

THE WISCONSIN TAXPAYER

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State Budget: Process and Issues

Governor Patrick J. Lucey (D), 1918-2014

Wisconsin's state budget is as important as it is extensive, covering taxes, spending, and a range of issues that touch on nearly every aspect of public life in Wisconsin. Voters do well to follow the state budget and influence it where they can. However, doing so requires a basic understanding of the state budget process. This report provides an explanation of the process by which the budget is developed, revised, and enacted.

According to an old saying around Wisconsin's capitol, the only bill that has to pass the legislature is the state's two-year budget.

Over the past 50 years, the budget has expanded from being a manageable piece of legislation with a fiscal focus to being a massive bill spanning a thousand pages or more that touches on almost every aspect of public life in Wisconsin.

Wisconsin's state budget has become a veritable "catch all," covering not only taxes and spending, but also a number of other issues, ranging from schools and prisons to higher education, health care, and transportation. Even items that in other states might be passed as separate bills are folded into the budget here.

No one seeking to impact public policy in Wisconsin can afford to ignore the biennial budget. For governors, it is the primary tool by which they advance their agenda. Lawmakers know that the best way to enact legislative priorities is to fold them into the budget. Lobbyists understand that the fastest and surest results for clients can be secured in the budget.

Citizens who ignore Wisconsin's state budget as a boring collection of numbers do themselves a great disservice. The bill allocates over \$70 billion in spending over two years.

If Wisconsin taxpayers and voters wish to change government, the state budget is a good place to start.

But, first, they need a basic understanding of Wisconsin's budget, and particularly the process by which it is developed, revised, and enacted.

OVERVIEW

The state budget is a single bill, passed by the legislature and signed by the governor, that determines much state policy and sets Wisconsin's fiscal course for two years.

At the time of Wisconsin's founding in 1848, the Wisconsin constitution simply required that "no money shall be paid out of the trea-

Also in this issue:

Veto Powers Across States • Moving In and Out of Poverty • Gas Tax Collections Climb

sury” without legislative approval. In the 167 years since, that requirement has evolved into a lengthy and complex budget process.

The figure spanning pages four and five provides a visual timeline of the state budget process, divided into four stages. Voters seeking to influence the budget can do so in multiple ways indicated throughout this report.

1 INSTRUCTIONS AND REQUESTS (MAY/JUNE-NOVEMBER 20)

The state budget process begins in the summer of even-numbered years and continues until the bill becomes law. Since the new biennium begins on July 1 of odd-numbered years, the goal is to have a budget signed into law before then. Thus, the 2015-17 state budget process began the summer of 2014 and, barring delay, will be effective July 1, 2015.

Budget Instructions

The governor kicks off the process, usually in May or June, by issuing to state agencies instructions which set out guidelines for them to follow in preparing their tax and spending requests for the coming two years.

In addition to technical details, the budget instructions reflect a governor’s broad fiscal goals for the budget. For instance, the 2009-11 budget instructions asked agencies to submit spending requests without increases. The instructions differ from governor to governor, and from budget to budget.

Budget Request and Review

State law requires agencies to submit budget requests to the state budget office by September 15.

November 20. The Department of Administration (DOA) combines all agency requests into a single report, adds the Department of Revenue’s (DOR) revenue estimates for the current fiscal year and forthcoming biennium, and releases the document on November 20th. The report provides the first



What can YOU do? Early in the budget process, when agencies are preparing requests, voters seeking to influence the budget might be most effective contacting the relevant state agency head directly with suggestions. An email or call to the governor’s office might also make sense. The governor’s budget is based on agency requests.

look at state finances in the coming biennium, and is used by the governor as the basis for his spending recommendations.

One problem with this November 20 exercise is that there is usually a gap between agency spending requests and likely revenues that can generate premature claims of a future deficit. However, these requests are not estimates of future spending but merely requests that will be scrutinized. The governor and legislature do not automatically grant spending requests. The governor often adjusts requests to meet available revenues. When funds requested by agencies exceed estimated revenues, the result is not a “deficit” but an understandable difference in priorities that the budget process is designed to reconcile.

