



July 14, 2010

Summer State Budget Update

- Governor and Department of Administration Issue Budget Guidelines
- New Revenue Estimates Quantify Ongoing Structural Budget Deficit
- WTCS Budget Development Process Underway
- Upcoming Elections Will Set Stage for 2011-13 Budget Process

Not surprisingly, two recent developments confirm that it will be a very challenging state budget environment ahead.

State Budget Guidelines Issued for 2011-2013

The Wisconsin Department of Administration (DOA) and Governor Doyle recently issued guidelines for state agency budget requests. These guidelines effectively represent the Governor's instructions to state agencies, including the Wisconsin Technical College System (WTCS), as they prepare requests for the 2011-13 state budget bill. The budget bill will determine appropriations and the shape of state programs for the new biennium beginning July 1, 2011 and concluding June 30, 2013.

State agencies are being asked to plan for "at least a 10% permanent base cut" of almost all state appropriations in the new biennium. The guidelines also provide that agencies should not plan on any increases in appropriations in the 2011-13 budget bill. Finally, the guidelines note that the DOA's current authority to lapse \$641 million in appropriations back to the state in 2009-11 will "need to remain in place" for the upcoming biennium.

While it is not unusual to ask agencies to plan on flat funding, the suggestion that a 10% cut could also be required is significant. Past across-the-board cuts have tended to be made to state "operations." This includes state employees and agency operations, such as the WTCS office and staff. The WTCS staff and operations have already been cut significantly across several years and budget measures.

A 10% base cut to broader state appropriations could also include all WTCS general and categorical aid to districts. At a current base funding level of approximately \$140 million annually, the 10% hit would reduce state investment in technical college districts by \$14 million annually and some \$28 million over the biennium.

It is not uncommon for state entities to submit budget requests that do not follow the guidelines. This is especially true for non-cabinet agencies that are a step or more removed from the direct operation of state agencies under the Governor's control. However, the budget guidelines - whether they will be strictly followed or not - do provide good insight on how challenging the current administration believes the state's fiscal condition will be in the coming two years. At this time, the answer appears to be "extremely challenging."

Legislative Fiscal Bureau Issues New Revenue Estimates for 2011-2013

Separate from the Governor's budget planning memo, the Legislative Fiscal Bureau (LFB) has just issued new state revenue and deficit estimates. The LFB is uniformly trusted as providing high-quality and non-political fiscal analysis and data.

According to the LFB, the state faces a \$2.5 billion structural deficit for the 2011-13 biennium. The "structural" deficit is the gap between projected state revenue for the period compared with all state funding commitments during the upcoming biennium under current law. In other words, based on projected revenues from current taxes and fees at current rates, the state will come up approximately \$1.25 billion short in each of the next two years (2011-12 and 2012-13) based on existing/current commitments: appropriations, programs and state law.

Of course, revenue growth (above the LFB estimates) or reduced state spending would lower the projected deficit. Revenue may grow as the economy improves or through increased state taxes or fees. Revenue can also grow in less obvious ways such as by restructuring the state's long-term debt. The deficit can also shrink through reduced spending. Again, the LFB projection is based on "current" law. Reducing many state core appropriations by 10% over the new biennium, as suggested in the DOA budget guidelines, would certainly have a deficit reduction effect.

It may be stretching it to say the projected deficit is not really bad news. It's not good news, but it's also certainly not "new news." The state has begun each recent biennium with a structural deficit. The 2009-11 biennium began with a \$1.7 billion deficit, and the 2007-09 biennium began with a \$2.9 billion deficit; larger than projected for 2011-13. For a number of years, prior Governors and legislative leaders agreed to adjust revenue estimates and to use various accounting "tricks" to make the budget look more balanced than it was. Just one example was the "booking" of the state's final major school aid payment from the end of an upcoming biennium to the next biennium's books. Plan to pay some bills in July instead of June two years' out and you appear to have "created" an extra billion dollars.

Such budget practices have largely stopped in the past few biennia, and the projected structural deficit is likely more accurate than in the past. Projecting revenue and expenditures for the next three years is still an art as well as an inexact science, however.

WTCS Budget Development Process Underway

State-funded entities including the WTCS submit budget proposals to the Governor by mid-September. These proposals are then used by the Governor in crafting a budget bill to be introduced in February, 2011.

The WTCS Board submits the official budget proposal for the colleges and for WTCS state-level operations. The WTCS also provides input to the Higher Educational Aids Board (HEAB) in terms of proposed state-level funding for need-based financial aid and for funding offsetting a portion of veterans' tuition remission costs. These programs are found in HEAB's appropriations, not the WTCS's.

