



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #528

Conservation Fund Account Administrative Funding (DNR -- Departmentwide)

CURRENT LAW

Under 1999 Act 9, DNR is prohibited from expending more than 16% from the fish and wildlife account of the conservation fund for administrative purposes, including department administration and support services and division administration. The Department was further directed to submit information to the Joint Committee on Finance under s. 13.10 by April 1, 2000, detailing how the requirements would be implemented. As a result, DNR was directed to delete \$469,000 in fish and wildlife SEG and 4.5 SEG positions in 2000-01 from among the Division of Administration and Technology, Land Program Management, Water Program Management, Enforcement and Science Program Management, and CAER Program Management. Under the 2001-03 biennial budget, the Legislature required DNR to submit a report to the Joint Committee on Finance detailing its rationale for its current administrative funding and demonstrating the equity of its assignment of costs in terms of benefits received by individuals whose user fees support the conservation fund. The provision was item vetoed by the Governor. However, in his veto message, Governor McCallum requested DNR to review its methodology and to share the information with interested parties. As of April, 2003, DNR had not submitted this report.

GOVERNOR

No provision.

DISCUSSION POINTS

Definition of Administrative Costs

1. The Department deleted 1.5 positions and \$46,200 from Administrative and Field Services, 1.0 position and \$43,300 from Finance, and 2.0 positions and \$139,300 from Enterprise Information, Technology, and Applications in order to meet the 16% administrative funding limit beginning in 2000-01. In addition, \$240,200 was deleted from the Bureau of Finance's supplies and services appropriation. In total, this resulted in a decrease of 4.5 SEG positions and \$469,000 in fish and wildlife account SEG, bringing DNR into compliance with the 16% requirement.

2. Upon review of the Governor's budget recommendations, DNR remains in compliance with the 16% administrative spending rule. As illustrated in the table below, 12.9% in 2003-04 and 12.4% in 2004-05 of fish and wildlife account expenditures would fund DNR administrative costs as defined in the statutes.

TABLE 1

Fish & Wildlife Account Expenditures

	<u>2002-03 Base</u>	<u>2003-04</u>	<u>2004-05</u>
Division of Administration and Technology	\$7,198,100	\$6,766,800	\$6,715,900
Land Program Management	1,691,200	388,800	388,800
Water Program Management	1,067,600	594,700	594,700
Enforcement & Science Program Management	437,300	454,600	454,600
CAER Program Management	<u>386,300</u>	<u>395,500</u>	<u>405,200</u>
Total Administrative Expenditures	\$10,780,500	\$8,600,400	\$8,559,200
Total Expenditures	\$74,033,600	\$66,567,600	\$69,191,000
Percent budgeted for administrative expenditures	14.6%	12.9%	12.4%

3. In spring, 2002, DNR began a series of organizational changes in an attempt to revise the field structure of forestry, wildlife management, parks, and fisheries management staff to restore program-based supervision within areas of programmatic discipline. Under the new structure, field staff would be accountable to supervisors within the same specialty (foresters would report to other foresters instead of to a supervisor with a fish and wildlife background, for example). The Department indicates that the decision to undertake the restructuring was driven by three main concerns: (a) a perceived loss of program and professional identity among field staff within the fish, wildlife, forestry and parks programs; (b) a desire to provide greater technical training and general guidance within specialized disciplines; and (c) concern over public confusion as to who to contact within DNR for information and assistance.

4. However, it should be noted that DNR included in its plan for reorganization a transfer of staff from split-funded management programs (including land and water program management, both of which are included in the statutory definition of administrative expenditures) directly to fish, wildlife, forestry, and parks appropriation funding (which would not be included in the calculation of administrative expenditures). The bill would transfer 58.75 positions between various subprograms. The following table shows the changes included in the 2003-05 biennial budget under "Transfers Within Appropriations", on page 310 of the Legislative Fiscal Bureau's Summary of the Governor's Budget Recommendations.

TABLE 2

Proposed Transfers Related to Reorganization

<u>Program</u>	<u>Staff</u>	<u>Funding</u>
Land Program Management	-47.00	-\$3,798,000
Facilities and Lands	-4.75	-234,700
Water Program Management	-6.00	-427,400
Drinking Water and Groundwater	-1.00	-73,700
Wildlife Management	18.75	1,333,000
Forestry	28.00	2,265,300
Fisheries Management and Habitat Protection	7.00	501,100
Facilities and Lands	2.00	169,700
Parks	2.00	200,400
Southern Forests	<u>1.00</u>	<u>64,300</u>
Total	0.00	\$0

5. If this transfer did not take place, and staff and funding currently associated with split-funded management programs continued to be included in the calculation of the 16% administrative funding limit, administrative costs to the fish and wildlife account of the conservation fund would still meet the statutory requirement (constituting approximately 15.5% in 2003-04 and 14.9% in 2004-05).