2 GOVERNOR’S BUDGET (NOVEMBER 20-FEBRUARY)

The DOA November 20 report is only a starting point for the executive branch. Over the next several months, budget analysts, the State Budget Director, the DOA secretary, and the governor review agency

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Table 1: State Budget Timeline Varies Over Past 20 Years
Date of Introduction Through Date of Publication, 1993-2013

Biennium	Party*			Date of Introduction	Passed			Final Leg. Action	Gov. Signs	Publication Date	Late
	G	S	A		JCF	First House	Second House				
1993-95	R	R	D	Feb. 4, 1993	June 29	June 30	July 7	July 16	Aug. 10	Aug. 11	✓
1995-97	R	R	R	Feb. 16, 1995	June 15	June 22	June 28	June 29	July 26	July 28	✓
1997-99	R	D	R	Feb. 12, 1997	Sept. 4	Sept. 16	Sept. 25	Sept. 29	Oct. 11	Oct. 13	✓
1999-2001	R	D	R	Feb. 16, 1999	June 10	June 30	July 1	Oct. 6	Oct. 27	Oct. 28	✓
2001-03	R	D	R	Feb. 20, 2001	June 7	June 19	June 29	July 26	Aug. 30	Aug. 31	✓
2003-05	D	R	R	Feb. 20, 2003	June 4	June 18	June 19	June 24	July 24	July 25	✓
2005-07	D	R	R	Feb. 9, 2005	June 9	June 21	June 30	July 5	July 25	July 26	✓
2007-09	D	D	R	Feb. 13, 2007	June 20	June 26	July 6	Oct. 23	Oct. 26	Oct. 26	✓
2009-11	D	D	D	Feb. 17, 2009	June 8	June 11	June 25	June 26	June 29	June 29	
2011-13	R	R	R	March 1, 2011	June 13	June 14	June 16	June 16	June 26	June 30	
2013-15	R	R	R	Feb. 20, 2013	June 14	June 19	June 21	June 24	June 30	July 1	

*Party in control; G=Governor, S=Senate, A=Assembly

requests. Along with the November report, the governor draws on several other resources to prepare his budget.

Resources

State Budget Office. A principal source of information and advice is the state budget office. DOA budget analysts review requests, checking for technical accuracy, analyzing request justifications, and evaluating their policy implications. The office provides the information the governor needs to set agency spending levels.

LFB Summary and Estimate. Closely following the November 20 release, the Legislative Fiscal Bureau (LFB) publishes a summary of major items included in state agency requests, which is distributed to each member of the legislature.

Then, usually in late January, the LFB updates DOR's November revenue estimates. The resulting figures are incorporated into the governor's proposed budget and are used throughout the remainder of the budget process, unless an update in those estimates is requested.

LRB Draft. Once the governor makes budget decisions, the state budget office works with attorneys from the Legislative Reference Bureau (LRB) to draft the governor's budget bill. Later, the LRB will also draft any budget amendments requested by the Joint Committee on Finance (JCF) or the legislature.

Budget Materials

The Bill. In addition to spending recommendations, the governor's budget bill includes any statutory

language needed to implement desired policy initiatives and program changes (e.g., if a state agency is to start a new program or end an old one).

Supplementary Documents. Several documents accompany the governor's proposed budget bill. These include:

- *The Governor's Budget Book.* Referred to in the statutes as the "Biennial State Budget Report," the Executive Budget Book provides for each agency a description of summary fiscal information and recommended changes to the current budget. The book contains all changes requested by agencies, and indicates which are recommended by the governor.
- *The Budget In Brief.* The Budget in Brief is a booklet that provides an overview of the governor's budget goals and policies, as well as changes recommended.
- *Tax Exemption Report.* This DOR-prepared study reports the estimated revenue loss from existing tax breaks.

