



JIM DOYLE
GOVERNOR
STATE OF WISCONSIN

May 27, 2004

Dear Agency Head:

The 2003-05 biennial budget presented very difficult fiscal and policy challenges. I took office in the midst of the worst budget deficit in the state's history. Under previous administrations, state government spending had been allowed to grow out of control and little was done to meet the impending fiscal calamity other than short-term, one-size-fits-all measures, such as selling the state's tobacco settlement windfall and threatening to eliminate revenue sharing with local governments. Many experts opined that closing this deficit and protecting key programs would be impossible without a tax increase.

For the sake of Wisconsin's citizens and economy, I am happy to report that the budget deficit was eliminated and key programs protected without raising taxes. Avoiding a tax increase required making difficult decisions – cutting \$1.5 billion from state agency budgets, eliminating 2,300 state positions and avoiding one-size-fits-all approaches by setting priorities to protect education and health care. Since signing the budget, I have also worked to grow Wisconsin's economy by eliminating regulatory red tape and cutting taxes, including implementing the single sales factor for corporate taxes, supporting venture capital investments in new technology, creating tax credits for dairy modernization, and extending tax exemptions and credits for business fuel and electricity costs.

Wisconsin's economy is again on the move, but we need to remain vigilant in the expenditure of public dollars. The lack of fiscal discipline of previous administrations and Legislatures created a fundamental structural imbalance in the state budget. While my commitment to hold the line on taxes and reduce spending addressed the immediate budget crisis, the legacy of overspending will continue to create significant fiscal pressures for the near future and limit the ability to meet our highest priorities. As a consequence, all agencies will need to be creative, efficient and effective in their programs and maximize the use of technology that adds value to the taxpayer.

The Major Budget Policies and Budget Instructions call for most agencies to hold their overall fiscal year 2005-06 and fiscal year 2006-07 GPR budgets to fiscal year 2004-05 levels. The same targets will apply to the SEG-funded administrative operations of the Departments of Transportation and Natural Resources, and the Lottery. These targets

are necessary to address the excess spending of the past and ensure state government lives within its means.

In addition, most agencies will be required to submit plans to reduce all nonfederally-funded state administrative operations appropriations by ten percent. Current law requires that GPR state operations funding be reduced by \$100 million from fiscal year 2004-05 levels. These plans will provide agencies with the opportunity to meet this requirement by fully reviewing all programs and identifying those of lowest priority for elimination.

Some say that the way to make government more efficient and effective is through complicated, one-size-fits-all expenditure controls that will painlessly lower taxes without elected officials having to make tough decisions. Our history has followed a different path. We've succeeded in Wisconsin because our state and our represented government serve as a marketplace of ideas. Elected officials at all levels of Wisconsin government understand that we have to roll up our sleeves and work hard to set and meet our priorities.

Wisconsin takes pride in having an elementary, secondary and higher education system that's second to none – not one destined for mediocrity because a formula tells us so. Wisconsin invests in public infrastructure and transportation because we need economic development today, not when the formula gives the green light. And Wisconsin supports its most vulnerable citizens – our kids, disabled individuals and seniors – because we know it's the right thing to do, not because of some impersonal algorithm.

My next budget will focus on these priorities – education, children, health care and economic development. I will do what I can to advance those priorities despite the lingering fiscal pressures caused by excesses of the past. We will live within our means and continue to grow Wisconsin.

There are no easy solutions – no quick fixes or formulas. We must continue to prioritize funds, focus on performance and utilize technology solutions in operating state programs. We need to focus on what we're doing and how well we're doing it, not on asking for more funding. And we need to retool or eliminate programs that are not doing well or are no longer high priorities.

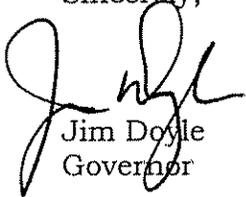
Agency budget requests are due September 15. Please review the Major Budget Policies and Instructions carefully as you prepare and prioritize your requests. Technical budget instructions will not be printed this year but will be available on the Web at www.doa.state.wi.us/debf/index.asp.

State government had lost its way the last several years. But it's a new day in Wisconsin. We have put our great state back on track. Now we must move out of the

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woods at full speed – growing Wisconsin's economy, putting kids first, supporting local services and protecting health care access for all. I am confident that you and your employees will continue to do an outstanding job in serving Wisconsin's citizens.