6. Concerns have been raised by some about this restructuring and its impact on the calculation of the 16% administrative limit. A number of legislators have inquired as to how to better define administrative costs within the conservation fund, and especially for the fish and wildlife account so as to permit a more accurate and consistent calculation of these expenditures over time.

7. In its audit of fish and wildlife account expenditures (dated July, 1998), the Legislative Audit Bureau definition of administrative expenditures included division administration, bureau administration, support costs (such as the Administration and Technology program), and the

issuance of licenses. This is consistent with the definition passed by the Legislature in the 1999-01 biennial budget bill. The Governor item vetoed the inclusion of bureau administration and license issuance costs in the definition of administrative expenditures (resulting in the current statutory definition).

8. The Bureau of Customer Service and Licensing manages the sale and distribution of over four million hunting licenses and approvals statewide annually to approximately two million customers (primarily through the Automated License Issuance System, or ALIS). In addition, the Bureau manages the registration, transfer of ownership, and distribution of decals for over 700,000 boats, snowmobiles, and all-terrain vehicles in the state (primarily through the Boat, ATV, and Snowmobile Registration System, or BATS). Customer Service and Licensing is also responsible for overseeing conservation occupational licenses, including bait dealers and taxidermists. Bureau staff serve as contacts to the general public at service centers statewide, answering questions and providing referrals to appropriate DNR field or central office staff.

9. The LAB audit defined administrative costs as those costs incurred in the administration of the Department and its divisions and in providing support services for the Department. From the perspective that licensing and registration activities primarily represent an administrative function (revenue collection) rather than a direct service to the Department's fish and wildlife programs, it may be reasonable to include the Bureau of Customer Service and Licensing in the definition of administrative expenditures. Under the bill, the fish and wildlife account contributes over \$5.8 million in 2003-04 and approximately \$6.0 million in 2004-05 for Customer Service and Licensing operations. If these expenditures were included in the definition of administrative expense, administrative costs to the fish and wildlife account of the conservation fund would constitute approximately 21.7% in 2003-04 and 21.1% in 2004-05. In order for the fish and wildlife account to be in compliance with this definition of the 16% administrative expenditure limitation, total administrative expenditures would need to be reduced by over \$3.8 million in 2003-04 and by \$3.5 million in 2004-05. Another option would be to increase the allowable limit if licensing costs are included. DNR could be limited to expenditures under the bill (approximately 21% in 2004-05). An 18.5% limit would require reductions of approximately \$2.1 million in 2003-04 and \$1.8 million in 2004-05.

10. License and approval sales constitute over 80% of projected revenues to the fish and wildlife account in 2003-04. The Department argues that without an investment in staff and technological infrastructure to collect this revenue, the financial health of the fish and wildlife account could be compromised. In addition, the Bureau does provide some direct contact, information, and face-to-face service to sportsmen. It is argued that this contact is a direct benefit to those paying user fees. Including the Customer Service and Licensing Bureau in the definition of administration may create an incentive to reduce fish and wildlife expenditures related to this infrastructure, potentially impairing DNR's ability to sell and distribute licenses and approvals, and in turn damaging the program's main revenue stream. From this perspective, it may be argued that the Bureau should remain excluded from the statutory definition of administrative expenditure.

11. The second factor that LAB included in its definition of administrative expense

which was subsequently removed from the statutory definition by the Governor's partial veto of 1999 Act 9 was bureau administration costs. The methodology employed by the Legislative Audit Bureau to arrive at the estimate of bureau administration costs involved analyzing all of the activity codes for staff in the relevant bureaus, and extracting costs based on time devoted to administratively coded activities. This method would be time consuming, and difficult to monitor on an ongoing basis.

12. An alternative approach to address the same concern could be to consider the classification of personnel within fish and wildlife-specific SEG-supported programs as a means of determining whether the support of their positions constituted an administrative expense to the account. Staff within classifications devoted primarily to administrative or supervisory functions would then be included in the definition of eligible administrative expense.

