget to me. It froze property taxes, but did so at the expense of our schools. At a time of record gas and utility price increases, they told schools they would have to live with only a one percent increase. The state's association of school boards and other experts suggest the Legislature's actions would be devastating to our schools: over 4,000 teachers losing their jobs, larger class sizes, and cuts to programs ranging from reading to math to arts, music, and athletics.

My first impulse was to send the budget back to the Legislature and make it start over again. But the Wisconsin Constitution entrusts the Governor with broad powers to improve on the Legislature's work and set different priorities, as long as the budget remains balanced. While some may criticize me for being too bold, I undertook to reshape this budget to one that protected both property taxpayers and our children.

The end result is a budget that much more closely resembles the one I submitted in February than the one passed in the dead of night by the Legislature. It freezes property taxes for two years and protects our schools.

I have said repeatedly that taxes are too high in Wisconsin. That is why, when I sought this office, I promised to solve the state's fiscal problems without raising taxes. Perhaps no single tax is as onerous as the property tax, especially for our seniors who want to stay in their homes and middle-class families trying to make ends meet. Additionally, rising property taxes have created an unhealthy tension between property taxpayers and our schools.

In my first budget, I made holding down property taxes a top priority. Despite a \$3.2 billion deficit, I restored shared revenue, fully funded nearly \$1 billion in property tax credits and increased funding for our schools. But I would not go as far as signing a property tax freeze, which would have cut spending for schools by over \$400 million.

During the past two years, we have worked hard so that we can now deliver the property tax relief our citizens deserve without sacrificing the quality of our schools and vital local services.

By cutting spending elsewhere in state government, and by promoting economic growth to raise revenue, we now are in a position for a responsible freeze.

The freeze I am signing today means that the average homeowner's property tax bill will be frozen this December and be reduced by an average of \$5 next year. That's compared to an average property tax increase of \$119 a year over the past five years.

While the end result is the same to the average taxpayer, the freeze I am signing today differs from the one presented to me by the Legislature in several key respects:

First, the Legislature's budget froze property taxes by cutting the amount schools can spend by a total of \$350 million over two years. My freeze maintains the current revenue cap limits that have been in place for over a decade, under both Republican and Democratic governors. In short, my property tax freeze is responsible, while the Legislature's freeze is really a freeze on our kids' education that would force devastating cuts to our schools.

Second, the Legislature's freeze allowed localities to increase their spending only if they were experiencing growth. My freeze enables all communities to deal with the impact of inflation on providing services by allowing a minimum increase of two percent, or the rate of growth, whichever is higher.

Third, the Legislature's freeze also included technical colleges, even though they already have mill rate limits and constitute only a small portion of the overall levy. My freeze maintains the current law mill rate limits on technical colleges so they will not have to raise their tuitions or cut their vital role in worker training and economic development.

Fourth, the Legislature's freeze lasted for three years even though the state budget extends for only two. My freeze is for two years because it only works if the state keeps its commitment to

funding schools and shared revenue. As I said in my budget address, the state shouldn't put a freeze on communities longer than we can guarantee our funding commitment to them.

Fundamental to a sound school system and real property tax relief is the level of state financial support for schools. The bill I am signing today returns the state to the goal of funding two-thirds of local school costs. The increase in state school aid necessary to reach two-thirds will be funded by increasing the general fund balance by almost \$360 million through my vetoes of excessive state spending, unnecessary financing strategies, ill-conceived tax giveaways and pork barrel projects. Over 95 percent of this increase will be allocated under the bill to deliver real property tax relief. The remainder will help eligible University of Wisconsin students pay tuition, restore planning grants to communities and reinstate funding for quality child care.

I also used my veto pen to increase direct property tax relief by over \$73 million through the school levy tax credit. Taken together, the budget I am signing today will increase state funding for schools and property tax relief by over \$400 million compared with the Legislature's budget. Schools will receive a modest 3 percent cost-of-living increase, just as they have received annually for many years under Democratic and Republican administrations alike. The additional funding I am providing through my vetoes will enable the state – rather than local taxpayers – to shoulder the burden of paying for the increased costs of education over the next two years so that property taxes can be frozen.

When we think of property taxpayers, we think of the elderly couple or the young family. But many Wisconsin businesses pay property taxes as well. In fact over the next two years, the property tax freeze will save Wisconsin businesses over \$270 million compared to estimated

levy increases without a freeze. This tax cut will give businesses the resources they need to expand their operations and create new jobs to grow Wisconsin's economy.

Balancing two budgets without raising taxes and enacting a property tax freeze are just the beginning of reducing the tax burden on Wisconsin citizens. The budget I am signing includes \$325 million in tax cuts over the next four years. It cuts a penny off the gas tax. It allows parents to deduct the cost of college tuition up to the cost of the average University of Wisconsin tuition. Working people who are not provided health insurance benefits at their jobs will be able to deduct the full costs of their health insurance. Unemployed persons will also be aided in maintaining their health coverage by allowing them to deduct the costs of their policies. Those serving our country will be able to deduct their military income, and those disabled veterans and widows of those killed in action will get credits for their property taxes. I have also used my veto pen to accelerate by one year (to 2008) the implementation of a full exclusion of social security benefits from taxation for Wisconsin seniors. Supporting education, health care, veterans and our seniors – the tax cuts I am signing today invest in our priorities and help to foster a Wisconsin that is optimistic about its future. These tax cuts, along with holding the line on state taxes and freezing property taxes, are a major step in reducing the tax burden on Wisconsin citizens.

