



Summary of Fiscal Changes in the 2011 Budget Adjustment Bill

The budget adjustment bill, which has been released by the Governor and modified by the Joint Finance Committee, seeks to address the gap between revenues and projected spending in fiscal year 2011. This gap owes its existence largely to a decline in state tax revenues caused by the recession, increased Medical Assistance (MA) enrollment, and higher than expected spending for correctional services. The budget bill also includes a number of non-fiscal policy changes, including restrictions on public employee collective bargaining rights, which have provoked fierce opposition.

The budget adjustment bill, also known as 2011 Special Session Senate and Assembly Bill 11, increases overall spending as necessary to cover anticipated shortfall in the MA budget, and to a lesser extent the Corrections budget. The budget bill also reduces the amount of certain required lapses and adjusts the timeline of certain state payments to maximize federal matching funds. The amount of increased funding and reduced lapses included in the bill totals \$295.7 million for the remainder of 2011, as shown in Table 1.

Table 1: Main Provisions in 2011 Budget Adjustment Bill Affecting GPR	
<u>Increased Appropriations or Reduced Lapses</u>	<u>FY 2011 GPR Amount (millions)</u>
Increase funding for Medical Assistance benefits	\$134.0
Reduction in required lapses	\$79.0
Move certain MA payments from 2012 to 2011	\$42.7
Increase funding for Corrections	\$21.5
Increase funding for MA admin contracts	\$16.0
<u>Increase funding for MA income maintenance</u>	<u>\$2.5</u>
Total increased appropriations or reduced lapses	\$295.7
<u>Lapses or Reduced Appropriations</u>	<u>FY 2011 GPR Amount (millions)</u>
Debt restructuring	\$165.0
Use TANF funds to replace GPR funds for the EITC	\$37.0
Fringe benefits	\$29.8
OWI reserve	\$4.6
<u>Aging and disability resource centers</u>	<u>\$3.1</u>
Total savings, lapses, or reduced appropriations	\$239.5

The bill also takes a variety of approaches to lapse money or reduce appropriations, including pushing costs into future years and using non-General Purpose Revenue (GPR) sources to replace GPR. The total amount of reduced GPR spending for the remainder of 2011 is \$239.5 million. The net effect of the budget adjustment bill is to reduce the end of year General Fund balance by \$56.2 million.

The following items are included in the 2011 budget adjustment bill:

Increased Appropriations or Reduced Lapses

- MA Benefits Funding: Increase in \$134.0 million in GPR funding, \$270.1 million in FED, \$6.7 million in SEG

The bill increases funding for Medical Assistance to cover a projected year-end shortfall caused by higher than expected enrollment. The increase in federal funding (FED) represents federal matching funds available based on the increase in state General Purpose Revenue (GPR) and segregated (SEG) funding.

- Reduction in Required Lapses: Decrease Earned GPR by \$79.0 million

Previous budget bills directed the Department of Administration (DOA) to make a total of \$641.8 million in lapses or transfers during the 2009-11 biennium. This provision reduces the amount of lapse required to a level that DOA believes can be made by the end of fiscal year 2011.

- Moving Up MA Payments to Take Advantage of Enhanced Federal Matching Rate: \$42.7 million increase in GPR funding, \$82.6 million in FED

The federal Recovery Act temporarily increased the rate at which the federal matching funds are available to support Wisconsin's Medical Assistance program. Prior to the Recovery Act, Wisconsin's federal medical assistance percentage (FMAP) was 60.0 percent. For the period October 2008 through June 2011, the FMAP rate was increased and for the last quarter of this fiscal year the FMAP rate is 65.9 percent. After June 2011 the rate will fall to 60.2 percent.

The Department of Health Services typically delays certain payments to managed care entities from June to July, moving them into the next fiscal year. This provision moves those payments back to June to take advantage of the higher FMAP rate. According to the Fiscal Bureau, this action would enable the state to "pay \$42.7 million GPR in fiscal year 2011 to make MA capitation payments that would cost \$49.9 million GPR if they are made in July 2011."

- Corrections: Increase of \$19.5 million in GPR Funding and Reduction of GPR Lapse by \$2.0 million

This provision addresses a shortfall in the Corrections budget that is due to higher than expected staff salary and benefit costs, institutional costs, and mental health services.

- MA Administration Contracts and Income Maintenance: Increase in \$18.5 million GPR funding, \$18.5 million FED

The budget adjustment bill would provide \$18.5 million in GPR funding to address a shortfall in MA administrative contact expenses. The federal government pays half of MA administrative costs. The shortfall is due to larger than expected enrollments in the BadgerCare Plus Core Plan, and small cost overruns in a variety of income maintenance programs.