13. During its recent reorganization, DNR requested that DER create or modify several classifications to more accurately represent the program-specific duties of the staff involved. Several of these position classifications (including Natural Resources Area Supervisor, Manager, and Program Manager) would appear to be largely administrative in nature. Staff that occupy these positions include area forestry and wildlife leaders (who are responsible for planning, coordinating, and supervising subordinate positions in the administration of related programs within a designated region); regional directors, deputy division administrators, bureau directors, regional program managers, deputy bureau directors, and various section chiefs. Each of these positions are required to meet the statutory definition of supervisor under s. 111.81 (19) and are defined in the DER classification specifications as encompassing supervisory positions in wildlife and forestry programs within DNR.

13. However, other classifications (such as Natural Resources Operations Supervisor, Operations Team Supervisor, Property Supervisor, and Natural Resources Region Team Supervisor) are more difficult to classify as purely administrative expenditures. Staff within these classifications occupy positions such as manager of the state game farm, supervisor at a state nursery, assistant state park manager, state forest superintendent, or supervisor at a fish hatchery. While supervisory and administrative functions are clearly required of these positions, some may argue that their activities directly benefit the programs that support them.

14. If expenditures associated with the more clear-cut administrative positions were included (as bureau administration costs) in the definition of administrative expense, administrative costs to the fish and wildlife account of the conservation fund would constitute approximately 14.3% in 2003-04 and 13.7% in 2004-05. No additional reductions would be required in order for the fish and wildlife account to be considered in compliance with the statutorily specified 16% administrative expenditure limitation. However, statutorily defining this category of administrative costs would be difficult and a broad definition would be subject to multiple interpretations. Further, tracking or monitoring the implementation of the requirement could be cumbersome.

15. Another option would be to maintain the current definition, but adjust the maximum percentage to reflect the recent reorganization of fish and wildlife management functions. Under

this alternative the current 16% limit could be reduced to reflect the transfers under the bill. Approximately 2.5% of costs would be shifted from appropriations currently defined as administrative. Therefore, reducing the limit to 13.5% could be considered. A drawback to this option is that future reorganizations of staff would need to be monitored to maintain a consistent relationship to administrative costs. The following table outlines the impact of the various approaches on the calculation of administrative costs to the fish and wildlife account.

TABLE 3

Impacts of Adjusting Administrative Cost Calculations

	<u>Administrative Expenditures</u>		<u>Percent of Total F&W Expenditures</u>	
	<u>2003-04</u>	<u>2004-05</u>	<u>2003-04</u>	<u>2004-05</u>
Under the Bill	\$8,600,400	\$8,559,200	12.9%	12.4%
Increases by Alternative				
Include Bureau of Licensing	5,862,300	6,028,200	21.7	21.1
Include Bureau Administration Costs	892,300	892,300	14.3	13.7
Maximum Allowable Administrative Expenditure				
Under current law (16%)	10,650,800	11,070,600	16.0	16.0
Decrease the allowable percentage to 13.5%	8,986,600	9,340,800	13.5	13.5

Distribution of Administrative Expenditures

14. Questions have been raised regarding the distribution of support for administrative expenditures across all accounts of the conservation fund. With the exception of the motorcycle, endangered resources and Natural Resources Magazine accounts (which do not contribute to administrative appropriations), funding support for administrative costs (as currently defined for the fish and wildlife account) as a percentage of total account expenditures range from 0.2% to 12.9%. These total expenditures by account appear in Attachment 1. It should be noted that in past biennia, the motorcycle account did contribute to administrative costs. However, funding for the program is expected to end in 2003-04.

15. One of the arguments in support of the 16% administrative funding limit was the necessity to ensure that user fees paid into the conservation fund be used to benefit the groups contributing the funding. To the extent that other accounts receive support from user fees (through admissions fees or recreational vehicle registration revenue), it could be argued that they warrant similar consideration.

16. While it may be argued that some administrative costs are targeted towards certain accounts in recognition of services received, there appear to be inconsistencies. For example, despite benefiting from the services of Enforcement and Science Program Management, the snowmobile account does not contribute to its support. In total, this account pays \$24,500 annually for administrative support, equaling less than one-quarter of one percent of its total budgeted expenditures for the 2003-05 biennium.

