

HIGHER EDUCATIONAL AIDS BOARD

BOARD REPORT #03-04

2001-03 Biennial Budget Update

Governor McCallum recently signed the Budget Reform Act of 2002. This bill is designed to address the budget deficit for 2001-03 that developed after the budget was originally passed last August. I am again extremely pleased to report that the programs HEAB administers are all held harmless. No program is eliminated nor is funding decreased. The funding increases included in the 2001-03 biennial budget passed last August are also held harmless. In addition, the bill includes Governor McCallum's proposed 1.2 million-dollar increase in the UW-WHEG and a \$800,000 increase in the WTC-WHEG for 2002-03. There is also a component included in this bill that ties future funding increases for the UW-WHEG Program to increases in tuition. This bill is extremely good news for financially needy college students. I have attached a summary of Governor McCallum's budget message as well as the HEAB budget pieces that were passed.



SCOTT McCALLUM

Governor State of Wisconsin

To the Honorable Members of the Assembly:

I have approved January 2002 Special Session Assembly Bill 1 as 2001 Wisconsin Act 109 and deposited it in the Office of the Secretary of State.

The budget adjustment bill I am signing today closes a contentious chapter in Wisconsin's legislative history. Clearly, this bill is not perfect. It does, however, solve our most immediate fiscal problem by closing a \$1.1 billion deficit and balancing our state budget for the 2001-03 biennium.

The special session was a demanding exercise that required many difficult choices – decisions that were not unique to Wisconsin.

When the special session convened January 22, 2002, the Legislature gathered to address a revenue shortfall aggravated by a downturn in the state and national economies and compounded by a terrorist attack. At the same time, forty-four other states reported revenue shortfalls totaling \$50 billion caused by a drop in sales, capital gains, and corporate and personal income taxes.

In the months following the beginning of the special session, many legislatures across the country have depleted rainy day funds created in the boom years of the 1990s. Many legislatures raised taxes. In Wisconsin, the Legislature used the tobacco settlement dollars as

a substitute for a rainy day fund rather than raise taxes or make deeper cuts in essential services.

There is general relief that the special session is over. However, I share the widespread view that the final product took much too long to complete and includes imperfect compromises that are the result of unnecessary partisan maneuvering. While these compromises are an unfortunate by-product of coming to grips with our short-term fiscal problems, several major provisions in the bill set the stage for meaningful long-term reform of a system that is undeniably flawed.

Some have called for a veto of the entire bill, but I believe such an act would be irresponsible and place the state on the precipice of a fiscal disaster unmatched in our history. Regardless of its shortcomings, the bill reflects the core priorities I established for the special session six months ago; a veto would put every priority in great peril. That is a risk not worth taking.

Priorities

Above all else, the budget adjustment bill does not raise taxes. Taxes already are too high, and in this time of economic crisis we will not increase taxes to feed spending habits. Government must learn to live within its means.

This budget bill protects K-12 education. I have three children, and I want to ensure that my children get the best education in the country. This budget continues the state's commitment to elementary and secondary education.

Growing up in Fond du Lac, my dad was a factory worker and later a letter carrier. My mom worked as a store clerk and a bank teller. My parents taught me the importance of being compassionate to our neighbors who might not be as fortunate as us, and that is why this budget protects the neediest of the needy.

This budget fully funds our new Senior Care program to help seniors with access to and costs of prescription drugs. It fully funds Medical Assistance, BadgerCare, Family Care, community aids and many other programs that directly serve our neediest citizens.

This bill contains a number of reform initiatives, including:

- The most fundamental change in the state and local government partnership in nearly three decades.
- The most significant campaign finance reform in the last thirty years.
- Far-reaching changes in the sentencing of criminals.
- Strong measures that will allow us to break from the status quo and improve the state's budget process, including the required elimination of the structural deficit and periodic, comprehensive reviews of agency program expenditures.

State and Local Government Partnership – I am grateful the Legislature adopted my proposal to create a mandate relief process for local government under the direction of the Department of Revenue. Local communities can seek a waiver from certain state mandates that do not

compromise the health and safety of Wisconsin citizens. The Department of Revenue will serve as a clearinghouse by directing waiver requests to the appropriate state agencies.

The Legislature also adopted my recommendation for a task force on local government that will identify opportunities for intergovernmental cooperation that will result in savings to taxpayers. The commission is required to report to the Governor and Legislature by February 1, 2003, so that its findings can be debated and implemented in the 2003-05 biennial budget.

Given the time-sensitive nature of this effort, I used my executive privileges to form this task force and name Milwaukee Metropolitan Area Chamber of Commerce Executive Director Tim Sheehy to chair the task force. The task force has already begun its work, and I look forward to strong recommendations from this panel of local government officials.