Sincerely,



Jim Doyle
Governor

cc: Agency Budget Contacts

MAJOR BUDGET POLICIES 2005-07

The Governor has identified the following themes as the core concepts for constructing the 2005-07 biennial budget. These themes build upon our state's existing strengths and position Wisconsin to better protect and improve our families, communities, businesses and natural resources.

REDUCE THE TAX BURDEN

One of the Governor's top priorities is to continue reducing the tax burden on Wisconsin's citizens. Due to the Governor's efforts to erase the state's budget deficit without raising taxes, Wisconsin's state tax ranking is currently out of the top ten.

INVEST IN EDUCATION

The Governor's 2005-07 budget will focus resources on improving Wisconsin's educational system. The Governor's Task Force on Educational Excellence is poised to propose many new ideas for supporting our teachers, reinforcing high educational attainment for all Wisconsin children and improving financing of our local schools. Access to higher education for all Wisconsin citizens will also be a top priority for the Governor.

CARE FOR WISCONSIN'S KIDS

High educational attainment and the future success of Wisconsin's economy depend on ensuring our kids are protected and cared for. Implementing the Governor's KidsFirst initiative will be a top priority in the 2005-07 budget.

GROW WISCONSIN

The Governor's Grow Wisconsin plan in support of high-skill, high-wage employment was endorsed by the 2003-04 Legislature. The 2005-07 budget will continue implementation of these initiatives and seek to increase training opportunities for Wisconsin's businesses and work force. The Governor was also able to push forward regulatory relief in support of Wisconsin business without compromising Wisconsin's high environmental standards. The 2005-07 budget will focus on further streamlining burdensome regulations while maintaining Wisconsin's pristine environment.

SUPPORT LOCAL GOVERNMENT

The Governor's 2005-07 budget will continue to protect a fair and equitable shared revenue system for local governments. Local government services are critical to Wisconsin's citizens. Efforts to improve cooperation between state and local governments will be one of the primary goals of the budget.

REFORM HEALTH CARE

Wisconsin's economy is threatened by rapidly increasing health care costs. Preserving access for Wisconsin's seniors, disabled individuals and low-income families; containing costs; addressing federal mandates; and streamlining the health care delivery system will be priorities in the 2005-07 budget.

PROTECT WISCONSIN'S CITIZENS

The Governor's 2005-07 budget will continue efforts to decrease the overall cost of incarceration in Wisconsin while maintaining the safety of our citizens. Technology enhancements and improved coordination of state and local law enforcement remain key goals.

ENHANCE WISCONSIN'S NATURAL RESOURCES

The Governor understands that the success of Wisconsin's economy is tied directly to protecting and enhancing Wisconsin's pristine environment and natural resources. The budget will continue to make the Warren Knowles - Gaylord Nelson Stewardship 2000 Program a priority along with other measures that ensure natural resource protection and environmental quality.

SECURE FAIR SHARE OF FEDERAL DOLLARS

Federal funds comprise approximately 25 percent of the state budget. The state has a goal of increasing the receipt of federal funds where consistent with state program goals. The Governor will continue to aggressively pursue federal funds so that Wisconsin taxpayers are treated fairly relative to their financial contributions.

STREAMLINE STATE GOVERNMENT

The 2005-07 budget will continue to downsize and streamline state government. Through prudent technology investments, co-location of government services and elimination of low-priority programs, services to citizens will be improved using fewer positions.

BUDGET TARGETS

- Agencies should prepare their 2005-07 biennial budget requests based on 100 percent of their fiscal year 2004-05 adjusted base level.
- Based on advance commitments from the 2003-05 biennium, the 2005-07 biennium will present many fiscal challenges.
- Addressing these challenges will be the overriding factor in GPR spending decisions for the next budget. As such, there will need to be restraint in most GPR appropriations in the next budget.
 - Agencies should assume there will be zero growth in overall GPR appropriations in each fiscal year during the 2005-07 biennium, and specific program needs should be managed within this general constraint.
 - Exceptions will occur only for K-12 equalization aids; required cost-to-continue needs for the state's institutions, i.e., the Department of Corrections and the Department of Health and Family Services institutions; entitlement and related assistance programs in the Departments of Health and Family Services (e.g., Medical Assistance) and Workforce Development's Division of Vocational Rehabilitation; and housekeeping adjustments like standard budget adjustments, fuel and utilities, and debt service.
- The zero growth policy will also apply to the SEG-funded administrative operations appropriations of the Department of Transportation, Department of Natural Resources and Lottery.
- Funding requests for other types of appropriations and other funding sources in both years should be limited to revenue availability and prioritized programmatic needs.
- Except for standard budget adjustments, routine budget items should be handled in agencies' base budgets regardless of fund source. Consistent with overall targets, agencies should limit requests to spending items associated with significant policy and operational changes.