17. The Department argues that the distribution of administrative costs is based on the proportion of staff by funding source in each division. For example, funding for enforcement and science management is funded primarily from the fish and wildlife account, with additional support from the boating and ATV accounts because the majority of enforcement and science positions are funded by fish and wildlife account SEG, with some positions funded from the boat and ATV accounts. The distribution of funding for land program management is determined by the number of regional field staff (based outside of DNR's central office) supported by fish and wildlife, forestry, or parks programs, respectively. Water program management is funded proportionally by fish and wildlife and water resources funding, based in the number of segregated fund supported staffing of the water program. This is also the case for enforcement and science program management, which is supported by the fish and wildlife, ATV, and boating accounts. While snowmobile enforcement efforts do benefit from enforcement program management efforts, they do not contribute to these expenses under this formula. Previously, all snowmobile enforcement wardens were funded by sources other than snowmobile account SEG (such as tribal gaming revenues). However, under the bill, 4.5 enforcement positions would be transferred from tribal gaming revenues to snowmobile account SEG. Funding splits for the Division of Administration and Technology and CAER program management are determined by the percentage of the total number of segregated-fund supported staff funded by each of the accounts of the conservation fund (with the exception of the endangered resources and the Natural Resources Magazine accounts).

18. The nature of the activities supported by the various accounts of the conservation fund vary significantly (as does their need for administrative support). For example, under the bill, the fish and wildlife account supports over 750 FTE carrying out a wide range of activities (including fish and wildlife management, enforcement, research, and issuance of licenses). To the extent that the focus of many activities supported by the fish and wildlife account require a sizable field staff (and consequently more administrative support), it may be argued that devoting a larger percentage of its total expenditures to administrative activities is necessary. Alternatively, the ATV account supports less than 7.5 FTE. ATV account supported staff are primarily devoted to enforcement activities, with some emphasis on coordination of vehicle registration and the distribution of recreational trail development grants, as well as a small amount of general administrative work. From this perspective, it could be argued that requiring each of the accounts to contribute similar percentages of their total expenditures to support administrative overhead would be inequitable to user groups who support their activities (and require varying levels of department administrative support in return). Further, definitions of what constitutes administrative expenditures for each account may vary.

18. However, it could be argued a more even distribution of administrative costs across

conservation fund accounts may be desirable. For example, in addition to the inconsistencies across accounts described previously, both the Natural Resources Magazine account and the endangered resources account of the conservation fund are exempted from expenditures associated with administration and technology and CAER. Staff within these two programs enjoy the benefits associated with the support of the two divisions, including computer and technical support, office space, human resource services, legal services, and educational resources without contributing to the support of DNR overhead. It is anticipated that the endangered resources account would have a balance of at least \$9,500 on June 30, 2005. The Natural Resources Magazine account is expected to have a balance of at least \$10,700 at the end of the biennium.

19. The Department argues that the endangered resources account and the Natural Resources Magazine should remain exempt from requirements to contribute to administrative overhead. Revenue to the Natural Resources Magazine account is generated by subscription sales; DNR argues that these funds should be used solely for the production and distribution of the magazine. However, to the extent that office space, production equipment, and information technology resources and support aid the magazine production process, they could be interpreted to be eligible expenses. From this perspective, it would be reasonable to expect this account to contribute to DNR administrative overhead expenses. Revenue to the endangered resources account is generated by voluntary charitable donations made directly or through a check-off contribution option on state tax returns, or from the sale of endangered resources license plates. From this perspective, it may be argued that the voluntary donations should be directed entirely towards the purpose for which they were solicited. Alternatively, one could consider the private sector, where charitable or volunteer organizations do commonly utilize a portion of contributions collected to cover the cost of administrative overhead, including professional staff, office space, and technical support. It may be argued that these are accepted and necessary costs associated with operating an organization, and exemption from administrative overhead costs at the expense of other user groups (such as hunters, fisherman, and recreational vehicle users) is not equitable.

20. If \$18,000 in 2004-05 of administrative expenditures were transferred from the fish and wildlife account to the Natural Resources Magazine account (\$9,000) and to the endangered resources account (\$9,000), administrative costs would comprise approximately 1.0% and 0.61% of the expenditures for each account in 2004-05.

ALTERNATIVES

A. Customer Service and Licensing

1. Expand the statutory definition of administrative expense to include the Bureau of Customer Service and Licensing. In addition, increase the statutory restriction of allowable administrative expenditures from the fish and wildlife account from 16% to 21%.

2. Expand the statutory definition of administrative expense to include the Bureau of Customer Service and Licensing. Increase the statutory restriction of allowable administrative

expenditures from the fish and wildlife account from 16% to 18.5%. Require DNR to submit a plan to the Joint Committee on Finance under s. 13.10 by February 1, 2004 to bring 2004-05 expenditures into conformity. (The plan would need to identify reductions of almost \$1.8 million.)