We would not be in the position to invest in our schools, freeze property taxes and afford tax cuts if it were not for aggressive actions in reducing government spending in the rest of state government and for economic growth. This budget, along with the previous one, achieves

major reductions in the government spending so we can invest in priorities. Some of these reductions include:

- Cuts \$272 million from agency operating budgets and reduces the state government work force by 1,900 positions. Over four years, my administration will have reduced the state work force by a total of 3,900 positions through elimination of agencies and programs, streamlining of state government and increased efficiency of agency operations.
- Implements my Accountability, Consolidation and Efficiency (ACE) Initiative, with savings of \$35.5 million in the 2005-07 biennium and almost \$150 million over the next four years. Savings will be realized through bulk purchasing of commodities, better commodity contract negotiation strategies, consolidating computer network servers and streamlining of human resources management.
- Includes \$36 million in savings associated the sale of low-priority state buildings and related assets due to improved use of state-owned office space.
- Continues innovative approaches that control state employee health insurance costs by leveraging the state's purchasing power. These approaches have already saved millions of dollars by holding this year's health insurance cost increases to 4.9 percent (less than half of the national average increase of over 11 percent), by reducing prescription drug costs by \$25 million through use of a pharmacy-benefits manager, and through a \$14 million savings from initial health care provider organization bids.

- Reduces excessive spending and pursues more reasonable financing strategies to save nearly \$160 million in transportation spending during the 2005-07 biennium. My vetoes maintain the robust highway spending increase of 16 percent included in my original budget.

- Eliminates over \$7 million of legislative earmarks and pork barrel projects.

- Accomplishes state Medicaid cost savings of over \$130 million, including \$40 million proposed by the Governor and adopted by the Legislature and approximately \$90 million saved through vetoes. Savings will be realized through further prescription drug cost containment measures, improvements in quality control and fraud prevention, expansion of managed care, increases in federal support, and vetoes of targeted rate increases for certain providers due to insufficient GPR funding. State Medicaid program costs are also benefiting from a renegotiated fiscal agent contract that will save \$93 million over the five year contract period.

- Achieves savings by reducing the number of state automobiles by 1,000.

Added to these reductions in spending are increases in state revenue resulting from an improved economy. From fiscal year 2004-05 through fiscal year 2006-07, the nonpartisan Legislative Fiscal Bureau projects the average growth in state tax revenues will be 5.2 percent a year. This rate of growth is almost two and one-half times the 2.2 percent increase experienced in the prior three fiscal years (fiscal year 2001-02 through fiscal year 2003-04). Revenue growth for the base year and the two years of the 2005-07 biennium exceeds the estimated five percent average increase in net GPR spending over the biennium.

The budget I am signing today contains 139 vetoes. In total, when the cuts in other programs are balanced against the added support for public schools, my vetoes will reduce appropriations from all funding sources by \$115 million compared to the Legislature's budget. Many of these vetoes were needed to reduce state spending while adequately funding schools so that we can freeze property taxes. A number of these vetoes are technical in nature and were required to make provisions workable. Many of the vetoes curb attempts by the Legislature to micromanage the day-to-day operations of state agencies by eliminating burdensome new reporting requirements. The Legislature has a legitimate interest in knowing how state programs are working, but at a time when we are trying to streamline state government and make it work efficiently and cost effectively, it is counterproductive to impose unnecessary new reporting requirements.

While I have serious concerns about many aspects of the budget passed by the Legislature, in many other areas we were able to work together. All too often in Madison, the ten percent of issues where we disagree get far more attention than the 90 percent of issues where we agree. From protecting critical health care programs – to supporting Wisconsin's veterans – to reforming corrections policies – to cutting the size and cost of government – to funding special education and school transportation – to cutting taxes, my administration worked with Republicans and Democrats in the Legislature and got important things done in this budget. In other states, budget debates broke down into partisan paralysis and government shutdowns, but Wisconsin passed its budget on time. I want to thank Republicans and Democrats in the Legislature who worked with my administration over the past several months to forge consensus on many important issues. While what we achieved in the areas we agreed on will probably not get the same level of attention as the areas where we disagreed, the progress we made on a bipartisan basis is significant and will have real benefits to the people of Wisconsin.

Despite our many areas of agreement, there are several key problems in the budget that my vetoes address and which are highlighted below.

My budget increased the state's investment in the University of Wisconsin System and financial aid by nearly \$100 million. For the first time in a decade, the proposed increase in funding for the University of Wisconsin System and financial aid exceeded that for the Department of Corrections. The proposed increase in financial aid, when added to the progress we made in the last budget, would have resulted in more than doubling financial aid over four years. My budget made significant cuts to University administration by eliminating 200 positions, but used those savings to invest in adding 120 new faculty members to improve the quality of instruction provided to our students. Unfortunately, the Legislature, responding to sensational news stories rather than the needs of students and parents, cut \$86 million from my modest proposals for the University of Wisconsin System budget and financial aid. While I share their concerns about disturbing examples of administrative excess, we should still invest in financial aid, teaching and research.