PLANNING FOR OPERATIONS REDUCTIONS

- Agencies with state operations administrative appropriations, including the administrative activities of the University of Wisconsin System, should prepare plans to absorb a ten percent permanent base cut.
- This reduction should equal ten percent of all non-FED sum certain state operations administrative appropriations in an agency.
- Reduced base budget plans should be submitted no later than Monday, November 15, 2004.
- To prepare for these cuts, agencies should look beyond trying to absorb the reduction as an across-the-board appropriation cut. This should not be an exercise to tweak the status quo, instead you should use this exercise to fundamentally review your agency's missions and

priorities, exploring opportunities to reallocate resources, integrate programs and consolidate functions.

- Given the need to reduce state government operations, coupled with expected increases in employee retirements, agencies should also expect to operate with a smaller work force than they are currently authorized to have, regardless of their sources of funding or budget outlook. This strategic staff planning is also emphasized by the 2001 Wisconsin Act 109 requirement to report on all vacant positions and associated funding. Instructions will be sent out separately to agencies on how to report on fiscal year 2003-04 vacancies.
 - Agencies should anticipate that they may need to take a ten percent reduction in authorized positions and should plan to accomplish this reduction without layoffs.
 - Any areas needing additional staff must be met through base reallocations.
- Agencies should not include any savings from enterprisewide administrative savings initiatives in budget requests or budget reduction plans. Savings from these efforts will be incorporated into the Governor's budget. More information on these efforts and the impact on individual agencies will be shared as it becomes available.

Note: Agencies must receive approval from the State Budget Office before proposing to use funding sources in another agency to stay within budget targets, to absorb operations' reductions or to fund any new initiatives.

BASE BUDGET REVIEW

Beginning with the 2003-05 budget, the Department of Administration secretary is required to select one-third of all state agencies each biennium and require those agencies to provide a description of each programmatic activity performed by the agency and the expenditure, by revenue source, for each activity area. Expenditures must be reported for the last three fiscal years, with detailed breakouts of expenditures occurring in the third and fourth quarters of those fiscal years.

Agencies' Chapter 20 appropriation schedules will be used to identify programmatic activity areas and to categorize the expenditure information. Agencies required to report for the 2005-07 biennium must submit their reports no later than Monday, September 20, 2004. The State Budget Office will notify selected agencies on August 30, 2004, and will provide the base expenditure information and a standard format for agencies to describe their programmatic activity and spending patterns.

PERFORMANCE MEASUREMENTS IN BUDGETING

- Agencies should update the performance measures submitted for the 2003-05 biennial budget. Wise use of taxpayer resources necessitates a shift in thinking away from requests for new money and toward achieving results. Performance measures can help to facilitate this shift.
- Agencies are asked to continue to report on the performance measures they identified for previous biennial budgets. These measures are related to agencies' broad Chapter 20 budget programs. If needed to capture significant shifts in agency function, additional measures could be added; however, only a few measures should be presented so there is a clear focus on results.
- Ideally, outcome measures should present at least five years of past performance, preferably the most recent five years for which data is available, to portray trends. If historical data is not available or not feasible because a program is too new or doesn't yet exist, the agency should collect base data to show what the present situation is. Ideally, planned outcomes based on the agency's goals and objectives should also be presented for the next five years. For the 2005-07 budget, agencies need to report actual outcome measures through fiscal year 2002-03 or, if possible, through fiscal year 2003-04. Planned outcome measures should be listed for fiscal year 2003-04 through fiscal year 2006-07. Agencies should track and maintain data going forward to present actual performance data for a fiscal year compared to planned performance. (A calendar year may be used if data is collected on that basis. Please note where calendar years are used.)

