

**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

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GOVERNOR
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March 5, 2008

The Honorable Jim Doyle
Governor of Wisconsin
115 East, State Capitol
Madison, WI 53702

The Honorable Fred Risser
Senate President
220 South, State Capitol
Madison, WI 53702

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

The Honorable Russell Decker
Senate Majority Leader
122 South, State Capitol
Madison, WI 53702

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

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

Dear Governor Doyle, Senator Risser, Senator Decker, Senator Miller, Representative Huebsch and Representative Rhoades:

As you are aware, the Legislative Fiscal Bureau recently released revised estimates of general fund revenues for the 2007-09 biennium. These revisions were necessary due to a deterioration in the state's economic outlook since January 2007 when the Legislative Fiscal Bureau developed the revenue estimates used in making appropriations in 2007 Wisconsin Act 20. In addition to the revised revenue estimates, the Legislative Fiscal Bureau also identified changes in sum sufficient appropriations and departmental revenues. These reestimates were done in consultation with the Departments of Administration and Revenue.

Prior to release of the Legislative Fiscal Bureau revenue estimates, the Department of Administration took two actions related to state agency spending. First, acting under s. 16.50, Wisconsin Statutes, the Department of Administration required GPR-funded cabinet agencies to lapse the \$106 million previously identified as part of the \$200 million lapse provision included in Act 20, as well as an additional \$5 million in fiscal year 2008-09. This action increased the general fund balance by \$111 million compared to Act 20.

Secondly, the Department of Administration rolled over repayment of short-term general obligation borrowing through the state's commercial paper program, reducing GPR debt service expenditures in this biennium by an estimated \$125.4 million compared to Act 20 estimates.

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The Honorable Kitty Rhoades

Under s. 16.50, the Secretary of Administration is required to review estimates of expenditures from each agency, except the Legislature and the Courts. In that review, s. 16.50 (7) requires that if a determination is made that expenditures will exceed revenues in the current or succeeding fiscal year by more than 0.5 percent, the Secretary must notify the Governor, the presiding officers of each house and the Joint Committee on Finance. As you will note in the table below, due to the revised Legislative Fiscal Bureau revenue estimate, the 0.5 percent threshold will be exceeded during this fiscal year (2007-08) even after the administrative actions discussed above are taken into account.

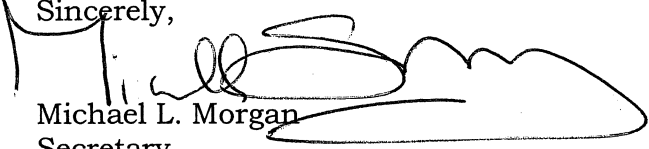
	<u>FY08</u>	<u>FY09</u>
Opening Balance	\$66,288,000	-\$76,860,200
LFB Revenue Reestimate (February 2008)	<u>\$13,432,135,300</u>	<u>13,789,926,600</u>
Total Available Revenues	\$13,498,423,300	\$13,713,066,400
Authorized Expenditures (February 2008)	<u>13,575,283,500</u>	<u>14,063,944,000</u>
Expenditures in Excess of Revenues	\$76,860,200	\$350,877,600
Percentage Expenditures Exceed Revenues	0.57%	2.56%

Given the above, this letter serves as my notification to you of an imbalance between revenues and expenditures of more than 0.5 percent. Failing to quickly address this spending imbalance will have severe consequences for the state's fiscal health. Under s. 16.53 (10), the Department of Administration is required, after notification of and opportunity for review by the Joint Committee on Finance, to establish a priority schedule and to begin prorating payments in the event that the general fund has insufficient cash flow to meet commitments. With over 75 percent of general fund expenditures focused on local governments and aids to individuals, insufficient cash flow and the associated need to prorate payments will have severe consequences throughout the state.

This spending imbalance may also seriously affect the state's ability to secure short- and long-term debt. Issuance of operating notes that may be required in the next fiscal year will not be possible until this imbalance is corrected. Issuance of general obligation bonds in support of the state building program, the stewardship program and the clean water fund may not be possible if Wisconsin is identified by the rating agencies and investors as a credit risk.

As required by statute, the Governor will introduce legislation to correct this imbalance and improve the long-term fiscal health of the state. Rapid adoption of this legislation is critical in maintaining the state's fiscal integrity and protecting essential services.

Sincerely,


Michael L. Morgan
Secretary

cc: Bob Lang, Legislative Fiscal Bureau