Access to higher education is critical for Wisconsin's economic growth and diversification. The Legislature reduced my proposed increase for University of Wisconsin System student financial aid by \$11 million and ignored the need to increase the maximum grant from \$2,500 to \$3,000 a year. Thousands of students who had already been notified of their financial aid for this fall would have had their aid slashed when the Legislature changed the law in order to reduce their benefits. By using the current law funding mechanism for the Wisconsin Higher Education Grant program, my vetoes increase student financial aid by 22 percent compared with the Legislature's budget. While I cannot increase the maximum grant through a veto, the overall funding increase will help nearly 26,000 students pay for a quality education. Combined with

the last budget, the financial aid increase provided through my vetoes will fulfill my promise to more than double the state's commitment to financial aid for University of Wisconsin System students in my first term as Governor – from \$41.6 million in the 2001-03 fiscal biennium to \$84.3 million in the 2005-07 fiscal biennium.

I do want to acknowledge that the Legislature did include in their budget my proposal to make college tuition tax deductible up to the cost of an average University of Wisconsin System tuition. This is an important step, along with the increases in financial aid, in making college education more affordable for middle-class families.

Educational achievement in later school years is highly correlated with receiving quality child care. My budget had sought to refocus the state's current \$300 million investment in child care subsidies for low-income families on higher-quality child care centers and providers through additional funding for child care staff training and implementation of a provider reimbursement system based on measures of quality. It simply makes no sense that the state pays the best child care center the same as the worst one.

In response, the Legislature ignored my quality improvement initiatives and cut \$16 million in funding for current programs that help improve the quality of child care providers. The Legislature combined these cuts with a 15 percent increase in the amount that low-income families pay out-of-pocket for child care. For a family earning less than \$30,000 a year, the extra cost of child care would be nearly \$500 a year.

The budget I am signing today includes partial vetoes to restore \$8 million in funding for the TEACH and REWARDS programs that help to improve the quality of child care professionals,

removes the 15 percent added fee increase and makes other investments to help ensure our kids get the best start in life. Unfortunately, my veto pen cannot restore my proposal for the innovative Quality Care for Quality Kids quality reimbursement and rating system. I am also unable to restore the funding for the Early Childhood Excellence Centers, another key program for improving the quality of child care in Wisconsin. I will continue to pursue these initiatives and hope the Legislature will revisit the merits of the proposals outside the context of the budget debate.

Wisconsin's quality of life and tourism economy are closely tied to our beautiful and plentiful natural areas, lakes and rivers. Preserving Wisconsin's natural beauty has been championed by many Wisconsin Governors, most notably Gaylord Nelson and Warren Knowles. Their namesake, the bipartisan Warren Knowles-Gaylord Nelson Stewardship 2000 Program, helps local communities develop parks and leverages millions of dollars of private resources for land preservation. Protecting the Stewardship 2000 Program should be a top priority for all who believe, as I do, that Wisconsin's future is directly tied to preserving its wild and scenic areas.

The Legislature, as they did in the 2003-05 budget, continued its assault on the Stewardship 2000 Program, adopting two proposals aimed at weakening the program. One proposal would drain the funding for the program by requiring it to purchase nearly 80,000 acres of land the state already owns – land that is already protected. One part of state government would buy land from another part of state government, but not one additional acre of land would be protected and there would be no money left to protect valuable natural areas, wildlife habitat, water quality and fisheries; nor any funds to expand opportunities for outdoor recreation.

The other proposal by the Legislature to undercut the Stewardship 2000 Program would reduce state aids-in-lieu of property tax payments to communities that have land within their boundaries that has been purchased with program funds. Not only does the first proposal raise serious constitutional issues, it is nonsensical and weakens efforts to preserve and protect Wisconsin's wild areas. The second proposal will increase local property taxes. I have vetoed both of these provisions.

The bill I am signing today maintains current law on the recycling tipping fee and surcharge. Lowering the tipping fee, as the Legislature proposed, would make Wisconsin an attractive dumping ground for trash from all over the Midwest. It is a special interest favor of the worst kind. Not only is the tipping fee a critical element in reducing the amount of out-of-state waste deposited in Wisconsin landfills, the revenue supports property tax relief through grants to local governments for their state-mandated recycling efforts. With this veto, I am protecting both Wisconsin's environment and its property taxpayers.

In another, and perhaps its most inexplicable, attack on Wisconsin's environment and its future economic success, the Legislature eliminated the entire comprehensive planning law. Better known in the real estate and planning community as "Smart Growth," this law provided \$2 million annually to towns, villages, cities and counties to help them make sensible decisions about housing construction, business development, land preservation and transportation investments. This program is all about small government, local control and economic growth. I have vetoed the Legislature's short-sighted repeal of this important program and restored planning grant funding to Wisconsin's communities.

