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Co-chairs Darling and Vos and members of the committee, thank you for the opportunity to talk with you today about Governor Walker's 2011-13 biennial budget proposal. The Governor's plan will erase the \$3.6 billion deficit while providing the core services Wisconsinites expect and positioning our state for economic growth.

This balanced budget isn't just about dollars in and dollars out, it's a blueprint for promoting investment in Wisconsin-based businesses and laying the groundwork for 250,000 new jobs. It's about reforming how we do business in Madison in order to create new opportunities for Wisconsin's families to thrive.

Governor Walker is reforming how government looks, how it operates and how it prioritizes the spending of taxpayer dollars. Over the last decade, the link between how much state government spent and how much was in the treasury was broken.

On the surface, past budgets looked balanced despite unsustainable spending increases thanks to gimmicks, raids and accounting tricks. Stop-gap measures like the tobacco securitization, the Frankenstein veto, the Patient's Compensation Fund raid and the use of one-time federal stimulus dollars last session masked budget deficits, but never permanently erased them. These choices landed Wisconsin on the Pew Center for the States inauspicious list of the 10 worst budgets in the country last year.

The days of taking the easy way out are over. If we don't make the tough decisions today, our children and theirs will pay the price tomorrow. That's why the Governor's budget relies on innovative reforms and permanent reductions in spending to finally ensure that the cost of government does not exceed what taxpayers can afford.

- All funds spending is reduced by over \$4.2 billion over the biennium or 6.7 percent.
- GPR spending increases only \$384 million or 1.35 percent, despite a \$1.26 billion increase in Medicaid funding necessary to replace one-time federal dollars. Virtually all of the new revenues in this budget can be tracked to Medicaid and the massive investment made to maintain health care services for seniors, low-income families and disabled individuals. And even then, the DHS Secretary is tasked with filling a \$500 million gap.

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- The structural deficit is reduced by 90 percent to less than \$250 million, its lowest level since Wisconsin began tracking it.
- State employees will pay 12.6% of their health insurance premiums and 5.8% of their salaries toward their pensions, an amount equal to one half of the annual pension contribution.
- 735 FTE positions that have been vacant for over a year are eliminated.
- Non salary and fringe funding for most GPR and PR appropriations are reduced by 10 percent.
- Raids on segregated funds are eliminated.
- There are no tax or fee increases in this budget.
- Property tax levies are frozen at the greater of zero percent or net new construction.

But employers won't come to Wisconsin, entrepreneurs won't take a risk on new ventures and home-grown businesses won't expand and hire based on a balanced budget alone. Last year, the Washington, D.C. based Tax Foundation and *Forbes Magazine* said Wisconsin was one of the worst places in the country to do business. Their only disagreement was over just how bad is bad. *Forbes Magazine* said our state's taxes and policies make us the 3rd worst, while the Tax Foundation was somewhat more generous by ranking us the 9th worst.

That had to change. Job creators had to know that Wisconsin is open for business – that state government will assist economic development efforts and not stand in their way.

Together Governor Walker and the Legislature set the tone immediately upon taking office by collaborating on a Special Session that saw the passage of tort reform, rules reform, and the creation of the Wisconsin Economic Development Corporation. Then with the budget repair bill, Wisconsin took the first step toward reducing the cost of government. Employers across the country have taken notice of Wisconsin's bold decisions and the economic success that we are having.

- La Crosse's City Brewery is adding 100 new jobs to its current workforce of 550. City Brewery will provide more jobs for Western Wisconsin than G. Heileman did at the height of its operations.
- Stoughton Trailers will reopen its Evansville plant and add jobs in Stoughton and Brodhead, increasing its current 600 person workforce by over 470. The company will invest nearly \$11 million in its operations and employees.
- Crystal Lake, Illinois-based Catalyst Exhibits is moving to Pleasant Prairie. The maker of exhibit stands and displays for trade shows and expos will employ 105 people and invest \$2.5 million in its Wisconsin operations.
- Just last Friday, Rockton, Illinois-based internet company FatWallet announced that the state's new internet tax prompted its decision to move its 50-plus employees to downtown Beloit.

