



An Overview of the Governor's Budget Repair Bill

March 11, 2008

On March 10, 2008, Governor Doyle announced his plan for addressing the \$652 million hole in Wisconsin's 2007-09 budget. The Governor has called on the Legislature to begin a special session on March 13 to take up the budget repair bill that he has proposed. The following is a brief summary of how the Governor seeks to close the deficit:

- **Transportation project financing** – The largest single portion of the savings or revenue used to balance the budget would come from authorizing the Department of Transportation (DOT) to issue \$190 million in new bonds for transportation projects, thereby freeing up segregated Transportation Fund dollars to transfer to the General Fund. The new debt would be in the form of general obligation bonds, which means that the principal and interest would be repaid from general tax dollars, rather than from future Transportation Fund revenue. In addition to the new bonding, the bill takes advantage of a \$77 million increase in federal transportation funds, and it assumes DOT will issue \$67 million of bonds that had already been authorized. Those various sources of revenue will allow the transfer of up to \$293 million to the General Fund, without reducing the previously approved transportation spending. The downside is that the future costs of the bonds add to the state's structural deficit.
- **Agency budget cuts and lapses** – In mid February 2008, just before the new deficit was officially announced, the Department of Administration directed agencies to make an additional \$111 million in cuts to their budgets. The budget repair bill would change the \$111 million figure to \$330.4 million, and that comes on top of \$200 million of cuts that agencies were already required to make by the biennial budget bill. Much of the \$330 million that would be lapsed is from the funds that would be freed up by the changes in transportation project financing described above.
- **Hospital assessment** – The Governor once again proposes to apply an assessment on hospital revenue. The latest plan calls for a 0.7 percent assessment, and most of it would be used to increase the Medicaid reimbursement rate for hospitals – thereby capturing federal matching funds – although \$125 million would be used to help balance the budget. Because of the federal matching funds, most hospitals would come out ahead, which helps explain why the Wisconsin Hospital Association endorsed the plan. Another reason for their support, according to their March 10 press release, is that failure to find new revenue “could jeopardize access to important health care programs while worsening the ‘hidden tax’ which already raises the cost of health insurance because of cost shifting due to inadequate Medicaid payments.” The Governor's proposal would “sunset” the assessment at the end of the current biennium (June 30, 2009).

- **Rollover of payments on short-term debt** – One of the actions taken shortly before the deficit was officially announced is the refinancing of short-term debt. By rolling over that debt into longer term obligations, the state increases future costs but expects to save \$125 million in this biennium.
- **Tobacco bond refinancing** – The tobacco bond refinancing proposal authorized under the budget law will be modified to generate \$30 million in addition to the \$50 million initially anticipated in the budget. This money will be transferred to the Medical Assistance Trust Fund to replace an equal amount of general purpose revenue funding.
- **Public library funding** – Public library aid will be financed by \$11.3 million transferred from the Universal Service Fund, replacing general purpose revenue funding in FY 2009. The state budget had provided a similar transfer of \$9.8 million for FY 2008. The Universal Service Fund was created to ensure essential telecommunications service and access to advanced telecommunication capabilities.
- **Corporate tax avoidance** – Transactions between a corporation and a real estate investment trust (REIT) that it owns or controls would be disregarded. The provisions seek to close a loophole in which a corporation transfers its real property to a REIT and lowers its taxable income by claiming a deduction for rent paid to the REIT. The REIT is not subject to tax as long as it distributes its income as dividends, and the dividends received by the parent corporation are not subject to Wisconsin tax as long as the parent owns at least 70 percent of the REIT. This provision would generate \$6 million in revenue.
- **REAL ID law** – Delays at the federal level in the development of rules relating to the federal REAL ID law will permit transfer of \$5 million to the General Fund from the Joint Committee on Finance supplemental appropriation in the current fiscal year.

The cumulative effect of all of these measures is to reduce the state's deficit by \$630 million. Although that falls a little short of fully remedying the \$652 million shortfall, the difference can be made up from either the \$65 million in the state's statutory reserve or the \$57 million in the Rainy Day Fund. The net effect is that those two funds would still have a total balance of \$100 million, which would give the state a slight cushion if the economic downturn gets worse or if the state loses any of the three pending court cases that pose threats to state revenue collections.