



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

JIM DOYLE
GOVERNOR

MICHAEL L. MORGAN
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842
TTY (608) 267-9629

May 21, 2009

The Honorable Russ Decker
Senate Majority Leader
211 South, State Capitol
Madison, WI 53702

The Honorable Mark Miller, Co-Chair
Joint Committee on Finance
317 East, State Capitol
Madison, WI 53702

The Honorable Michael Sheridan
Assembly Speaker
211 West, State Capitol
Madison, WI 53702

The Honorable Mark Pocan, Co-Chair
Joint Committee on Finance
309 East, State Capitol
Madison, WI 53702

Dear Senator Decker, Speaker Sheridan, Senator Miller and Representative Pocan:

As you know, Wisconsin, like most other states in the nation, is experiencing the effects of the global recession. Based on significant declines in tax revenue, the Legislative Fiscal Bureau recently issued revised revenue estimates for fiscal years 2008-09, 2009-10 and 2010-11. These new estimates reduced estimated general fund revenues by \$1.6 billion compared with the LFB's January 2009 estimates, which were used to develop the general fund condition for the Governor's budget (2009 Assembly Bill 75). Given these revised revenue estimates, the state deficit has now risen to over \$7 billion and represents almost one-quarter of our budget. Swift and decisive action is needed to resolve this deficit.

In response to this further deterioration in revenue estimates, the Governor first and foremost was clear that new taxes were not an option. He immediately ordered state employee furloughs, proposed rolling back the June 2009 2% pay increase for non-represented employees and called for deep cuts to most state programs.

On May 7, 2009, Senator Miller and Representative Pocan, co-chairs of the Joint Committee on Finance, requested that the Governor forward a list of recommendations to the Committee to address the further decline in state revenue estimates. As a result of discussions between all of you and the Governor, a framework for addressing this additional deficit has been established. This framework includes no new taxes and calls for deep spending cuts of over \$1.6 billion. The major elements of the plan are outlined below:

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1. Additional Agency Cuts and Lapses. A total of \$215 million will be cut from state agency budgets. These cuts will be in addition to cuts proposed in AB 75. Total cuts will exceed 5% of base appropriations in many programs. Key programs, such as state institutions, public safety, and children and family services programs will be exempt. Areas where cuts could lead to reductions in state tax collections or to a loss of federal recovery act funding are also exempt. Implementation of these cuts by agencies could result in the layoff of over 1,000 state employees.

The framework also anticipates that the Joint Committee on Finance will revisit some of its prior decisions, reduce or eliminate increases proposed in AB 75, and suspend certain programs to help reduce the deficit. These actions are expected to save an additional \$140 million toward the deficit.

2. School Aid Reductions – Aid to local school districts will be reduced by nearly \$300 million compared to AB 75. This reduction is equivalent to approximately 2% of base appropriations for general and categorical state aids and school property tax credits. The minimal increases proposed in AB 75 will be reversed and an additional \$250 million cut from general and categorical school aids. Per pupil aid under the Milwaukee Parental Choice program will also be reduced on a proportional basis. The property tax impact of these cuts will be minimized by reducing the increase in school district revenue limits and increasing school property tax credits. After these changes, school district revenues from federal, state and local sources are still expected to increase by approximately 5% on a biennial basis.
3. State Employees – As previously announced by the Governor, all state employees will be required to take a 16 day furlough over the next two years. In addition, the planned 2% increase in pay for non-represented employees will be rolled back. While the 2% pay increase for represented employees is included in existing collective bargaining agreements, funding associated with this pay increase will be cut from state agency budgets. In the absence of changes to these agreements, state agencies may need to layoff as many as 400 staff to address these reductions.
4. Medicaid – Funding under the Medicaid program will be reduced by an additional \$50 million over the biennium compared to AB 75. In addition, the state will take advantage of higher federal matching rates under the American Recovery and Reinvestment Act by reestimating the impact of the hospital assessment approved in 2009 Wisconsin Act 2. These reestimates will provide

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additional Medicaid revenue to Wisconsin hospitals as well as help protect the state's Medicaid program from deeper cuts.

5. Shared Revenue – The state's shared revenue program will be reduced by 2.5% in fiscal year 2010-11. In addition, a new police and fire protection fee recently adopted by the Joint Committee on Finance will be allocated to protect these essential local services.
6. Tax Deductions and Tax Collection Activities – The continued phase-in of four existing tax deductions – two related to health insurance premium costs and one related to child care costs – will be frozen at current levels for two years. A tax credit for community rehabilitation investments will also be delayed. Savings from these actions is estimated at slightly more than \$100 million. Recent action by the Joint Committee on Finance related to Department of Revenue audit capabilities will also help to reduce the deficit by approximately \$60 million. Finally, certain provisions in AB 75 that incorporate federal tax code changes into the state tax code will be deferred. This change will save an estimated \$22 million.
7. Debt Restructuring and Lower Interest Rates – State general obligation bond debt service will be restructured to reflect the economic conditions and to take advantage of current low interest rates.

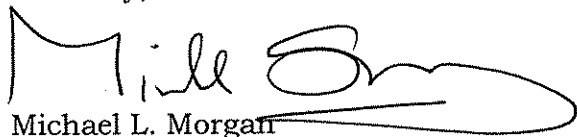
REDUCTION TO DEFICIT
 (\$ in millions)

	Changes to <u>AB 75</u>
Additional Agency Cuts and Lapses	-\$354.9
School Aid Reductions	-291.5
State Employees – Rollback 2% Pay Increase and 16 day furloughs	-224.0
Medicaid Cuts/Hospital Assessment Reestimate	-165.0
Shared Revenue Cuts/Police and Fire Protection Fee	-123.3
Maintain Tax Deductions at Current Levels/Improved Tax Collections/IRC Update Modifications	-185.2
Debt Restructuring/Lower Interest Rates	-285.0
TOTAL REDUCTION TO DEFICIT	-1,628.9

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These cuts will have significant impacts, but are necessary in light of the slow down in Wisconsin's economy brought on by the global and national recession. While these are challenging times, the progress made in discussions over the last two weeks has been very positive. I look forward to our continuing efforts over the next few weeks as the Legislature completes its work on the budget

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Morgan", with a large, sweeping flourish extending to the right.

Michael L. Morgan
Secretary

cc: Bob Lang, Legislative Fiscal Bureau