- Wisconsin added over 10,000 jobs in January and 3,600 last month and opportunities for workers are increasing – the Job Centers of Wisconsin website currently lists 26,000 open positions.

There is no doubt that job creators are considering Wisconsin because of Governor Walker's proposals, just as they are re-thinking states like Illinois that have raised taxes. The CEO of Illinois-based Caterpillar Inc. told that state's governor last week that "I want to stay here. But as the leader of this business, I have to do what's right for Caterpillar when making decisions about where to invest."

Wisconsin is on the right track. And this budget continues the trend of rethinking government and removing barriers to private sector job creation.

- It provides over \$196 million for the WEDC to provide the flexibility and resources to respond to economic needs across the state and to tailor initiatives for different regions, communities and companies.
- It establishes a 100 percent exclusion from the capital gains tax when investments are made in Wisconsin-based businesses and held for at least five years.
- It expands the capital gains tax deferral for investments in new business ventures to include all Wisconsin-based businesses in order to encourage reinvestment in our state.
- Economic development is directly linked to our transportation system and the ease with which people and products can travel through Wisconsin. This budget restores integrity to the segregated transportation fund by eliminating raids and it invests a total of \$5.7 billion in Wisconsin's transportation system, providing the resources necessary for the Zoo Interchange, outstate projects and continued maintenance. Past raids diverted over \$1 billion and recent federal stimulus dollars only delayed the need to expand the transportation fund's revenue base. Investments today will bring more private sector jobs tomorrow.
- The budget increases funding for tourism marketing to encourage additional investment in our state's economy. Tourism is one of Wisconsin's top three industries, along with agriculture and manufacturing, and its continued expansion is key to our state's economic prosperity.
- The Office of Business Development is established at DOA to support efforts to create more jobs in Wisconsin. This office will be charged with working across all state agencies to implement comprehensive state policies that promote job growth. The office will advise the Governor and Secretary of Administration on necessary public policy changes as well changes to how government does business so that employers don't meet roadblocks when attempting to create jobs.
- The budget restructures the University of Wisconsin-Madison as an independent public authority separate from the UW System.

UW-Madison is ranked seventh highest nationally for research and development spending per capita and third for spending in science and engineering. In 2010, it surpassed \$1 billion in research grants. For the campus to remain a world leader or one of the "public ivies" in an increasingly competitive higher education marketplace, it needs management flexibility. Without it, it will not be able to attract outside funding needed to help grow Wisconsin jobs and educate our state's workforce for the changing economy.

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To be successful, UW-Madison has to operate more like a business that reacts to free market forces and is accountable to its customers. Its tuition levels, course offerings and research priorities will all be influenced by the market i.e., students, parents and businesses looking to partner with the UW. This change in structure means more responsiveness to Wisconsin's needs and greater investment in our state's economy.

The Governor chose UW-Madison, not because he doesn't support flexibility for the other campuses, but because this campus can provide the model for how to expand that flexibility system-wide. Madison is simply farther ahead in its preparation for this type of change and the challenges it will bring. With this lead time, UW-Madison can provide the blueprint for the expansion of management flexibility at all of the campuses.

With this change, UW-Madison will absorb a \$125 million funding reduction as will the rest of the UW system campuses combined. The Madison campus receives only 38% of all UW-System taxpayer funding, but it receives 50% of the budget reductions applied to the UW-System that were necessary to balance the budget. There are no cuts to student financial aid.

The Governor's budget also protects and expands educational opportunities in our K-12 schools.

The reductions to equalization aid and revenue limits in this budget can be managed by requiring increased health insurance and pension contributions by employees. If school districts use these tools, the savings statewide will exceed the funding reductions by up to \$50 million and dollars will remain in the classrooms. States across the country like California and New York are also making reductions to K-12 education, but unlike Governor Walker, they are not giving their local school boards the tools to manage those reductions.

We've all heard it: in first and second grade, kids learn to read and beginning in fourth grade, they read to learn. Students who don't achieve basic literacy by third grade will struggle for the rest of their academic careers. The Governor's third grade reading initiative will make sure kids aren't being left behind.

Because all Milwaukee families should have the option of leaving the district's failing schools and choosing other educational opportunities for their children, the budget eliminates the enrollment cap on the Milwaukee Parental Choice Program, phases out income eligibility requirements and allows any school in Milwaukee County to participate.