With my veto pen, I have changed this budget to better reflect the priority most Wisconsin citizens place on quality public schools. Not only have I been able to reverse the unwise lowering of the revenue caps, but I have also provided funding for mentoring for new teachers without having to resort to raising taxes on teachers to pay for it. I was also able to veto the attempts to cripple the successful SAGE small classroom initiative. These proposals, under the guise of "flexibility," could have cut the program essentially in half and increased class sizes in Milwaukee by as much as 60 percent. They contradict everything academic researchers tell us and what parents and teachers know: there's nothing better to help kids learn math and reading in the early grades than a quality teacher and a small class size. Unfortunately, my veto pen does not allow me to recreate what I proposed for the SAGE program which was to increase the per student reimbursement for the first time since it was started nearly a decade ago. I sympathize with school districts who find it harder each year to pay for this worthwhile program, and I pledge to work with them to get the funding our students deserve.

I commend the Legislature for having the common sense in this budget to maintain funding for our important four-year-old kindergarten program, which is a national leader in providing quality early education for our children. I am disappointed, however, that they did not approve my proposal to provide extra funding so school districts that want to start a four-year-old kindergarten program do not face a financial disincentive because of the quirks of the school finance formula.

As recent news stories clearly evidence, we must do something as a state to help many of our school districts like Florence that are struggling with increasing costs and declining enrollment. I offered a practical solution which would have aided the nearly 60 percent of districts facing

declining enrollment. Unfortunately the Legislature ignored this proposal, and I am unable to address it with my veto power.

We also must do something as a state to improve the way we pay teachers. My budget included two proposals that were rejected by the Legislature and which I am unable to change. First, I recommended the repeal of the qualified economic offer (QEO) law which stifles creative bargaining over better ways to pay teachers and innovative means to hold down health insurance costs. Second, I suggested helping communities explore better ways to pay teachers so that we could attract and retain the best teachers for our children. Instead of paying teachers based solely on their number of years of teaching and advanced degrees earned, we could find ways to pay teachers for the skills and knowledge that actually matter in a classroom. It would also help us find ways to reward teachers for taking tough teaching assignments or accepting hard-to-fill positions ranging from special education to math and science.

Finally, I remain mystified as to how the Legislature could approve a two-year budget of over \$50 billion and not find \$1.3 million to increase funding for the school breakfast program. We rank last in the nation in providing our children with school breakfasts, and it is an embarrassment. While I cannot fix this omission through my veto pen, I will continue to lead the fight to ensure that Wisconsin does better in giving every child the opportunity to start the day with a healthy breakfast.

From the day I introduced my budget, I have been very clear about my priorities: freezing property taxes and protecting the quality of public schools. To achieve this goal, especially when I must work from the options presented in the budget the Legislature passed, I have made a number of tough decisions. Doubtless some of these decisions will be unpopular, and

will upset the special interest groups that got them placed in the budget, but they are needed so we can provide property taxpayers with the relief they need and our children with the quality public schools they deserve. Budgets are about choices – and I choose the property taxpayers and schoolchildren of this state.

Transportation is the lifeblood of Wisconsin's economy. My budget proposed a 16 percent increase in highway spending over the next two years. The Legislature, opting for more road spending rather than adequate funding for schools and property tax relief, passed a 19 percent highway spending increase. The additional spending includes \$38 million just for a preliminary study of reconstructing the Milwaukee Zoo Interchange – a project that won't be built for at least another eight years. Spending \$38 million on this preliminary road study on the same day that the Legislature voted to cut small class sizes by \$38 million was one of the most flagrant examples of misplaced priorities in the entire budget process.

The Legislature also added \$60 million to reduce the amount of bonding used to finance the cost of reconstructing the Marquette Interchange. At a total cost of \$810 million, the Marquette Interchange is the largest single highway construction project the state has ever undertaken. The Legislature proposed using debt to finance only 14 percent of the cost. That's like you or me putting down \$129,000 in cash to buy a \$150,000 house – and then not having any money left over to buy groceries, put gas in the car or help the kids get a good education.

Wisconsin families know they have to be careful about how much they borrow for major purchases like a house, but they also need to make sure they can pay their other bills and take care of their children. Similarly, the state needs to make sure it can meet important priorities like providing property tax relief and protecting Wisconsin's schools.

In fact, we already have a balanced strategy for using debt to finance highway projects. Most large highway projects rely on bonding for around 50 percent of the total cost. Highway 29 in central Wisconsin was built that way, as were Highways 41 and 53, and 141 and 151. Once rebuilt, the Marquette Interchange is expected to last at least 50 years. My vetoes will result in using 20 year bonds to finance 36 percent of the cost of the project. Compared with previous major highway construction projects, this remains a conservative financing approach.

In the 2003-05 biennium, \$120 million was directly allocated from the transportation fund for state aid to schools and property tax relief. My budget proposed increasing this allocation to a total of \$172 million in the 2005-07 biennium by using transportation revenues to help school districts pay the cost of transporting students to their local school. It makes no sense to me why the transportation fund helps pay for adults to ride buses to work, but not to support the costs of children to ride buses to school. In their budget, the Legislature removed the entire transportation fund allocation for schools.

By pursuing more reasonable financing strategies for major highway construction projects and reducing excessive spending in the Legislature's transportation budget, my vetoes will save almost \$160 million. The budget I am signing today will transfer these savings to the general fund in support of property tax relief through funding two-thirds of school costs.