3. Expand the statutory definition of administrative expense to include the Bureau of Customer Service and Licensing, but retain the current 16% restriction. Require DNR to submit a plan to the Joint Committee on Finance under s. 13.10 by February 1, 2004 to bring 2004-05 expenditures into conformity. (The plan would need to identify reductions of approximately \$6.0 million.)

4. Take no action.

B. Bureau Administration

1. Expand the statutory definition of administrative expense to include bureau administration costs.

2. Take no action.

C. Current Expenditure Limit

1. Reduce the statutory restriction of allowable administrative expenditures from the fish and wildlife account from 16% to 13.5% to reflect personnel changes under DNR's recent fish and wildlife staff reorganization.

2. Take no action.

D. Distribution of Administrative Expenditures

1. Transfer \$9,000 of administrative expenditures in 2004-05 from the fish and wildlife account to the following sources:

- a. Natural Resources Magazine account.
 - b. Endangered Resources account.
2. Require DNR to submit a report to the Joint Committee on Finance under s. 13.10 by February 1, 2004, detailing the rationale for its current administrative funding distribution and demonstrating the equity of its assignment of costs in terms of benefits received by individuals whose user fees support the account.
3. Take no action.

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Attachment

ATTACHMENT

Administrative Funding Under Budget Bill

2003-04

	<u>Fish and Wildlife</u>	<u>Forestry</u>	<u>Parks</u>	<u>Water Resources</u>	<u>Snowmobile</u>	<u>ATV</u>	<u>Boating</u>	<u>Motorcycle</u>	<u>Endangered Resources</u>	<u>Natural Resources Magazine</u>	<u>Total Conservation Fund</u>
Division of Administration and Technology	\$6,766,800	\$7,167,700	\$750,300	\$370,500	\$23,200	\$60,200	\$318,000	\$0	\$0	\$0	\$15,456,700
Land Program Management	388,800	122,400	341,100	0	0	0	0	0	0	0	852,300
Water Program Management	594,700	0	0	70,800	0	0	0	0	0	0	665,500
Enforcement & Science Program Management	454,600	0	0	0	0	12,700	66,700	0	0	0	534,000
CAER Program Management	395,500	431,900	87,900	22,300	1,300	3,700	19,100	0	0	0	961,700
Total Administrative Expenditures by Account	\$8,600,400	\$7,722,000	\$1,179,300	\$436,600	\$24,500	\$76,600	\$403,800	\$0	\$0	\$0	\$18,470,200
Total Expenditures by Account	\$66,567,600	\$82,965,700	\$11,466,000	\$13,108,400	\$10,367,800	\$3,183,800	\$5,307,000	\$28,000	\$1,138,300	\$895,400	\$195,028,000
Percent budgeted for administrative expenditures	12.9%	9.3%	10.3%	3.3%	0.2%	2.4%	7.6%	0.0%	0.0%	0.0%	9.5%

2004-05

	<u>Fish and Wildlife</u>	<u>Forestry</u>	<u>Parks</u>	<u>Water Resources</u>	<u>Snowmobile</u>	<u>ATV</u>	<u>Boating</u>	<u>Motorcycle</u>	<u>Endangered Resources</u>	<u>Natural Resources Magazine</u>	<u>Total Conservation Fund</u>
Division of Administration and Technology	\$6,715,900	\$7,108,700	\$859,100	\$367,100	\$23,100	\$60,200	\$314,600	\$0	\$0	\$0	\$16,540,400
Land Program Management	388,800	122,400	341,100	0	0	0	0	0	0	0	852,300
Water Program Management	594,700	0	0	70,800	0	0	0	0	0	0	665,500
Enforcement & Science Program Management	454,600	0	0	0	0	12,700	66,700	0	0	0	534,000
CAER Program Management	405,200	431,900	88,100	22,300	1,400	3,600	19,100	0	0	0	971,600
Total Administrative Expenditures by Account	\$8,559,200	\$7,663,000	\$1,288,300	\$460,200	\$24,500	\$76,500	\$400,400	\$0	\$0	\$0	\$19,563,800
Total Expenditures by Account	\$69,191,000	\$81,964,900	\$11,599,700	\$13,204,200	\$10,579,100	\$3,444,100	\$5,308,400	\$0	\$1,486,900	\$895,400	\$197,673,700
Percent budgeted for administrative expenditures	12.4%	9.4%	11.1%	3.5%	0.2%	2.2%	7.5%	0.0%	0.0%	0.0%	9.9%