

SCOTT WALKER
OFFICE OF THE GOVERNOR
STATE OF WISCONSIN

P.O. BOX 7863
MADISON, WI 53707

August 14, 2012

Dear Agency Head:

When our administration took office on January 3, 2011, Wisconsin suffered under a \$3.6 billion budget deficit. Prior administrations delayed payments, raided segregated funds and used federal stimulus for ongoing operational expenses. For years, Wisconsin relied on one-time fixes, accounting gimmicks, and tax increases to balance the state budget. Those days are over.

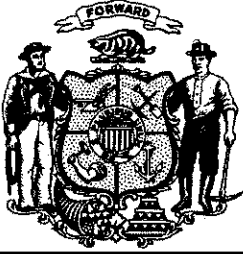
Facing a fiscal crisis on the day of my inauguration, our administration vowed to take immediate action to implement long overdue reforms and fiscal responsibility. By the end of my first year, Wisconsin increased revenue by 6.4 percent, balanced the state budget, and placed \$14.8 million into the budget stabilization fund. Furthermore, we are now poised to deposit an even greater amount as we close this fiscal year.

Other economic indicators continue to move in the right direction. Personal income increased at a rate of 5.2 percent, exceeding the national average. The unemployment rate declined year-over-year. Above average gains in both durable and non-durable manufacturing highlighted our GDP growth of 1.1 percent with manufacturing jobs growing a substantial 2.6 percent in 2011. The new days of responsible fiscal policy are here, and our broader economic recovery is building speed.

The building blocks of our recovery began with Wisconsin Acts 10, 13, 27, and 32. Act 32 brought our spending and revenue in balance. It was a test of our frugality and moderation as we sought sustainable solutions to Medicaid, state employment costs, and local government budgets. Without raising taxes, we solved the \$3.6 billion deficit left by the previous administration.

Wisconsin's financial outlook grows more sustainable. While cost pressures remain in Medicaid, Corrections, K-12, and the higher education systems, the tools and cost saving measures implemented in Act 10 and Act 32 can be more fully realized in the coming biennium. With the reforms we enacted, we saved the hard-working Wisconsin taxpayers more than \$1 billion, helped lower property taxes on a median-valued home for the first time in 12 years, and turned a budget deficit into a surplus. As our fiscal momentum builds, I plan to guide Wisconsin into increasingly stronger fiscal climates, where budget surpluses and positive economic growth become the norm and not the exception.

Others are beginning to take notice of Wisconsin's renewed momentum. After our first year in office, Wisconsin moved up 12 spots to 17th from 29th on CNBC's "America's Top States for Business" rankings and moved up to 20th from 41st on Chief Executive magazine rankings, the biggest jump of any state in the nation. Moving forward, we are



SCOTT WALKER
OFFICE OF THE GOVERNOR
STATE OF WISCONSIN

P.O. BOX 7863
MADISON, WI 53707

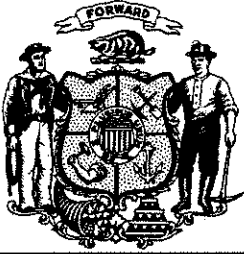
intensely focused on building a better job-creating business climate without raising taxes and encouraging the kind of innovation it will take to build a 21st century economy. We will channel some of this momentum into the Wisconsin Economic Development Corporation to foster the efforts of would-be job creators. We will implement various venture capital initiatives to push for and provoke much needed entrepreneurial development. Attracting and fostering job creators in the modern world requires we embrace the tools today's entrepreneurs need at their disposal.

Another critical tool for the job creator is a skilled and modern workforce. By implementing programs to train our friends and neighbors, we can substantially increase our state's reputation for tech-savvy, hard-working and ready-to-go workers. High-end manufacturers must never fear a lack of capable workers, and it is our mission to strengthen the confidence of any employer in Wisconsin as perennially open and ready for business. With innovative and strategic worker training, we will continue to grow a capable and dependable workforce.

Our workforce readiness depends on our ability to transform Wisconsin's education system. We will continue to strive to provide merit-based staffing to give us the best possible education providers and facilities. Reforms include implementation of the teacher evaluation model, a continuing focus on 3rd grade reading proficiency, and improved overall education outcomes. With these priorities, school districts and higher education institutions can build successful models, which fit unique local needs and bridge our workforce skills gap.

Economic success requires strong integration of the private sector and educational institutions. Wisconsin curriculum must have a better balance of employment-based learning and liberal arts so our graduates have the right skills for currently available jobs. We must also leverage new technology to increase online learning and allow students across Wisconsin access to world-class educators and industry leaders in other parts of the state. Our students deserve to learn from top-quality educators, so we must reform the system to reward excellent teachers, mentor struggling teachers, and replace failing teachers. With these reforms, Wisconsin will strive to provide educational excellence for all our children.

Investments in our infrastructure, such as transportation, telecommunications and energy, are vital to Wisconsin's economic recovery and competition in a global marketplace. We must diversify our energy supply based on a balance of cost and sound science, ever aware of the environmental impact. We should lift Wisconsin's nuclear moratorium to encourage this clean energy option, as well as continue to invest in energy transmission to move power from outside Wisconsin across the state. We must also get back to the basics of planning for transportation projects, funding common sense projects, and ending the raids on the transportation fund, so we can adequately maintain our roads and bridges. Wisconsin currently enjoys competitive advantages in the Midwest due to our transportation system we cannot afford to lose.



SCOTT WALKER
OFFICE OF THE GOVERNOR
STATE OF WISCONSIN

P.O. BOX 7863
MADISON, WI 53707

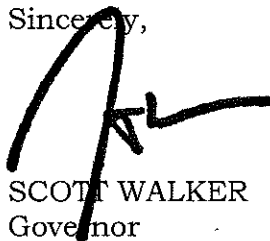
Wisconsin government exists to serve our people and one of our greatest responsibilities is meticulously tending a sound budget. We strive to be good stewards of the taxpayer's trust, while promoting both transparency and efficiency in government. Our continuous reform of government will remain fiscally prudent and will not raise taxes. We will seek every opportunity to re-tool existing programs and fashion additional programs as needed to ensure the most current and beneficial services. To avoid the temptation to once again resort to the gimmicks or one-time fixes typical of Wisconsin's recent past, we will prioritize growing the budget stabilization fund. By removing unwise and unsound budget gimmicks, by seeking a smaller and more efficient government, and by requiring transparency in these efforts, we aim to recover the trust of Wisconsinites and grow their faith in state government.

Given our shared goals, I am calling on most agencies to maintain their overall fiscal year 2013-14 and fiscal year 2014-15 GPR budgets at the fiscal year 2012-13 adjusted base levels minus the statutory and discretionary lapses. The same zero-growth targets will apply to the SEG-funded administrative operations. Agency requests should focus on enhancing the state's economy and advancing the goals discussed above. Funding to accomplish these priorities through modifying existing programs or developing additional programs should be offset by improvements in efficiency of agency operations or by reallocation of base funding.

Agency budget requests are due on September 17, 2012. Please review the Major Budget Policies and Budget Instructions carefully as you prepare and prioritize your requests. Technical budget instructions will be available on the State Budget Office SharePoint site.

Thank you for all your hard work. Together along with our professional state employees, we will meet the challenges before us and exceed the expectations of the people of Wisconsin.

Sincerely,



SCOTT WALKER
Governor