In my budget, I offered a balanced approach for financing the state's SeniorCare, BadgerCare and Medical Assistance programs. This approach employed strategies used by many other states to secure additional federal Medicaid revenues and control prescription drug prices. Adopting those strategies would have brought more than \$120 million in new federal revenue to the state. But instead of containing health care costs and securing a fair share of federal

revenues for Wisconsin, the Legislature opted to divert state support from our schools and, thereby, place property taxpayers at risk.

I made it very clear when I delivered my budget message to the Legislature that Wisconsin cannot and will not pit the needs of kids against the needs of their grandparents. Wisconsin must look with optimism to both the present and the future.

Since the Legislature chose not to implement any financing strategy for Medical Assistance-related programs, the spending included in the bill for nursing home rate increases, outpatient hospital rate increases and pharmacy reimbursement rates is unsustainable.

Instead, the Department of Health and Family Services will accelerate implementation of ongoing prescription drug cost containment and federal Medicaid revenue maximization strategies to help preserve eligibility and benefits in light of the Legislature's failure to adequately finance the Medical Assistance budget.

The Legislature proposed a few targeted tax reductions in its budget. Some of those proposals were adopted by the Senate to secure passage of the budget. I have vetoed those measures, both because of how they were enacted and because they divert state revenues from property tax relief. For example, at the same time the Legislature was cutting funding for public schools, they passed a \$15 million a year tax break for parents (no matter what their income level) who send their kids to private school or homeschool them. That money is much better used for investing in our public schools and providing property tax relief for our citizens. Interestingly, my office received numerous phone calls from parents who homeschool their children, and these calls were overwhelmingly in opposition to this unnecessary and expensive proposal.

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:

Property Tax Relief

- Freezes property taxes on an average value home for two years so that the typical homeowner has no increase in property taxes this December and a \$5 decrease next year. This compares to an average yearly increase of \$119 over the past five years.

As with every property tax freeze proposal that has been offered in the past several years, there will be some variation in what an individual taxpayer's bill may look like next year. For example, someone who builds a new addition on his or her house will obviously pay more in taxes next year. Local citizens might decide to pass a referendum to help their local school. While the "average" taxpayer will see taxes frozen, many people will see their bill go down. Some people may see their bill go up – but those that do go up will see much smaller increases than they would without this freeze.

- Provides an \$861 million increase in state school aid to fund two-thirds of school costs (over 66 percent), including an increase in direct property tax relief through expansion of the school levy tax credit from \$469 million to \$593 million, effective with 2006 property tax bills.
- Preserves essential local services and economic development investments by limiting the increase in municipal and county property tax levies to the greater of two percent or the local growth in new construction, in each year of the biennium.

Revenue and General Fund Taxes

- Cuts taxes for Wisconsin's greatest generation by accelerating a 100 percent exclusion for Social Security benefits to begin in 2008.
- Supports our veterans and military personnel by creating a veterans property tax relief credit for widows of veterans killed in action and veterans over 65 with a 100 percent service disability, expanding the military income tax credit up to \$300 for every person on active duty outside the U.S., updating the state's tax code to incorporate the Military Family Tax Relief Act, and allowing any individual or corporate entity to designate an additional payment to the veterans trust fund on their tax return.
- Improves access to health care by expanding deductions for medical insurance premiums to 100 percent for employed persons without employer-provided health insurance and creating a deduction for an unemployed person's purchase of health insurance beginning at 33 percent in 2007 and increasing to 100 percent by 2009.
- Improves Wisconsin's business tax climate by modifying the single sales factor apportionment for computer software, intellectual property and services.
- Increases access to higher education by expanding the deduction for college tuition from \$3,000 to the average tuition level in the University of Wisconsin System.

Economic Development and Transportation

- Restores comprehensive planning statutes and state-funded grants to assist communities in planning for efficient and effective use of limited resources. This program provides

significant benefits to property taxpayers, farmers, developers, local governments and all citizens by keeping service and development costs manageable.

- Promotes business development throughout the state by improving the Enterprise Development Zone program to allow the creation of enterprise development zones within development zones, allow multiple businesses to be eligible for tax credits within a single zone and increase the statutory cap on the number of zones from 79 to 98. This will unleash over \$170 million in tax credits that can be used to help distressed communities in Wisconsin generate economic development and new jobs.
- Improves highway safety and enhances economic development by providing almost \$1.75 billion of state and federal funding for highway rehabilitation and construction projects over the biennium. This includes an 8.7 percent increase for state highway rehabilitation and a 13.6 percent increase for major highway development over the biennium.
- Provides the funding needed to ensure that the reconstruction of the Marquette Interchange remains on track to be completed on time and on budget. In addition, the budget allocates \$19.3 million in fiscal year 2005-06 and \$49.4 million in fiscal year 2006-07 for critical projects on the Southeast Wisconsin freeway system and provides over \$32 million to begin preliminary engineering for the next phase of the Southeast Wisconsin freeway system reconstruction.
- Assists in expanding the transportation options for those who need access the most by increasing elderly and disabled transportation aids by \$6 million, a 36 percent increase, over the biennium. General transportation and transit aids are also increased by two percent in

each calendar year to help communities maintain safe and efficient local road and transit systems.