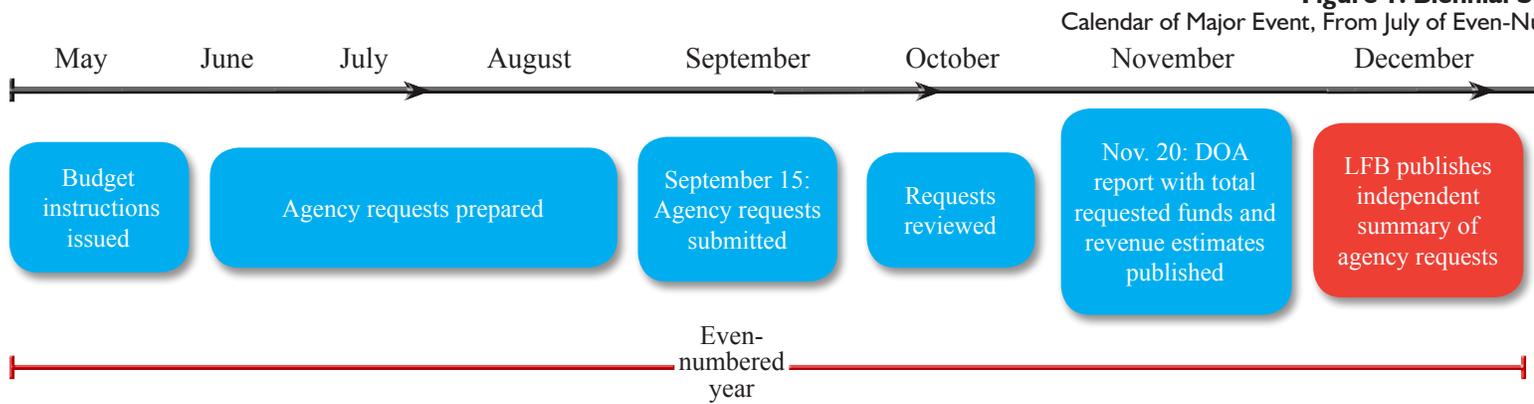
Submission

State law requires the governor to deliver a biennial budget message to the legislature by the last Tuesday in January, although governors may request a delay from the legislature. Delays have been requested in 16 of the last 19 biennia.

What can YOU do? It may prove easier to effect change before the budget has been introduced than after. Voters should attempt to contact the governor or state budget office to make concerns heard.



Figure 1: Biennial S



3

LEGISLATIVE REVIEW (FEBRUARY-JUNE)

After the governor’s budget has been submitted, a thorough process of review and amendment begins. It begins with the Joint Committee on Finance and ends with senate and assembly floor action. Review of the governor’s budget is a long, multi-step process.

LFB’s Budget Summary

Once the executive budget bill and supporting documents are available, they are reviewed independently by the Legislative Fiscal Bureau, which prepares a lengthy item-by-item summary that is updated throughout the legislative review process. The final summary provides a useful history of the review process, tracking actions of all the major players: the governor, the Joint Committee on Finance, the assembly, the senate, and any partial vetoes of the governor.

Joint Committee on Finance

Before the budget bill reaches the assembly or senate floor, it is first reviewed and revised by the Joint Committee on Finance. The JCF has broad authority to consider all bills related to expenditures and revenues prior to their passage by the legislature. Ultimately, the JCF produces the budget that the two houses consider.

What can YOU do? At this point in the process, the JCF has the most direct influence on the budget. Citizens should attend JCF hearings, or attempt to contact JCF members via letter, email, or in person with concerns.

The JCF is comprised of 16 legislators (eight from the assembly and eight from the senate), with members and co-chairs designated by assembly and

senate majority leaders. Committee composition heavily favors the majority party in each house, with six seats reserved for its members in each house. One party control of both the senate and assembly would give that party a 12-4 majority on the JCF. It is easy to see why a one-party legislature would expedite the budget process. When party control of the legislature is split, each party holds eight seats and compromise is more necessary.

