



JIM DOYLE
GOVERNOR
STATE OF WISCONSIN

February 11, 2009

The Honorable Russell 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:

Our nation faces a severe economic downturn. Millions of jobs have been lost, the stock market has dropped precipitously from its peak and consumers have cut back on spending. Current economic conditions are having a dramatic affect on state revenue forecasts, with nearly every state forecasting large budget deficits in this year and the next two years.

Wisconsin is also seriously affected by the economic downturn. Department of Revenue and Legislative Fiscal Bureau forecasts have projected declining revenue in this year and the next. The November 20, 2008, budget deficit forecast of \$5.4 billion by June 30, 2011, has now increased to more than \$5.7 billion. This figure represents over 18 percent of general fund appropriations.

As a first step toward investing in Wisconsin's economy and improving the state's finances, we have been working together to develop state economic stimulus and budget repair legislation. These discussions have required each of us to make compromises toward addressing these challenges. This compromise legislation includes the following provisions:

- Authorize the Department of Administration secretary to lapse or transfer \$125 million to the general fund, including \$500,000 from the Legislature, between fiscal years 2008-09 and 2010-11. This provision will be used to reduce state operations and grant appropriations by \$38 million this year. The bill prohibits any reductions to highway construction activities associated with this lapse authority.
- Secure \$900 million in new federal revenues over the biennium to support a Medicaid rate increase for hospitals through implementation of an assessment on

hospital revenues. The new federal revenues will help to reduce state taxpayer support for Medicaid by over \$300 million GPR in state fiscal years 2008-09 through 2010-11. In addition, provide targeted supplemental payments to rural hospitals, adult level 1 trauma centers and pay-for-performance initiatives.

- Ensure clear legislative oversight and rapid deployment of federal stimulus funding in support of job creation:
 - Authorize the first \$300 million of federal economic stimulus funds for transportation projects. The bill includes a specific list of projects that the Department of Transportation has identified as "shovel-ready" for implementation using federal stimulus funding. Additional federal stimulus funds for transportation that are not contained in a bill introduced at the request of the Governor will be reviewed and approved by the Joint Committee on Finance through an expedited process.
 - Create a process for expedited review by the Joint Committee on Finance of plans for allocating all other federal stimulus funding not related to transportation and not included in legislation introduced at the request of the Governor.
- Foster job creation and entrepreneurial development through new and upgraded tax credits:
 - Enhance the Accelerate Wisconsin tax credit for angel and venture investors in support of start-up technology companies. Increase the aggregate per business cap from \$4 million to \$8 million and the cap on angel investments from \$1 million to \$4 million; delete the per angel investment cap for an individual business; expand eligibility to a broad array of leading edge technologies and related processes, including clean energy and nanotechnology; allocate \$500,000 annually for investments in nanotechnology businesses; allow a one-time transfer of early stage seed credits to attract a much larger group of potential investors; improve utilization of the tax credits by authorizing the Department of Commerce to prequalify the amount of creditable investment allowed in each business; allow early stage seed credits to be claimed against gross premiums tax; and allow more of the credits to be claimed in the year the investment is made. Starting January 1, 2011, increase the angel and early stage seed investment tax credit annual allocations by \$12.5 million each.
 - Consolidate five existing tax credit programs (development zones, enterprise development zones, agricultural development zones, technology zones and airport development zones), increasing the ability to target those credits to businesses that create jobs, invest capital, provide training and retraining to new and incumbent workers, and retain jobs in companies with corporate headquarters in Wisconsin. Recognizing the need to support economic growth in rural areas and for small businesses, the bill allocates a portion of the credits for these purposes.
 - Encourage the continued growth of Wisconsin's agricultural economy through the creation of two new income tax credits. First, the dairy cooperative investment credit will allow members of a dairy cooperative to claim a credit for 10 percent of the amount paid for dairy manufacturing modernization or

expansion expenses. Second, the meat processing facility credit will allow meat processors to claim a credit for 10 percent of the amount paid for meat processing modernization or expansion costs.

- Protect Main Street businesses by adopting the Main Street Equity Act, which accepts standards from the national Streamlined Sales and Use Tax Project to simplify sales and use tax provisions among state and local governments. The standards also clarify that all prewritten computer software packages are subject to the sales tax. Adoption of this national model legislation will increase general fund tax revenues by \$9.4 million in fiscal year 2008-09 and \$61.3 million over the 2009-11 biennium. In addition, further protect Main Street businesses by extending the sales tax to digital personal property if the related tangible personal property is subject to the sales and use tax. Incorporating digital products into the Main Street Equity Act provisions is expected to increase general fund tax revenues by \$10.9 million over the 2009-11 biennium.
- Authorize combined reporting of corporate income. Combined reporting treats corporations and their divisions, subsidiaries and affiliates as a single entity for corporate income tax purposes. This is expected to increase general fund tax revenues by \$27.7 million in fiscal year 2008-09 and by \$187.3 million over the 2009-11 biennium.
- Provide \$2.6 million GPR in fiscal year 2008-09 to provide job training and retraining programs, including training in green building and the installation of alternative energy systems.
- Provide \$1 million GPR in fiscal year 2008-09 to increase Workforce Advancement Training Grants awarded by the Wisconsin Technical College System. This program enables small, medium and large businesses to receive short-term, customized training services from Wisconsin's technical colleges providing the state's workers and employers with the competitive edge they need to be successful in a global economy. The additional funding will be allocated to advanced manufacturing skills training with a priority to welding.
- Increase the fiscal year 2008-09 allocation under the Temporary Assistance for Needy Families (TANF) program for direct child care services by \$20,384,400 to address a projected shortfall in funding for state child care subsidies. Fiscal year 2008-09 child care subsidies are expected to exceed original 2007-09 biennial budget estimates by an estimated 6 percent.
- Increase the appropriation for federal block grant aids received under the Temporary Assistance for Needy Families (TANF) program by \$47,175,000 in fiscal year 2008-09 to reflect the receipt of a TANF contingency fund supplemental grant.
- Allocate \$500,000 GPR in fiscal year 2008-09 to the Department of Children and Families to implement a system to monitor child care attendance in licensed child care centers. Significant concerns have been identified regarding reimbursement of child care providers for children who are not receiving child care or who have parents that may not be legitimately employed.
- Provide \$337,500 FED in fiscal year 2008-09 to fund an additional 5.0 FTE positions for the program integrity unit in the Department of Children and