- Invests in Southeast Wisconsin economic development by providing \$800,000 in fiscal year 2005-06 for final engineering for the Metra commuter rail extension and by creating a Regional Transit Authority covering Kenosha, Racine and Milwaukee counties.
- Enhances Wisconsin's image as a premier tourism destination by dedicating an additional \$3.8 million over the biennium to tourism promotion.
- Promotes economic development in the city of Green Bay by providing a grant of \$1.4 million for a downtown redevelopment project.
- Supports collaborative research and development of new technologies by providing \$500,000 to the University of Wisconsin-Milwaukee to establish a Biomedical Technology Alliance in Southeastern Wisconsin.

Environmental Protection and Resource Management

- Protects Wisconsin's natural beauty and tourism economy by vetoing a requirement that the Warren Knowles-Gaylord Nelson Stewardship 2000 Program be used to purchase land already owned by the state Board of Commissioners of Public Lands.
- Maintains the recycling tipping fee and business surcharge at current levels to ensure adequate future funding for important recycling programs including financial assistance for responsible units and recycling efficiency incentive grants.

- Provides an additional \$5.6 million over the biennium to fund various forestry programs including grants to local units of government, third-party certification of forestry practices, invasive species management, forest fire prevention, and several education and professional development programs.

Agriculture

- Creates a bioindustry grant program to promote research, development and implementation of technologies to use agricultural and forest products and waste as energy sources or to create other biobased products with beneficial uses. This program will assist agricultural and timber producers by adding value to existing products and converting currently unused materials into potential income-producing assets.
- Encourages modernization of livestock production systems through the creation of a new Livestock Farm Investment Tax Credit program.

Education and Workforce Development

- Reverses the Legislature's ill-advised and harmful cut to school district revenue limits, enabling Wisconsin schools to continue to provide high-quality public education program for our children.
- Restores \$330 million to general school aids over the biennium to deliver real property tax relief and provide school districts the revenues needed to maintain financial resources at the modest levels needed to provide a high-quality public education. Schools will be able to spend about an additional three percent annually – the same level of increase that they have been allowed for many years under Republican and Democratic administrations alike.

- Preserves the current kindergarten through third grade level requirement for the Student Achievement Guarantee in Education (SAGE) small class size initiative that research has shown produces long-lasting benefits for student learning.
- Deletes the Legislature's proposed 50 percent increase to teacher license fees, while still providing \$1.35 million in new funding to support a mentoring program for beginning teachers.
- Increases pupil transportation reimbursement rates, especially for districts that must bus students over long distances, and increases funding by \$12.75 million over the biennium.
- Increases special education aid by \$12.5 million over the biennium, including \$3.5 million for a new program to offset the high cost of educating disabled students with the greatest needs.
- Increases funding for bilingual-bicultural education by \$2.4 million over the biennium.
- Helps ensure that college remains affordable for lower income Wisconsin residents by increasing financial aid programs by \$22.9 million over the biennium.
- Recognizes the importance of the University of Wisconsin System to the state's economy by providing \$5 million over the biennium to retain high-demand faculty at system campuses.

- Strengthens Wisconsin's leadership role in cutting-edge multidisciplinary biomedical research by providing \$2.5 million over the biennium to help support research on Alzheimer's disease and \$150 million in general fund supported borrowing and gifts for the first phase of the construction of the Wisconsin Institute for Discovery.

- Ensures access to affordable child care for low-income working families by fully funding the estimated child care subsidy caseload and eliminating the Legislature's proposed 15 percent increase in family copayments.

- Restores \$4 million annually of the \$16 million cut by the Legislature for child care resource and referral centers, grants to child care providers for training and technical assistance, scholarship and bonuses for child care providers to improve retention of highly-qualified staff, and grants to local entities to improve the quality and increase the availability of child care services.

- Continues to allow adequate investments in worker training by maintaining the current law mill rate limit on Wisconsin Technical College District levies.

- Provides \$2 million over the biennium to Wisconsin's technical colleges to provide skills training or other educational services that directly benefit Wisconsin businesses.

Human Services

- Preserves Medicaid eligibility for Wisconsin's most vulnerable residents: the elderly, disabled and low-income families.

- Controls prescription drug costs by adopting a reduced reimbursement rate of the average wholesale price discounted by 16 percent and reducing the pharmacy dispensing fee by 50 cents.
- Increases the quality of life for Wisconsin's seniors and improves the use of long-term care resources by implementing the Community Relocations program allowing more than 1,400 seniors to live independently in the community instead of nursing homes. This is a significant step toward the goal of reducing the nursing home population by 25 percent over the next eight years.
- Implements cost containment measures for Medicaid and BadgerCare programs including:
 - reducing fraud through new initiatives to improve Medicaid program quality assurance, enhancing efforts for collection of third-party claims, improving disease management for frequent users of emergency room services, and expanding use of managed care for Supplemental Security Income recipients to improve care and reduce costs.
- Provides more time for all stakeholders in the Health Insurance Risk Sharing Plan (HIRSP) to work together to craft a privatization proposal that ensures that policyholders are protected and sufficient state safeguards are maintained.
- Increases monthly payments to foster families by five percent starting in calendar year 2006 to provide support for food, clothing, housing, personal care and other expenses of foster children.

