



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

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

Testimony of Department of Administration Secretary Scott Neitzel
2017-19 Biennial Budget Bill, Assembly Bill 64 & Senate Bill 30
Joint Committee on Finance Agency Briefing
March 28, 2017

Co-chairs Darling and Nygren and members of the committee, thank you for the opportunity to speak with you today about Governor Walker's 2017-19 biennial budget proposal. The Governor's proposal includes historic investments in our priorities: investing more money into K-12 education, making college more affordable, taking care of the truly needy, rewarding work, and cutting taxes. This budget is about continuing to move Wisconsin forward and ensuring that the work we do here in Madison continues to create new opportunities for families across Wisconsin.

Six years ago, when Governor Walker and a new legislative majority took office, the fiscal outlook for the state was bleak – the Governor and the legislature had to address a \$3.6 billion deficit while still providing the services to Wisconsinites that they deserve and improving the climate of our state to foster economic growth.

Six years later, Wisconsin is working. Unemployment is at 3.7 percent, the lowest rate since 2000, when Bill Clinton was president and Tommy Thompson was governor. Our labor force participation rate beats the federal level by more than 5 percent, which puts us in the top ten in the nation. More people are working than at any point in our state's history.

The common-sense reforms implemented and the tough decisions made by Governor Walker and the legislature have paid huge dividends and the state of our finances is positive. That is the Reform Dividend.

More evidence of our successful reforms can be found in Governor Walker's announcement last week that German candy-maker HARIBO has decided to build a new manufacturing facility in Kenosha County. This sweet news will include an investment of \$242 million and an estimated 400 new jobs in Wisconsin. This will be one of the largest investments of new operations by an overseas company in Wisconsin history. Companies around the world know that Wisconsin is a great place to do business, thanks to the reforms we have implemented together over the last six years. Governor Walker's budget builds on these reforms, which will continue to grow Wisconsin's economy and provide opportunity for all Wisconsinites.

Over the last year or so, Governor Walker has held listening sessions in every county in the state. These listening sessions informed many of the decisions made in this budget proposal: work requirements for able-bodied adults, investing money into K-12 education, and providing more funding for local road projects. The Governor applied the concerns and opinions of Wisconsinites across the state in developing the budget proposal that is now before you. We look forward to once again working with the Joint Committee on Finance on crafting a final budget that addresses these priorities and makes government more accountable and efficient for all taxpayers.

In addition to a strong budget, Wisconsin's finances are sound. Including the deposit proposed by Governor Walker, the Rainy Day Fund will be 178 times larger than when we took office. The most recent fiscal year ended with a \$331 million surplus. That surplus is estimated to grow to \$453 million by the end of Fiscal Year 2017. In fact, according to the National Association of State Budget Offices, only five states were on target with their collections in Fiscal Year 2016 and Wisconsin was one of them.

Because of our solid financial foundation we are investing the Reform Dividend in our priorities: student success, rewarding work, and accountable government.

Student Success

K-12 Education

First, let me discuss student success. Access to a great education is a moral and economic imperative for the future of Wisconsin. We prioritize student success, which is why Governor Walker's budget invests \$11.5 billion in K-12 education, the highest amount in state history. Of this, \$508 million in additional categorical aid will be invested through a \$200 per pupil increase in the first year of the biennium and an additional \$204 per pupil increase in the second year of the biennium, fully meeting DPI's request. This funding will be available to school districts who have utilized the tools given to them under Act 10.

Additional funding increases for K-12 education are included in the Governor's budget through fully funding Sparsity Aid, fully funding High Cost Transportation Aid, and new mental health programs requested by DPI, as well as other programs.

The budget also includes funding for efforts to increase access to broadband across the state – similar to provisions included in Senate Bill 49, which was unanimously approved yesterday by this committee. Thank you to Senator Marklein and Representative Quinn, members of the Study Committee on Rural Broadband, and Joint Finance Committee members for your dedication to providing additional broadband access in rural communities across Wisconsin.

Governor Walker's budget also allocates \$1 million over the biennium for the Fabrication Labs program to put new equipment in schools supporting hands-on science, technology, engineering, arts, and math education.

UW-System

Governor Walker's budget continues to make higher education more affordable. During the decade before our resident undergraduate tuition freeze, tuition had gone up 118%. If that trend had continued, a typical UW student would have paid \$6,300 more over the past four years. To build on this, Governor Walker is proposing to continue the freeze for a fifth year and implement a historic tuition reduction of 5 percent for those UW System undergraduates in the sixth year. This tuition reduction will be fully funded.

Separate from the investment in the tuition cut, the University of Wisconsin System will see an additional investment of over \$105 million in state funds during the biennium. This includes \$42.5 million in performance-based funding, using common sense criteria that not only will improve our performance, but will also help students and families make informed decisions regarding their futures.