With the power to remove, amend, or replace the governor’s recommendations, the JCF wields considerable influence in the budget process. This is not necessarily the case in other states. Most states distribute responsibilities on revenue and spending measures to multiple committees or between the legislative chambers.

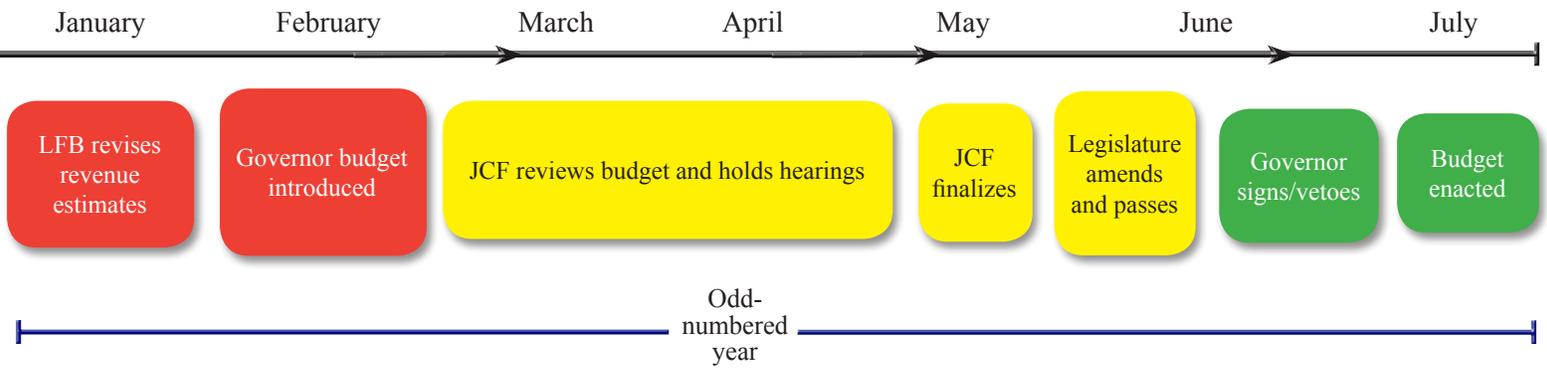
Briefings and Hearings. As part of its initial review process, the JCF gathers input from the LFB, state agencies, and the public. Briefings on the document begin in mid-March. Hearings generally begin in April.

The committee holds hearings where agency representatives brief it on how the governor’s budget would affect the agency and its programs. At later hearings, the general public can testify before the committee. Hearings occur at multiple locations across the state, often in districts of the JCF members.

Removal of Non-Fiscal Items. The size and omnibus nature of the state budget make it tempting to use it as a vehicle to enact policy unrelated to state finance. Thus, the governor’s budget often includes policy items that may not belong in a budget bill. In recent years, based on an LFB inventory, the JCF has removed many of them prior to committee deliberation. Typically, the policy proposals are then drafted as separate bills to be considered by the legislature.

State Budget Process

Numbered Years to July of Odd-Numbered Years



The JCF does not have to remove all nonfiscal items identified by the LFB. Whether they are removed is often a source of controversy. In the most recent budget, 58 nonfiscal items were identified, but only 12 were removed. For example, an item easing regulations for the rent-to-own industry was deemed “non-fiscal” by the LFB but remained in the budget.

Earmark Transparency. As the budget moves through the legislature, lawmakers often add items that fund specific projects in their respective districts, often called earmarks. For example, the 2013-15 state budget set aside \$80,000 for the operation of Camp American Legion in Lake Tomahawk, Wisconsin.