Families. This unit is responsible for ensuring that parents and providers receiving state child care subsidies comply with state and federal statutes and rules. In addition, the unit monitors billing and attendance activity and implements overpayment prevention strategies. Additional resources are needed to expand and enhance state oversight of the subsidy program.

- Increase the allocation under the Temporary Assistance for Needy Families (TANF) program for emergency assistance grants by \$1 million in fiscal year 2008-09. Emergency assistance grants are available to needy families with dependent children to help keep their home. To be eligible, families must be facing impending or actual homelessness related to the inability to make mortgage, rent or utility payments; or due to a fire, flood or other natural disaster. The current economic downturn increases the likelihood that more families will face a homelessness crisis.
- Expand access to capital for scientific, medical and technological research by allowing the Wisconsin Health and Educational Facilities Authority to issue federal tax-free bonds to finance projects and outstanding debt related to research facilities.
- Increase funding for the Medicaid program to offset higher than projected increases in caseloads and to fund a prior period cost settlement for the University of Wisconsin Hospitals and Clinics.
- Provide a \$200,000 grant in fiscal year 2008-09 for statewide foreclosure education and assistance to tenants.
- Ensure protections for tenants of properties under foreclosure by requiring plaintiffs in a residential rental property foreclosure to provide tenants with notices of foreclosure actions and providing tenants with the ability to recover damages if notices are not given. Provide tenants with the ability to retain residency for up to two months after the sale of a foreclosed property.
- Authorize the Wisconsin Housing and Economic Development Authority to issue bonds and make loans for refinancing qualified subprime loans for single-family residential mortgage loans made after December 31, 2001, and before January 1, 2008.
- Modify the loan program administered by the Board of Commissioners of Public Lands to expand the prepayment period for local government borrowers; increase access to funds for counties wishing to improve energy efficiency; and clarify conditions under which a school district may receive short-term loans.
- Increase the regulation of foreclosure reconveyances, foreclosure purchasers and foreclosure consultants. Specify penalties for violation of provisions by foreclosure purchasers, authorize courts to order punitive damages and allow the foreclosed homeowner to bring action for damages. Specify actions by foreclosure consultants that are violations, and the forfeiture and fine amounts for violations.
- Comply with the federal Secure and Fair Enforcement for Mortgage Licensing Act of 2008 by conforming to certain nationwide standards for mortgage loan originators, including their registration through the National Mortgage Licensing System and

Registry. In addition, establish minimum annual fees for loan originators and loan solicitors.

- Provide \$4 million GPR to the Wisconsin Housing and Economic Development Authority to establish a loan loss reserve fund that will leverage private investment in a single-family residential first-mortgage refinancing program, including refinancing of single-family residential first mortgages.
- Suspend the general fund statutory balance requirements for fiscal year 2008-09 in order to adopt the economic stimulus legislation and reflect anticipated action in the biennial budget bill that will address the remaining deficit.

Taken together, the \$125 million cut in state spending, revenue enhancements and investments proposed in this bill will reduce the estimated general fund deficit by over \$700 million by the end of the 2009-11 biennium. Provisions in the bill will reduce the general fund deficit in the current year (fiscal year 2008-09) by approximately \$167 million.

The following table demonstrates how the proposed economic stimulus legislation will improve the general fund condition for fiscal year 2008-09, beginning with the deficit identified in the January 29, 2009, Legislative Fiscal Bureau memo regarding general fund revenue and expenditure reestimates. The remaining deficit for fiscal year 2008-09 and the 2009-11 biennium will be addressed in my budget recommendations for the 2009-11 biennium.

Fiscal Year 2008-09 General Fund Impact
(\$ in millions)

	<u>2008-09</u>
Estimated June 30, 2009, Balance (Legislative Fiscal Bureau)	-\$593.8
Current Law Required Ending Balance	<u>65.0</u>
Shortfall (excluding statutory balance)	-\$528.8
State Agency Lapses and Transfers (amount allocated to FY09)	\$38.0
Hospital Assessment	78.5
Combined Reporting	27.7
Temporary Assistance for Needy Families (TANF) Provisions	22.5
Main Street Equity Act and Related Provisions	9.4
Worker Training-Related Programs	-3.6
Medicaid Changes and Other Transfers	-1.0
Housing-Related Programs	<u>-4.2</u>
Total of Actions	\$167.3
Remaining FY09 Balance (excluding statutory balance)	-\$361.5

I look forward to rapid passage of this legislation.

Thank you for consideration of this important measure.

Sincerely,

A handwritten signature in black ink, appearing to read "Jim Doyle". The signature is fluid and cursive, with the first name "Jim" and last name "Doyle" clearly distinguishable.

Jim Doyle
Governor

cc: Members, Joint Committee on Finance
Michael L. Morgan, Secretary of Administration
Bob Lang, Legislative Fiscal Bureau
David Schmiedicke, State Budget Director