Technical College System

The Wisconsin Technical College System will also see an increase in state aid in this budget, as well as a fee freeze for students. The increase of \$10 million will help offset the fee savings for students. Investing in education at all levels is important as we look towards Wisconsin's future workforce needs.

Wisconsin Grants

The budget calls for investing an additional \$10 million into needs-based financial aid for Wisconsin students. Total funding for the need-based programs, administered by the Higher Education Aids Board, will reach an all-time high.

Rewarding Work

The Reform Dividend also allows us to invest in our priority to reward work and help low-income individuals enjoy the dignity that comes with a steady job and self-sufficiency. As Governor Walker has often said, public assistance programs should be a trampoline, not a hammock. Our budget expands work requirements and removes policies that are a disincentive from working more hours or earning a raise. These efforts, collectively called Wisconsin Works for Everyone, build on many of the reforms that became a national model under former Governor Tommy Thompson's Wisconsin Works. Employers across the state need us to help reconnect individuals to employment and put more people into the labor force. To do this we must continue to eliminate barriers to growth in employment and make the workforce easier to enter. These initiatives include:

- Extending FoodShare work requirements for able-bodied adults with school age children on a pilot basis.
- Eliminating the "benefit cliff" in Wisconsin's child care subsidy program.
- Reforming occupational licensing.
- Investing in employment and training programs.
- Providing additional protections for the elderly and disabled by reforming the Homestead Tax Credit.

Helping people thrive in the workforce requires us to also talk about family in addition to rewarding work and student success. This budget proposes several initiatives in this spirit:

- Promoting the "Success Sequence."
- Strengthening the expectation that both parents provide for their children.
- Mitigating the Earned Income Tax Credit marriage penalties and bringing greater equity to the credit to incentivize work for small families.

Accountable Government

Our third priority is Accountable Government. Over the last six years, Governor Walker has consistently worked to make government more effective, efficient, and accountable to taxpayers. This budget continues these efforts by again reducing the burden on hardworking taxpayers.

If the tax reforms proposed by Governor Walker in this budget are enacted, families in Wisconsin will see more than \$8 billion in cumulative tax relief since the Governor took office in 2011. This is money that has and will remain in taxpayers' pockets allowing families to invest in their priorities.

Tax Relief

Property taxes will continue to be lower on a median-valued home than they were in 2014, which was lower than they were in 2010. Another way to look at this is that as a percentage of personal income, property taxes are the lowest they have been since the end of World War II. The owner of a median-valued home will have saved nearly \$700 compared to where property tax levels were in 2010, or nearly \$3,000 compared to the trend line in the years prior to Governor Walker and the legislature's reforms.

Income taxes will also be cut under this budget by reducing the bottom two brackets. Additionally, the second lowest bracket will be extended to include more income into the lower bracket, helping middle class families across the state. Including this proposal, Governor Walker's budgets will result in a cumulative savings of \$1,542 over six years for the median-income family of four.

Governor's Commission on Government Reform, Efficiency and Performance

Recently, I had the opportunity to serve as co-chair of the Governor's Commission on Government Reform, Efficiency and Performance. The Commission sought to find ways to reduce the size of government, reduce spending and the state tax burden, and deliver government services more efficiently. Some of the Commission's recommendations included in this budget are shared services; printing, mailing, and publishing reform; and joint agencies.

Shared Services

Shared services is not a new concept for the state. The Commission discussed a number of options related to shared services and heard testimony from the private sector, other states, and DOA representatives on the possibilities for efficiencies and savings under shared services. In fact, there are countless examples in the private and public sector that suggest Wisconsin would be greatly benefited by a shared services approach to human resources.

The shared services initiative included in this budget is based on the study required by Act 150, the Recruitment and Retention Reform legislation, authored by Senator Roth and Representative Steineke last session. Act 150 required DOA to conduct a study on providing human resources shared services for state agencies.

The time for shared services is especially opportune given the implementation of the STAR Enterprise Resource Planning system, the changes included under Act 150, and the established governance for HR directors, which ensures input from the agencies as we move towards shared services.

Shared services cannot and will not be a one-size-fits-all approach. DOA has and will continue to collaborate extensively with our agency customers in order to ensure services are meeting their business needs as efficiently and effectively as possible. With this groundwork laid over the past year, we are confident that the shared services approach included in the Governor's budget will create further savings and efficiencies.

Printing, Mailing and Publishing Reform

The Governor's budget would centralize all state agency print and mail services, except for the UW System, into DOA's Bureau of Publishing and Distribution, unless an exemption is given.