Another important state and local reform is a new financial incentive for sharing services among governments. At my suggestion, the Legislature took the first step toward redirecting the shared revenue program away from simply supporting local government expenditures and toward the improved and cost-effective delivery of services.

Following a proposal contained in the Kettl Commission report, \$45 million will be set aside beginning in 2004 to reward local communities that save taxpayer dollars through sharing services. Through this program, communities will be able to receive a seventy-five cent reward for every dollar of savings from sharing services.

The Legislature also modified two key components of shared revenue: the Expenditure Restraint Program and the Utility Payment Program. Both programs reward certain critical

activities and should be retained. The Expenditure Restraint Program provides an incentive to limit growth in spending and thereby save taxpayer dollars. The Utility Payment Program plays an integral role in meeting the state's energy needs and economic growth goals by assisting communities that choose to host power plants.

I have used my veto pen to restore both programs to their existing structure, at no fiscal impact to the shared revenue program.

Truth-In-Sentencing – This bill makes several important sentencing modifications that will avoid millions of dollars in additional incarceration costs. It creates a Sentencing Commission and adopts comprehensive sentencing reform by expanding the number of felony classifications and sentences to more accurately reflect the crime committed.

The bill also creates a mechanism to reward prisoner rehabilitation and allows consideration of cost-effective alternatives to prison after seventy-five to eighty-five percent of incarceration time has been served.

This last reform will be available to offenders who demonstrate to the sentencing court that they have been successful at rehabilitation. If the sentencing court agrees to consider an offender's petition for sentence modification, the district attorney has an opportunity to object, resulting in denial of the petition. Objection by the victim if the offense is for second or third degree sexual assault, second degree sexual assault of a child or solicitation of a child for prostitution will also result in denial of the petition.

Campaign Finance Reform – Wisconsin was a national leader in campaign finance reform twenty-five years ago, and this legislation allows us to continue our trail-blazing efforts. I believe this bill reforms our system of financing campaigns in several important ways.

First, it counters campaign spending by special interests. Independent expenditures and issue ads are treated equally, and the interests that engage in both activities are required to report the amount that they spend to influence our elections. In addition, Dane County fund-raisers and reelection fund-raising during budget deliberations are prohibited, and legislative campaign committees are banned. In this way, we have created a "no fund-raising zone" where public policy can be debated inside the State Capitol on its merits.

Second, this law strengthens the role of state political parties by giving the parties the responsibility and resources to counter last-minute attack ads. I believe political parties play an essential role in making our democratic system operate well. This bill moves us towards a statewide voter list to help parties reach out to voters at a grass-roots level. These reforms will help political parties more fully engage citizens in the political process and encourage them to express their views and to vote.

Third, this proposal creates new disclosure requirements and compels speedier compliance with existing ones, which will promote the free and swift flow of information to the public regarding the activities of groups and individuals in the political process.

Finally, we did not dip into the taxpayer's wallet to fund this system. No dollar will go into the campaign finance system that was not elected to go there by the voter. We have pressing

fiscal needs in our state, and it is unwise to compel taxpayers to contribute to the campaign finance system.

These provisions go a long way to resolving many of the most pressing problems with campaign finance, resulting in an election finance system that encourages greater individual participation and provides more accurate and timely information to the public.

These provisions, however, are not without flaws. I recognize that certain elements of this campaign finance reform package raise constitutional concerns. I fully expect that the courts will resolve these legitimate questions. But if this bill is going to stand or fall in the courts, it should at least be given its day in court. If it stands, Wisconsin once again will lead the nation with our bold new interpretation of political speech. If it fails, it is essential that we clearly understand the legal parameters of allowable restrictions on political speech before we make any further attempt in that direction.

This legislation is the culmination of much debate among a vast array of legislators, citizens and groups. It does not represent any singular point of view, but it does represent progress in this contentious area of public policy debate. Taken as a whole, the bill improves the current system of financing for legislative, gubernatorial and other statewide campaigns.

But campaign finance reform is an ongoing process that requires continuing dialogue, and I am hopeful that, in the future, the Legislature and I can work together to remedy any defects of the current financing structure. There will be other opportunities to revisit this issue as I continue to push for more government reform.

Improving the State Budget Process – Closing this budget deficit exposed the institutional problems that have arisen regarding the state budget process. Time and again, the State Budget Office and Legislative Fiscal Bureau have identified the state's structural deficit as a major issue that must be addressed. Of the many versions of this bill produced since February, my bill made the greatest progress in reducing that deficit. The Legislature's final bill makes the least progress.

That having been said, the State Assembly was responsible for a number of improvements to the budget process that deserve notice. Most importantly, the Legislature calls for eliminating the state's structural deficit by fiscal year 2005-06. This is a strong step that I have further improved through a veto to make it effective with the 2003-05 biennial budget.