Lapses or Reduced Appropriations

- Debt Restructuring: \$165.0 million increase in GPR lapses

The budget adjustment bill restructures \$165.0 million in GPR-supported debt. Instead of making the next payment in this fiscal year, the state will pay back the debt over the next ten years. Restructuring the debt increases GPR lapses by \$165.0 million in fiscal year 2011, but increases costs in the 2011-13 biennium by \$29.6 million GPR (\$15.6 in principal, plus \$14.0 in interest). The total cost of restructuring this debt over the next ten years is \$207.1 million GPR (\$165.0 million in principal, plus \$42.1 million in interest). One result of the stalemate in the Legislature is that time has likely run out to refinance that debt before the payment for this fiscal year is due.

- Change Mix of EITC funding: \$37.0 million reduction in GPR funding, increase FED by same amount

The bill would use \$37.0 million in TANF block grant funds to replace the same amount of GPR in support of the Earned Income Tax Credit (EITC), which provides assistance to low-income workers. The overall cost of the EITC in fiscal year 2011 remains constant at \$132.9 million, but the amount of GPR support would decrease from \$126.2 million (95 percent of EITC funding) to \$89.2 million (67 percent of EITC funding), with TANF funds making up the balance.

The state's annual TANF allocation has been frozen at the same level since 1997, and diverting TANF dollars undermines the state's capacity to fund W-2 and child care for low-income families. The practice of using TANF funds to supplant GPR funding began in 1999 but was phased down in recent years because it had created a large structural deficit in the TANF-related budget for W-2 and Wisconsin Shares. According to Legislative Fiscal Bureau, the budget adjustment bill would reduce the TANF balance at the end of fiscal year 2011 from \$76.6 million to \$39.6 million.

- Reduction in Fringe Benefit Costs: \$29.8 million increased in earned and lapsed GPR

This reduction represents lapses to the General Fund resulting from proposed increases in health insurance premiums and retirement contributions made by state employees. The Governor also proposed that limited-term employees not be eligible for health insurance or retirement benefits, but the Joint Finance Committee deleted the provision.

Increase in Employee Share of Health Insurance Premiums: The bill would repeal current statutory requirements that govern the share of the health insurance premiums paid by state employees, and prohibit state employee unions (other than law enforcement and firefighter unions) from bargaining on employee share of premium costs. The bill would require most state employees to pay at least 12 percent of the average premium cost, up from the six percent of costs that state employees currently average.

For non-represented employees, this would increase contribution rates for the family policy for many employees from \$89 a month to \$208 a month, or 134 percent. The increase in employee

costs would go into effect beginning with health insurance premiums paid in April 2011. The bill would require state employee health insurance options in 2012 to include lower premium costs than in 2011 as well as copayments for participants.

Increase in Required Employee Contributions to Retirement: Employees of the state, University of Wisconsin, local governments, technical colleges, and school districts participate in the Wisconsin Retirement System (WRS). WRS requires both employer and employee contributions, but employers have typically picked up the cost of the employee's contributions. As a result, most state employees had a mandatory contribution rate of 0.2 percent of earnings in 2011.

The budget adjustment bill would prohibit WRS employers from paying any part of the employee's contribution, unless required in a collective bargaining agreement with law enforcement or firefighter unions. For most employees, the required contribution rate would rise to 5.8 percent. For an employee earning \$40,000, this would mean an annual salary reduction of \$2,240. The increase in required retirement contributions would go into effect in March 2011. The bill would also make changes to a formula that would have the effect of reducing pension benefits for some local elected officials and state executives.

- Reduce Reserve for OWI Legislation: \$4.6 million reduction in GPR funding

In 2009, legislation assigned the Joint Finance Committee \$8.8 million for potential release to various state agencies for costs associated with operating while intoxicated legislation. This reduction eliminates the remaining reserve that has not already been released.

- Family Care aging and disability resource centers: \$3.1 million reduction in GPR funding, and \$1.2 million reduction in FED

This reduction reflects estimates of cost savings that will occur because several centers began operations in the 2009-11 biennium later than originally planned. This action will also reduce matching federal funds by approximate \$1.2 million for fiscal year 2011.

- Reduce Funding for Income Augmentation: directed \$6.5 million lapse in PR and FED

The budget adjustment bill directs the Department of Health Services to lapse \$4.5 million FED and the Department of Children and Families \$2.0 million PR in federal Medical Assistance matching funds. The bill directs that these lapses should be counted against the \$200 million lapse required in the 2009-11 biennium by 2007 Act 20, which means that this provision does not increase the total amount lapsed to the General Fund.

- Restrictions on Collective Bargaining and Public Employee Wages: no effect in 2011

This bill would stipulate that public employee unions could not bargain on any condition of employment except wages. Total base wages for the state and local government units, including school districts, would be restricted to the rate of inflation. Local governments may approve total wage increases above the rate of inflation only after such a move is approved by referendum. This provision would not affect the fiscal year 2011 shortfall.