To foster earmark transparency, the LFB produces a report that lists all proposed earmarks in a budget, their cost, beneficiary, and (if the report relates to an amendment) the name of the lawmaker making the proposal. The report is distributed to the legislature and posted on the LFB website before the JCF can vote to pass the budget or any amendment to the budget.

Executive Sessions. Usually in April or May, the decision-making portion of the JCF process begins. In a series of executive sessions, the committee discusses items in the budget and considers options for amendment or removal. The JCF members and staff, the LFB analysts, and the state budget office participate in these sessions, although they are open to the public.

LFB issue papers prepared in advance of each executive session are used to discuss and review budget items or issues. These present background information and analyze options for committee consideration. During the 2013-15 budget process, the LFB prepared 300 issue papers.

Any changes to the governor’s budget are accomplished through JCF motions. Any committee member can ask staff to draft a motion to amend the budget.

These are then voted on by the JCF. Should any pass, they are incorporated into the JCF’s amended version of the budget.

Executive sessions typically occur over the course of eight weeks, at the end of which the JCF adopts a budget that can vary significantly from gubernatorial recommendations.

Assembly and Senate

Following JCF action, one or both houses of the legislature schedule briefings to become familiar with the revised budget. All members of the respective house may convene for a briefing, or separate briefings may be conducted for party caucuses.

In contrast to budget changes considered by the JCF, which occur in a series of motions ultimately folded into the budget, any changes proposed for consideration by the full assembly or senate must be offered and adopted in the form of formal bill amendments.

Because either house can amend the budget, the two do not always pass the same version of a budget. But, as with any other bill, if it is to become law, the budget must be agreed to in identical form by each house. Differences between the houses can be resolved in several ways.

What can YOU do? Voters should contact members of the legislature via letter, email, or in person to influence the assembly and senate before or during budget deliberations.

Resolution Process. When both houses are controlled by the same party, differences can be resolved informally before passage. When the legislature is split and interparty differences are significant, resolution follows one of several formal processes.

By one method, a conference committee is formed in which members of each house meet to reconcile differences. The conference report is then submitted to each house as an unamendable document to be voted “up or down.”

Differences between the houses can also be resolved by passing amendments that address specific disagreements between the houses. These “narrowing amendments” are passed until all differences are resolved.

Regardless of approach, once differences between the houses are resolved, a final budget bill is passed for the governor’s consideration.

4 BACK TO THE GOVERNOR (JUNE-JULY)

The governor’s signature is required for a budget bill to become law. However, he or she has the power to remove or modify items from the bill before signing it. The entire budget may also be vetoed.

Enactment and Publication. Once the governor signs the bill, it is delivered to the Office of the Secretary of State and published. Barring a legislative override of vetoes, it becomes the state’s fiscal policy for the next two years.

ISSUES

Wisconsin’s budget process is inherently political and the product of history. As a result, it is often controversial. Indeed, many aspects of Wisconsin’s process differ from those in other states. These differences raise important issues.

Balanced Budgets

The state constitution requires that the state maintain a balanced budget. The “balanced budget” requirement is widely recognized as a key element of state fiscal policy, and a major difference between federal and state governments. Most but not all states require a balanced budget, but requirements vary across states that do.

A 2008 survey conducted by the National Conference of State Legislatures found that 43 states

constitutionally or statutorily require the governor to submit a balanced budget. However, only 41 require that the legislature must pass a balanced budget. In just 38 states is it illegal for a budget to carry a deficit from one year to the next.

Some states, like Oklahoma, explicitly require that expenditures in a fiscal year be less than or equal to the cash available for that year. To ensure this, the Oklahoma constitution requires that the periodic allotments of appropriations to various state agencies be reduced if state revenues fall below the forecasted levels. Other states, like Virginia, have constitutional provisions regarding indebtedness and other budgetary issues, but lack enforcement mechanisms. Still others, including Wisconsin, require that, should a deficit occur, it must be resolved within a certain time period.