The bill also includes a requirement that agency base budgets be thoroughly reviewed once every three biennia. This effort, in conjunction with ongoing performance-based budgeting, will be a major step forward in ensuring that all programs are prioritized and every taxpayer dollar, not just the incremental increases, are used in the most effective manner possible.

In implementing this provision for the upcoming 2003-05 biennial budget, I am directing the secretary of the Department of Administration to include the Governor's Office and Legislature in the first round of agencies to be reviewed. It is only appropriate that the budgets for elected officials be the first to receive this scrutiny.

Veto

I am signing this bill with seventy-two vetoes. From general purpose revenue, net spending will be \$11.3 billion in fiscal year 2001-02 and \$11 billion in fiscal year 2002-03, for a biennial total

of \$22.3 billion. The bill, as vetoed, is expected to have a gross balance of \$135.3 million on June 30, 2003, and a net balance, after setting aside the required 1.2 percent, of \$0.9 million.

Several vetoes undo actions that compromise cost-effective, high-quality services to Wisconsin citizens. Wisconsin citizens are better served by retaining the technology coordination and return on investment focus of the Department of Electronic Government, maintaining the direct consumer service philosophy of the Department of Agriculture, Trade and Consumer Protection, and leveraging the broad perspective of the Department of Administration in serving the multiple educational and library service agencies impacted by the TEACH program.

I have also vetoed the permanent reduction of \$541,400 GPR for local district attorneys because it will compromise critical prosecution services. Turnover savings have already been identified in the district attorney appropriation that will allow an equivalent amount of funding to be lapsed on a one-time basis in fiscal year 2002-03 to the general fund.

Several vetoes remove policy items from the budget that are best addressed through separate legislation and the legislative committee process. I have also vetoed several deadlines from the bill that have either elapsed or are unrealistic. A number of provisions that infringe on the ability of executive branch agencies to manage state programs have also been removed.

A number of vetoes collectively reduce spending by over \$2.5 million. In particular, I have reduced the \$10.7 million GPR increase in funding for the State Public Defender by \$1 million. This reduction reflects the savings that can be realized by the State Public Defender Board if it allocates a portion of caseload growth to supervising attorneys. This is a reasonable reduction that reflects the need for all programs to contribute to closing the budget deficit.

I have also increased the across-the-board reduction for the Department of Revenue in fiscal year 2002-03 from 3.9 percent under the Legislature's bill to five percent. This is consistent with my initial proposal and is less than the 6.5 percent reduction that most agencies will have to address.

Conclusion

This bill sustains our priorities and addresses the immediate budget crisis, but our long-term fiscal outlook presents significant challenges. We remain in volatile fiscal territory as we look to the next budget cycle, faced with the possible threat of sagging revenues and rising costs. No one should pretend that the road ahead will be smooth. Hard choices remain, to be sure.

From the first day I assumed the responsibility of being your governor, my focus has been on meeting our long-term challenges and restoring Wisconsin's fiscal health. In the 2001-03 biennial budget (2001 Wisconsin Act 16), I proposed the first meaningful mechanism for financing the state's rainy day fund. I called for the requirement that future budgets have a four-year horizon and be presented under generally accepted accounting principles.

The Legislature signaled a willingness to begin changing its spending habits by adopting these proposals, but it was still necessary to use my veto pen to save a record \$63 million to restore the legally-required 1.2 percent budget balance.

When it became evident last fall that revenue was not keeping pace with spending, I immediately ordered state agencies to reduce fiscal year 2001-02 operating budgets by 3.5 percent. I froze all nonessential vacancies and ordered department heads to limit travel.

My Budget Reform Bill, presented to the Legislature in January, addressed both the immediate shortfall and long-term structural deficit. In fact, my original proposal, according to the nonpartisan Legislative Fiscal Bureau, still stands apart as doing the most to reduce the state's long-term structural deficit.

I believe in Wisconsin. I believe in our people. And I believe in our future.

I want my kids to have the same kind of opportunities, the same quality of life and the same optimism about the future that I had growing up in Wisconsin.

But if we are going to achieve our full potential, if our economy is going to compete in the 21st century and our political system is to become relevant again to the needs of Wisconsin citizens today, there can be no standing still. We must challenge the status quo like never before.

To this end, I am considering calling the Legislature into special session to address three specific matters:

1. Amending our state constitution to stipulate the creation of a Budget Stabilization Fund – more commonly referred to as a rainy day fund. The state already has a rainy day fund in state statute, but that is not enough. We need a constitutionally protected savings account. A clearly delineated and constitutionally required rainy day fund will allow the state to save money when the economy is healthy, and provide a short-term financial cushion during an economic downturn while larger structural reforms can be debated and implemented.