The State Budget Office will include performance measures developed by an agency in the Executive Budget Book, and agencies should reference measures in decision items, where relevant. The information that needs to be presented for each broad Chapter 20 budget program where measures are reported includes:

- The key goals and objectives for each program.
- The outcome measure(s) selected for the program, including past actual outcomes and the planned outcomes over the next three years.
- Statewide data can be presented, as well as comparing different regions. Data showing that one region is lagging behind other regions in Wisconsin, for example, may suggest a geographical reallocation is appropriate. The agency should also identify what external factors may influence program outcomes, since many factors can impact program success. Finally, the agency should be prepared to address how it could adjust programming to improve results.
- Because many factors enter into budget decisions, the traditional program budget decision information and format will continue to be presented. However, outcome measures can provide a rationale to add, reduce or reallocate budget resources. Measures should be taken into consideration when funding decisions are made. They should be cross-referenced in decision items, where applicable, but the agency should not rely on requests for new funding to reach a planned outcome goal. Better alternatives may include reallocating existing base funding, consolidating similar programs or identifying other means to improve outcomes within current program funding.

- Agency descriptions and performance measures will be E-mailed to each agency budget contact for updating. Agencies need to follow the prescribed format to ensure consistency and compatibility. The information should be submitted electronically in Microsoft Word software format, to facilitate inserting the information in the Executive Budget Book.

BUDGETING FOR INFORMATION TECHNOLOGY

Requests for funding of information technology projects should identify the link between the project and the state's business goals and provide specific information about each project. Consistent with information technology strategic planning, project definitions should include a standard return on investment (ROI) calculation.

Agencies should not reflect anticipated rate reductions related to charges from the Division of Enterprise Technology in their 2005-07 budget requests. Forecasting of rates and impacts on individual agency budgets will be addressed by the Department of Administration in developing the Governor's 2005-07 budget.

INCREASING FEDERAL FUNDS

Federal funds comprise approximately 25 percent of the state's resources. The state has a goal of increasing the receipt of federal funds where the use of federal funding is consistent with state program goals. In order to increase the amount of federal funds received, agencies should conduct the following review:

- Examine existing grant awards to ensure that they are fully utilized and consistent with agency priorities. If unexpended grant authority is available, the agency should reallocate the funds to other activities to the extent possible under state and federal rules.
- Agencies may also identify, in the form of a policy paper, additional federal grant opportunities that were not included in the agency's request. Such opportunities may be considered for funding by the State Budget Office during budget deliberations.

The Department of Administration's Division of Intergovernmental Relations will work with agencies to develop current issues to be included in the Governor's Federal Issue Agenda to increase the receipt of federal funds.

STATUTORY LANGUAGE GUIDELINES

- Agencies should not submit policy items unrelated to appropriation changes for inclusion in the Governor's budget.

Note: Please contact your State Budget Office analyst to discuss whether a particular initiative is appropriate for submission as a budget request.

- Agencies should not submit extensive lists of technical or housekeeping changes for inclusion in the Governor's budget. Proposed changes for separate nonbudget legislation can be submitted to the Department of Administration for review and approval, separate from the budget request.

Note: Please contact your State Budget Office analyst if these types of changes are sought.

- As in past budgets, prior to September 15, agencies may work directly with the Legislative Reference Bureau in preparing statutory language items related to the budget. After September 15, all drafting and redrafting requests related to the budget must come from the State Budget Office.
- The Legislative Reference Bureau strongly discourages agencies from submitting budget bill drafts that agencies have drafted. Instead, agencies should submit memoranda identifying what they are seeking to accomplish.
- The detailed budget instructions will provide more information on statutory language submittal requirements.

BUDGET SUBMITTAL DUE DATES AND PROCEDURES

- Formal budget requests, including statutory language related to decision items, are due Wednesday, September 15, 2004. Send four (4) copies to the State Budget Office and two (2) copies directly to the Legislative Fiscal Bureau.
- Agency budget directors will be required to include with their budget submittals a signed Budget Checklist of budget elements completed. This will help ensure all required materials have been included in the budget. The formal instructions for 2005-07 will include this checklist.
- State Budget Office staff will also meet with individual agencies to explain budget policies and procedures and discuss any agency concerns.

INFORMATION ON THE WEB

- The Budget Instructions, along with various budget forms, will only be available on the State Budget Office Web site at <http://www.doa.state.wi.us/debf/index.asp>.
- Periodic information updates will be posted to this Web site so agencies should check it regularly.