While the Wisconsin Constitution requires that the governor and legislature pass balanced budgets, it does not prohibit expenditures from exceeding revenues in the first year of a biennium. Instead, it requires that, should a deficit occur in the first year, sufficient taxes be collected in the year following to make up the difference.

Budget Timing

Late Budgets. In recent decades, delayed budget enactment has been relatively common in Wisconsin. Of the past 11 budgets, eight were enacted after July 1 (see Table 1 on page 3).

Historically, budgets tend to be later during times of partisan division in state government, particularly in the legislature. In each of the five times since 1993 when partisan control of the legislature was split, the budget was enacted over a month late, including three that were not enacted until October.

Delays occur, but tend to be shorter, when the legislature is controlled by one party and the executive branch by the other. With a Democratic governor and Republican legislature, the 2003-05 and 2005-07 budgets were both published in July. By contrast, the legislature and governor were of the same party during the 2009-11 (D), 2011-13 (R), and 2013-15 (R) biennia, and each budget was enacted on time.

Possible Cause? The frequency with which late budgets occur may be due in part to how Wisconsin handles them. Like many states, Wisconsin allows for continued funding of agencies and services without a new budget. Agencies continue operating at previous



What can YOU do? Governors typically make vetoes based on recommendations from lawmakers and affected state agencies. Reaching out to legislators and state agencies can influence veto recommendations.

year funding levels until a new budget is signed into law. Thus, the damage caused by delay is minimal, as state agencies remain funded and continue to operate.

Other states differ in approach. More than 20 states require a government shut-down in the absence of a budget. In 11 states, the legislature passes a temporary appropriation bill, also known as a “continuing resolution” or “stopgap measure,” to continue government operation until a new budget is finalized.

Biennial or Annual?

In Wisconsin, the state budgets on a two-year basis. While the practice is still fairly common among other states, it has become significantly less so over the years. Of the 44 states that budgeted biennially in 1940, 25 have abandoned the practice and now budget annually. Additionally, most that budget for two years still have legislatures that meet every year.

Currently, 31 states have annual sessions and an annual budget. Another 15, including Wisconsin, have annual sessions but budget biennially. Just four state legislatures both meet and budget every other year.

One argument against biennial budgeting is the difficulty of forecasting revenues caused by the volatility of the economy. Forecasting is always difficult, and often flawed, but it is easier to forecast one year ahead than two years.

Budget Reserves

One common state budgeting practice that is rarely followed in Wisconsin is to maintain adequate reserves or balances as a hedge against future economic downturns. Budgeting higher balances offers lawmakers greater flexibility should the economy and tax revenues falter. During the 2008-09 recession, the typical state had balances equal to 5% to 10% of annual expenditures. Wisconsin’s was at or below 1%.

State law acknowledges the wisdom of this practice. A 1983 state law required the Wisconsin legislature to maintain reserves equal to 1% of appropriations. The requirement increased to 1.2% of appropriations in 2000-01 and to 2.0% in 2005-06.

However, Wisconsin has ignored this requirement. Since the 2003-05 budget, governors and lawmakers have postponed implementing the requirement. The 2009-11 budget delayed the 2% requirement to 2015-16, and the current budget delays it to 2017-18. Of the past 14 years, enacted budgets left gross reserves

of less than \$100 million in seven, leaving the state little fiscal room to maneuver should the economy reverse course.

Veto Power

A 1930 constitutional amendment gave Wisconsin’s governor the power to approve appropriation bills “in whole or in part.” Rather than having to accept or reject the budget in its entirety, this partial (line-item) veto allows governors to “delete” words, sentences, paragraphs, and numbers from the bill before it is enacted. The legislature can with a two-thirds vote in both houses override any veto. However, this rarely occurs.

Veto History. The partial veto power has a long and controversial history in Wisconsin. The power to accept appropriation bills “in part” has been used with increasing frequency and creativity since its creation. The power to delete digits, words, and letters was used to reduce appropriations, and even to reverse the intent of bills. For example, in 1975, Governor Patrick Lucey (D) vetoed the word “not” in a phrase that read “not less than 50%,” thus changing a 50% “floor” to a 50% “ceiling.”