Once again, the WTCS has invited stakeholder representatives to participate in a budget development workgroup. Bob Beaver (Mid-State District Board), Co-chair of the Association's Legislative Committee, and Paul Gabriel are representing the District Boards Association. Other groups providing a member to the workgroup are: the WTCS Presidents Association, the Wisconsin Association of Career and Technical Education, Wisconsin Student Government, and the colleges' two major labor organizations, WEAC and AFT-Wisconsin.

The Budget Development Workgroup has convened twice and recommended a budget proposal "framework" to the WTCS Board in late June. The workgroup will meet again before the WTCS adopts and forwards its proposal to the Governor.

Of course, the Governor-elect, all 99 members of the Assembly, and 17 of 33 State Senators will be selected by voters in November, several weeks *after* the WTCS budget request is submitted to Governor Doyle. The new legislature and Governor will be inaugurated in early January, 2011. Other than selecting cabinet officers and other administration leaders, the new Governor's transition will be dominated by developing the 2011-13 state budget bill.

Upcoming Elections Set Stage for 2011-13 Budget Process

Most Capitol activity, from inauguration to the beginning of the new biennium on July 1, 2011, will focus on the state budget. In Wisconsin, the biennium budget bill is introduced by the Governor and is then sent to the Legislature's Joint Committee on Finance (JFC), which is comprised of 16 legislators. The 2009-11 bill ran more than 1,750 pages. The JFC effectively rewrites the bill line-by-line over several months before it is sent to each house for consideration by the full body.

Importantly, Wisconsin's budget bill is much more than an appropriations document. The biennium budget bill re-writes significant portions of state law. It creates, ends, and modifies a wide range of programs, as well as setting appropriations for the new two-year cycle. Often referred to as the "one bill that must pass," the budget bill will almost certainly contain a number of substantive proposals that would otherwise be stand-alone bills. These reflect the Governor's and each legislative house's priorities, as well as those of interest groups and individual legislators.

The JFC's membership significantly affects how the Governor's bill is handled. Each house appoints 8 members to the JFC. The majority party of each house typically appoints 6 seats (including a co-chair) and the minority appoints 2. This results in three possible scenarios, depending upon the party holding the majority in each house:

- 12 Democrats and 4 Republicans (if both houses have a Democrat majority). This is the current JFC's membership for 2009-10.
- 8 Republicans and 8 Democrats (if one house is controlled by Republicans and the other by Democrats). Or,
- 12 Republicans and 4 Democrats (if both houses are Republican-controlled).

Any adjustment to the budget bill by JFC -- and there are typically more than 1,000 changes made -- requires 9 or more of 16 JFC votes. At this point, it should be pretty apparent that majority control of each house has a very direct bearing on how JFC votes to adjust the budget bill.

With the first truly open race for Governor since 1994, a brand new Governor will write the budget bill and will introduce it less than two months after inauguration. The already high level of budget uncertainty due to economic conditions increases dramatically in this environment. Add to this a highly volatile electoral environment for legislative races in both houses, and the uncertainty increases exponentially.

The Assembly (with all 99 seats on the ballot) is currently controlled by Democrats with 52 seats, rounded out by 46 Republicans and 1 Independent. The Independent will not run for re-election, but a longtime Democrat, Bob Ziegelbauer (D-Manitowoc), has announced he will leave the Democrats and run as an Independent. With the remaining members split 51-to-46, a shift of 4 seats would change the majority control in the Assembly.

Fully 20 incumbent Assembly members have announced they are not running for re-election (8 Democrats, 11 Republicans and the lone Independent). While many of those leaving are in "safe" seats for their respective party, these departures also serve to increase the level of electoral uncertainty.

The Senate (with 17 of 33 seats on the ballot) is currently controlled by Democrats with 18 seats to the Republicans' 15. A shift in just two seats from Democrat to Republican would change majority control. Three current members have announced they will not seek re-election (1 Democrat and 2 Republicans). However, 2 more Senators (1 Democrat and 1 Republican) who are not up for election this term, are pursuing U.S. Congressional seats and will resign from the Senate if elected to the U.S. House. Once again, the uncertainty increases.

We know that the WTCS budget request will be dynamic and well-justified, and we know it will be submitted to Governor Doyle in September. We don't know who will craft the resulting bill as Governor. We also don't know if the JFC will succeed in easily re-writing the new

Governor's budget bill with a series of 12-4 votes on party lines, or if it will fail to re-write it significantly on party line votes that fall 4-12 or lock up tied at 8-8.

Of course, we also don't know just how different estimated state revenues and structural deficits may look with six more months of reality behind us from today.

The next state budget update will look at some of the funding realities for technical colleges, the emerging budget request framework, and important advocacy activities as we head toward fall.

Stay tuned!

Any opinion or analysis in this document is exclusively that of the author, Paul Gabriel. For more information about these or other public policy issues affecting technical colleges, contact Paul Gabriel at 608 266-9430 or pgabriel@districtboards.org.