2. Amending our constitution so that any tax increase passed by the Legislature must survive a statewide vote before taking effect. We will not raise taxes in Wisconsin until the taxpayers say it will be so. One solution to our long-term financial challenges is the creation of more higher-paying jobs for Wisconsin workers. But we cannot talk about creating the economy of the future without addressing our tax structure. Whether it is a family trying to save for its children's education or an entrepreneur working to put an idea on the assembly line, high taxes continue to keep our economy from sailing at full speed.

3. Approving a law requiring legislative budget business be completed in a timely manner. If a date-certain deadline is not met, legislators and the governor will not be paid until a final budget bill is signed into law.

We have so much to be proud of in our great state. We never settle for the status quo. That is who we are. It is what we do as a people. It is the essence of what makes our state so special.

Respectfully submitted,

SCOTT McCALLUM
Governor

Date: July 26, 2002

HIGHER EDUCATIONAL AIDS BOARD 2001-03 Biennial Budget Adjustment

NOTE: The "Conference Committee" version under each of these issues is what was passed.

1. WHEG PROGRAM FOR UW STUDENTS

Governor/Joint Finance/Conference Committee: Provide \$1,200,000 in 2002-03 to increase funding for the Wisconsin higher education grant (WHEG) program for UW students. This would increase total funding by 5.8% to \$21,839,600 from \$20,639,600 in 2002-03. This proposed level of funding in 2002-03 would represent a 10.6% increase over the \$19,750,800 provided in 2001-02 under Act 16. Under current law, the WHEG program provides need-based grants to resident undergraduates enrolled at UW campuses, Wisconsin Technical College System (WTCS) institutions and tribal colleges. Funding for WHEG awards is provided in three separate appropriations within HEAB, one GPR appropriation each for UW students, WTCS students and a PR appropriation for tribal college students.

Assembly: Delete \$473,500 in 2002-03 provided for the WHEG program for UW students, which would provide a net increase of \$726,500 in 2002-03 over the Act 16 amount appropriated in 2002-03. This would increase total funding by 3.52% to \$21,366,100 from \$20,639,600 in 2002-03. This proposed level of funding in 2002-03 would represent an 8.2% increase over the \$19,750,800 provided in 2001-02 under Act 16.

Senate: Modify Joint Finance by increasing funding for the WHEG program for UW students by \$473,500 in 2002-03, which would provide a net increase of \$1,673,500 in 2002-03. This would increase total funding by 8.1% to \$22,313,100 from \$20,639,600 in 2002-03. This proposed level of funding in 2002-03 would represent an 13.0% increase over the \$19,750,800 provided in 2001-02 under Act 16.

2. LINK WHEG-UW FUNDING INCREASES TO TUITION INCREASE AT UW SYSTEM

Assembly: Maintain current law.

Senate/Conference Committee: Link annual increases in the appropriation for the Wisconsin higher education grants for UW System students to the highest prior year increase for resident undergraduate tuition at any UW System institution starting in 2003-04. Effective July 1, 2003, modify the appropriation from a biennial sum certain to a sum sufficient appropriation. Provide that the appropriation amount in any year would be the prior year amount adjusted by the applicable percentage increase in undergraduate resident tuition, rounded to the nearest \$100. Specify that if tuition decreased or was unchanged, funding would remain at the prior year amount.

3. WHEG PROGRAM FOR TECHNICAL COLLEGE STUDENTS

Governor/Joint Finance/Conference Committee: Provide \$800,000 in 2002-03 to increase funding for the WHEG program for technical college students. This would increase total funding by 5.7% to \$14,874,000 from \$14,074,000 in 2002-03. This proposed level of funding in 2002-03 would represent a 9.1% increase over the \$13,631,000 provided in 2001-02 under Act 16.

Assembly: Delete \$304,600 in 2002-03 provided for the WHEG program for technical college students, which would provide a net increase of \$495,400 in 2002-03. This would increase total funding by 3.52% to \$14,569,400 from \$14,074,000 in 2002-03. This proposed level of funding in 2002-03 would represent a 6.9% increase over the \$13,631,000 provided in 2001-02 under Act 16.

Senate: Modify Joint Finance by increasing funding for the WHEG program for technical college students by \$304,600 in 2002-03, which would provide a net increase of \$1,104,600 in 2002-03. This would increase total funding by 7.8% to \$15,178,600 from \$14,074,000 in 2002-03. This proposed level of funding in 2002-03 would represent an 11.4% increase over the \$13,631,000 provided in 2001-02 under Act 16.

4. TUITION GRANT PROGRAM

Assembly: Provide \$778,100 in 2002-03 to increase funding for the tuition grant (TG) program. This would increase total funding by 3.52% to \$22,881,800 from \$22,103,700 in 2002-03. This proposed level of funding in 2002-03 would represent a 6.1% increase over the \$21,564,600 provided in 2001-02 under Act 16. The tuition grant program provides need-based grants to resident undergraduates who attend private, nonprofit postsecondary institutions in Wisconsin.

Senate/Conference Committee: Maintain current law.