In order to increase choices and opportunities in the rest of the state, the budget eliminates the enrollment cap on virtual schools, allows any four-year UW campus to establish a charter school and extends the open enrollment application deadline from February to the last weekday in April.

Governor Walker's budget also maintains critical health care services to Wisconsin seniors, disabled individuals and low-income families. In fact, all of the increased spending in this budget can be found in the Medicaid program. The governor replaced \$1.2 billion of one-time federal funding with GPR. And yet, there is still gap.

Over the last five years, Medicaid spending has increased 11 percent a year on average from \$4.4 billion in FY06 to \$6.6 billion in FY10. This is simply unsustainable. Secretary Smith will be seeking flexibility from the federal government to find innovative ways to reduce costs that don't include cutting eligibility or eliminating optional services.

The budget also expands programs that encourage the self-direction of services, so that individuals can utilize the services that best fit their needs. The department will also conduct a thorough review of Family Care to ensure that it is providing services in an efficient and effective manner.

Just as streamlining state government doesn't mean sacrificing educational opportunities or health care for those who need it most, it won't compromise public safety. The safety of our families and our communities remains a top priority for Governor Walker as reflected in this budget.

The changes to the truth in sentencing law that allowed the release of offenders who have not completed their sentences are eliminated. And additional funding is provided for the DNA lab, initiatives aimed at identifying on-line predators who prey on children, and victim information and notification services.

Before I close, I should also share with you some of the specific DOA budget provisions aimed at streamlining government and reducing spending.

- Under the budget bill, I must lapse an additional \$145 million from state agencies to the general fund.
- I also have the ability to eliminate vacant positions above and beyond the 735 eliminated by the Governor if they are no longer necessary.
- To reduce the size of government and consolidate energy-related responsibilities, the Office of Energy Independence is eliminated and its programs are transferred to the Division of Energy Services where they were located prior to 2007.
- Two deputy administrator positions are eliminated.
- To create efficiencies and streamline government, the College Savings Program and Local Government Investment Pool are moved from the Office of the State Treasurer to DOA where existing staff can assume those duties.
- The Covenant Scholars program is transferred from DOA to HEAB which has the staff and expertise to administer this financial aid program.
- In order to eliminate the delays and additional costs associated with the procurement of professional services not available in the agencies, the budget eliminates the required cost-benefit analysis. Current law requires the analysis to compare the cost of contracting for services to the projected cost of using state employees, even when state employees can't provide the services. For example, when a service is incidental to the purchase of a product, when using state employees would void product warranties or when the service is not a core function of state government. The budget bill also removes the purchase preference for Badger State Industries to ensure that the state is getting the best value for its furniture purchases.

This is a reform budget. These aren't short term solutions or one-time fixes intended to balance the budget for two years and simply stem job losses. This budget makes fundamental changes to state government and recognizes the pressures on taxpayers in order to facilitate the creation of 250,000 new jobs and pave the way for prolonged economic prosperity.

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The governor has often quoted the constitutional provision that “the blessing of a free government can only be maintained by a firm adherence to justice, moderation, temperance, frugality and virtue.” This budget will benefit all of us today and just as importantly, it makes sure that the generations to come have the freedom to set their own priorities and shape their own futures.

I was fortunate to be elected while Tommy Thompson was our governor. He believed that states are the "Laboratories of Democracy" and he made sure Wisconsin was the one to watch. He knew that states were the best source of answers to challenges facing our country and Wisconsin proved him right time and again. His optimism about our state's future, faith in the people who live here, and the courage to take on problems others said couldn't be solved meant an extended period of economic growth in Wisconsin.

Governor Walker brings that same optimism and determination to Wisconsin and under his leadership, I know that Wisconsin will again become a model for the nation. When government stands by its citizens and doesn't stand in their way, when it encourages us to take what's good and make it better – that's when great strides are made.

When we trust in the entrepreneurial spirit that made this country great and encourage progress and innovation, we make history. I am honored to have the opportunity to serve in this Administration and be a part of history, and I look forward to working with all of you on the proposals that Governor Walker has put forward.

With that, I thank you for your time and I am happy to take any questions.