Two constitutional amendments limiting the item veto have been ratified. In 1990, voters approved an amendment prohibiting the governor from creating “a new word by striking individual letters in the words of the enrolled bill.”

A similar amendment was approved in 2008, after a 752-word section of the 2005-07 budget dealing with a variety of transportation issues was reduced to 20 words that authorized a \$427 million transfer from the transportation fund to the general fund. The governor said the veto was necessary to fund schools and limit property tax increases. Critics argued the transfer did not exist in the budget as passed by the legislature.

The 2008 amendment prevents the governor from using his veto power to “create a new sentence by combining parts of two or more sentences of the enrolled bill.”

Despite these amendments, Wisconsin’s veto power remains one of the most extensive in the country. While most governors can veto entire “items of appropriation,” few can selectively delete words and digits within individual items. □

DATA SOURCES:

National Conference of State Legislatures; Wisconsin Legislative Fiscal Bureau; Wisconsin Legislative Reference Bureau.



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WISTAX NOTES

■ **Veto Powers Across States.** Veto powers vary widely across states. Some state governors possess only the power to veto entire bills. Many can veto bills in part, some to a much greater extent than others. The table below assesses specific veto powers across states. While 49 state governors have the power to veto an entire bill, only 42 can strike funding for a particular item, and only 33 can veto funding for an entire program or agency. Wisconsin is one of only 13 states, including Illinois, in which governors have the power to reduce or substitute funding amounts.

■ **Moving In and Out of Poverty.** More than 26% of the 35.3 million U.S. residents who were in poverty in 2009, escaped it by 2010. By 2012, 42% had moved out, according to a new study from the U.S. Census Bureau.

Higher education was a key to climbing out of poverty. Only 39% of those in poverty in 2009 and without a high

school degree moved out by 2012. However, nearly 54% of those with at least some college did so.

At the same time, though, some individuals not in poverty in 2009 subsequently fell below the poverty line. While 14.8 million people left the ranks of the impoverished during 2009-12, 15.7 million joined them during those years. Again, education was a driving factor. More than 14% of individuals with less than a high school degree fell into poverty during that time period, compared to less than 4% of those with some college education.

According to the Census study, more than half of poverty spells lasted six months or less; nearly three-quarters lasted less than a year.

■ **Gas Tax Collections Climb.** Wisconsin collected \$999.4 million in gas taxes in fiscal 2014, or 3.4% more than in 2013. It was the first increase since a 1.7% rise in 2011, and the largest increase since a 3.6% jump in 2004. Wisconsin’s gas tax is 30.9¢ per gallon. □

Table 3: Gubernatorial Veto Powers
Midwestern States vs. Wisconsin, U.S. Total

State	Entire Bill	Funding for a Particular Line Item	Funding for an Entire Program or Agency	Language Accompanying Appropriation	Language in Footnote or Following Appropriation	Contingency Language on Expenditure of Appropriation	Reduce (R) Substitute (S) Amounts or Legislature to Consider
Illinois	✓	✓	✓	-	-	-	R
Iowa	✓	✓	✓	✓	✓	✓	-
Michigan	✓	✓	✓	✓	✓	-	-
Minnesota	✓	✓	-	-	-	-	-
Wisconsin	✓	✓	✓	✓	-	✓	R, S
Total	49	42	33	23	20	24	13

The Wisconsin Taxpayers Alliance, founded in 1932, is the state's oldest and most respected private government-research organization. Through its publications, civic lectures, and school talks, WISTAX aims to improve Wisconsin government through citizen education. Nonprofit, nonpartisan, and independently funded, WISTAX is not affiliated with any group—national, state, or local—and receives no government support. In accordance with IRS regulations, WISTAX financial statements are available on request.