- Provides \$400,000 GPR in fiscal year 2006-07 to establish a new dental clinic for low-income, disabled and elderly individuals in Chippewa Falls.

Public Safety

- Provides \$216,900 PR over the biennium to support two methamphetamine drug enforcement efforts, including an enforcement response team and drug-endangered children training program.
- Provides \$100,000 PR annually for grants to communities to divert youths from gang activities and substance abuse through prevention and treatment programs.
- Implements measures to reduce recidivism and prison costs by providing funding and staff for alcohol and other drug abuse treatment units at the Racine and Taycheedah Correctional Institutions and by reducing the maximum term of probation from two years to one year for certain nonviolent misdemeanor offenses.

State Government Operations

- Provides free tuition at University of Wisconsin System and Wisconsin Technical College System campuses for families of Wisconsin service personnel who died while on active duty and for disabled veterans and their families.
- Provides \$117,300 GPR each year for a housing demonstration program for homeless veterans in Milwaukee.

- Provides \$13 million over the biennium to maintain operations at the veterans home at King and to expand operations at the veterans home at Union Grove.
- Implements the Accountability, Consolidation and Efficiency (ACE) initiative, which will generate significant savings for the state by streamlining the administration of procurement, human resources, server and network support, and facility and space management and by investing in new administrative information technology systems.
- Maintains state ownership and operation of University of Wisconsin System and other state agency power plant and wastewater treatment facilities.
- Authorizes the Department of Administration to restore the Senate-sponsored 2.3 percent across-the-board GPR reduction to state agencies, including the Department of Military Affairs, and allocate the net \$4 million cut to state agencies in a way that does not compromise critical public services.
- Deletes the requirement added by the Senate that nonrepresented employees begin paying 1.5 percent of wages into the Wisconsin Retirement Fund. This provision would have amounted to a 1.5 percent pay cut for all nonrepresented employees – with the notable exception of the legislators who voted for it, who are protected by state law from any changes to their compensation package during their terms. Not only is it patently unfair, it would have seriously hurt the University of Wisconsin System's ability to attract and retain great faculty, staff and researchers.

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

1. **Single Factor for Corporate and Technology Firms:** I was gratified that the Legislature approved my proposal to extend the single factor sales apportionment for corporate income to technology and service firms in Wisconsin. It just makes no sense to have a corporate tax policy that penalizes Wisconsin employers for every job they create in our state. This change places Wisconsin technology firms on the same footing as manufacturers and in a more favorable tax climate than many other states. The Legislature appropriately preserved the apportionment of income from sales of intangible property.

However, the resulting revisions do not benefit Wisconsin-based biotechnology and franchising firms. I look forward to working with the Legislature to address this unintended consequence.

2. **Specific Position Reductions:** Through several legislative motions, not directly included as part of the budget bill, the Legislature has attempted to dictate specific position reductions in this bill. In some instances, most notably the sale of all state-owned power plants and wastewater treatment plants, and closure of the Milwaukee W-2 State Oversight Office, the bill includes no specific language regarding position reductions. It is my intent to give executive branch agencies discretion in implementing these reductions or requesting additional position resources. This means that the Department of Corrections will have the flexibility to substitute other positions in place of the correctional unit supervisor and assistant unit supervisor positions deleted in a Joint Committee on Finance motion. Executive branch agencies with power plant and

wastewater treatment facilities will be able to seek restoration of the positions through approval processes authorized under current law. Similarly, the Department of Workforce Development will have the same latitude in finding ways to ensure the Milwaukee Office is adequately staffed.

3. **Medical Assistance Cost Containment Efforts:** Containing health care costs, while preserving eligibility and access for Wisconsin's Medicaid populations, is one of my top priorities, and I am disappointed with certain actions the Legislature has taken to hamstring these important efforts. Therefore, I am directing the Department of Health and Family Services secretary to take the following actions to maximize the state's ability to manage the Medicaid program in the most efficient and effective way possible:

Transportation Broker – The Legislature reversed my recommendation to implement a competitively-bid brokerage system for nonemergency transportation under Medicaid – which would have improved service, lowered costs and helped stamp out fraud – only to turn around and levy an undesignated cut to the nonemergency transportation services budget without offering one idea for a way to actually achieve those savings. I maintain my position that a brokerage system is best for Wisconsin taxpayers, and I am directing the Department of Health and Family Services secretary to continue development of this initiative.

Home Care, Personal Care and Private Duty Nursing Reduction – The Legislature doubled the percentage reduction I had proposed for home care, personal care and private duty nursing services. A cut of this magnitude directed exclusively at these community long-term care services would have a chilling effect on the state's ability

to implement my community relocation program. Therefore, I am directing the Department of Health and Family Services secretary to manage this reduction across the entire Medicaid program.