There are key exceptions to this provision including, for example, elections related documents and public hearing notices. The assertion that this provision is intended to reduce transparency is just wrong.

Joint Agencies

At the suggestion of the Wisconsin Counties Association, enhanced statutory authority for Joint Agencies are included in this budget. Specifically, the budget recommends statutory language to allow counties and municipalities the authority to participate in contracts that establish joint agencies, fulfilling each local government's requirement to establish such an agency.

Capital Budget

On a parallel track to the Governor's biennial operational budget proposal is the Capital Budget. The Governor's recommendations include \$803 million in total projects with under \$450 million in new bonding. Between the operating and capital budgets, Governor Walker is proposing the lowest combined new bonding authorizations in 20 years. This Capital Budget focuses on maintenance and repair of our existing infrastructure. The \$360 million in all agency funds fulfills the UW's number one request for system-wide projects. Further, many of the UW's other top priorities are funded.

The Building Commission, which includes legislative members from both parties, recently approved the Governor's recommended Capital Budget.

Self-Insurance

Finally, I would like to discuss self-insurance. We owe it to the residents of Wisconsin to continue making common sense reforms like moving to a self-insurance model. It's quite simple: self-insurance takes money from the category of government overhead and administrative expenses and moves it into the classroom to help our students succeed.

Self-insurance is used by both the public sector and private sector companies across the country. In fact, 46 states use a partially or entirely self-insured model to provide health care benefits. Nearly half of all states are fully self-insured, including Minnesota, and 94 percent of employers with more than 5,000 employees self-insure.

Self-insurance was studied extensively by the Group Insurance Board since 2012, and recently the Board voted 10-1 to move forward in pursuing this opportunity. This proposal was also vetted by the Governor's Commission on Government Reform, Efficiency and Performance. Private sector members and public officials with experience under a self-insured model overwhelmingly approved the measure.

Self-insurance creates a system in which the state, as the employer, and employees continue to pay premiums for health care coverage, but the state pays for medical claims directly, instead of an insurance company doing so. It is not a quick way to increase employee costs for premiums in this biennium, nor is it a way to decrease the coverage employees receive. With such a large number of state employees to be included in the insurance pool, self-insurance is a financing mechanism only, which will result in significant savings for the state. Through an extensive and detailed RFP process, the Group Insurance Board was able to find clear and consistent evidence that the vast majority of current health care providers would still be in the program and there would be no benefit changes during the next biennium.

Moving the state to a self-insured plan is anticipated to save at least \$60 million GPR during this budget cycle. Governor Walker's budget reinvests these savings into K-12 education and the UW System. Through the self-insurance savings, additional funding of approximately \$30 million would be added into K-12 schools, in the form of per pupil aid. The benefits that could be attributed to the UW system participating in the self-insurance model would allow the Governor to make other important investments in the UW, such as the performance funding that I discussed earlier.

The budget also anticipates that the state will no longer have to pay the Affordable Care Act health insurer fee, or Market Share fee, if we transition to self-insurance which would yield an additional \$22 million in GPR savings over the biennium. These are separate savings from the \$60 million and make an even more logical case to move to self-insurance because of the uncertain future of the repeal of Obamacare.

Further details regarding the self-insurance proposal include:

- None of the anticipated savings from moving to the self-insurance model come from a reduction of benefits.
- ETF estimates that 98 percent of existing providers will be available to employees in the restructured system.
- The state already self-insures its dental and pharmacy plans, which have generated savings by eliminating the profit margin and minimizing many of the administrative costs that are part of fully-insured plans.
- Research done by the Commonwealth Fund and Pew Charitable Trust has found that current state health care premiums are high relative to other Wisconsin employers and other state governments. The current model has not resulted in significant savings for state employees.
- State employees account for only 10-15 percent of the state's total insurance market. Employees who are currently covered by insurers who will no longer participate in the state health insurance plan after moving to self-insurance represent only a small portion of that 10-15 percent. No research has been presented that removing state employees from fully-insured pools would negatively impact the overall health insurance market in the state.

So from a cost perspective, a beneficiary perspective, a market perspective, and ultimately a budgetary perspective, self-insurance makes perfect and simple sense.

Conclusion

Governor Walker has presented to the state and the Joint Committee on Finance a strong budget that invests in our priorities. After economic times that required us to make the tough, but prudent decisions, Wisconsin has a Reform Dividend that allows us to invest in student success, rewarding work, and accountable government. We must not rest on our past reforms. This budget is not about the past it is about the future. Governor Walker brings an incredible degree of optimism and support to this budget and as part of his administration, I look forward to working with you, the Joint Committee on Finance, in finalizing a budget that works for all Wisconsinites. With that, I thank you for your time and I am happy to take any questions.