Request for Information on Community Long-Term Care Options – As our population

ages, we need to seek out new, innovative, cost-effective delivery systems for community long-term care services. I was dismayed that the Joint Committee on Finance failed to recognize the value in gathering additional information on options for community care. I remain committed to finding solutions for this issue, and I am instructing the Department of Health and Family Services to issue a Request for Information (RFI) to managed care organizations regarding their ability to develop primary, acute and long-term managed care on a regional basis. Further, I am directing the department to issue the RFI within the first six months of fiscal year 2005-06. Upon receipt of the RFI results, the information should be provided to the Department of Administration.

4. Milwaukee Child Welfare: I was disappointed that the Legislature failed to acknowledge our legal and moral obligation to provide sufficient resources to safeguard children in the Milwaukee child welfare system. Recruiting and retaining high-quality caseworkers has been demonstrated to hinge in large part on providing adequate compensation and training. While the Legislature cut the funding I had proposed for these critical functions so that they could await the results of yet another study, the needs of these children cannot wait. Therefore, I am directing the Department of Health and Family Services secretary to identify and reallocate funding toward the Bureau of Milwaukee Child Welfare reinvestment plan, especially for activities related to caseworker retention and training.

5. **Milwaukee State W-2 Oversight Office:** One of the casualties of this budget was the Legislature's decision to abruptly delete funding for the W-2 office located in Milwaukee. This action will undermine state oversight of the largest and most challenging W-2 service area, but was done without language that allows me to reverse the decision. However, I am determined to keep this key office open and retain the state's W-2 presence in Milwaukee. This is especially important because Milwaukee has over 75 percent of Wisconsin's W-2 caseload. Furthermore, over the past year, a string of well-publicized missteps by Milwaukee's then-largest W-2 provider only serves to emphasize a compelling need to maintain the state's Milwaukee office. I am directing the Department of Workforce Development secretary to identify funding from within existing revenue to ensure that the Milwaukee office remains open and fully operational.

6. **Controlling Invasive Aquatic Species:** My budget included a comprehensive approach to preventing and reducing the impact of aquatic invasive species in the state. The Legislature, however, chose to greatly reduce the effectiveness of my proposal by removing the ability of local and state law enforcement officers to enforce common sense restrictions on transporting these nuisance species from one body of water to another. While concern was raised regarding one aspect of the enforcement powers, the Legislature illogically chose to eliminate the statewide requirement to remove aquatic plants and zebra mussels from boats and equipment rather than rationally adjusting the provision to focus enforcement on boat landings.

7. **Nonpoint Source Pollution Abatement Grants to Farmers and Other Landowners:** While I commend the Legislature for retaining the additional funding I provided for cost-share grants to farmers and other landowners for nutrient management planning and grants to

counties to ensure adequate staff is available to assist farmers and other landowners, I am deeply disappointed that the Legislature reduced the funding I provided to assist landowners and communities in installing practices that would reduce nonpoint source pollution. Farmers and communities rely on this funding to support efforts to protect Wisconsin's abundant waters. This unjustifiable reduction in funding will have a significant negative impact on the efforts of local communities statewide to grow and develop recreational, economic and tourism opportunities, and to improve the environment for fish, wildlife, citizens and visitors to this state.

8. Sturgeon Bay Bridge: The bill contains a provision to make the construction of a new bridge in the city of Sturgeon Bay a priority for the Department of Transportation. The existing bridge that connects the two sides of the city is scheduled for reconstruction, and without the new bridge, the two sections of the city would be completely separated by the Sturgeon Bay Ship Canal during the reconstruction. To ensure that the city remains connected for emergency response and traffic safety purposes, I am committed to doing everything in the state's power to get this project under construction within the provision's one-year timeframe. Unfortunately, the Federal Highway Administration has indicated that the preliminary activities (e.g., reevaluation of the environmental assessment, final design, real estate acquisition, U.S. Army Corps of Engineers and Coast Guard permits, etc.) for such a project would take three years to complete. I do not accept that timeframe and am directing the Department of Transportation secretary to work with the Federal Highway Administration, U.S. Army Corps of Engineers and Coast Guard to expedite this project.

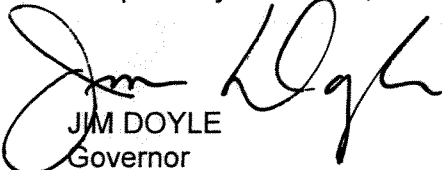
Protecting taxpayers and investing in our priorities. Those were my simple goals when I introduced the budget, and the goals I have met through my vetoes in signing the budget. This budget delivers true property tax relief by enacting realistic limits on local levies, maintaining the strict current law revenue limits for schools and providing adequate state school aid and direct property tax credits.

Two years ago, I signed a budget that brought us out of the depths of the worst deficit in the state's history. Today, I sign a budget that moves Wisconsin on toward full recovery. It cuts taxes and grows our economy. It assists Wisconsin's service personnel, veterans and their families who are making the greatest sacrifices to protect freedom for us all. It builds on my efforts to streamline and improve state operations. It helps parents and students with accessing higher education. It protects our environment and abundant natural resources.

Wisconsin is a great state because we have always been optimistic about our future. I am optimistic for Wisconsin – present and future. I sign a budget today, after vetoes, that keeps us on course to a brighter future for all Wisconsin citizens.

On Wisconsin.

Respectfully submitted,



JIM DOYLE
Governor

Date: July 25, 2005