



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #585

Financial and Procurement Services Supplements (Program Supplements)

CURRENT LAW

There is a GPR appropriation (and comparable PR and SEG appropriations) titled "Financial and Procurement Services" established under Program Supplements for the supplementation of state agencies' GPR (and PR and SEG) operating budgets. Adjusted base level funding for the GPR appropriation is \$161,100.

GOVERNOR

The Governor's budget continues base level funding of \$161,100 GPR in this appropriation for fiscal years 2005-06 and 2006-07.

DISCUSSION POINTS

1. Funds are reserved in this GPR appropriation to supplement agencies' GPR operating budgets for the cost of unbudgeted increases in the level of charges that agencies are assessed by DOA for their share of the costs of financial and procurement services provided by DOA to all state agencies. Monies from this sum certain appropriation may be allotted to state agencies by DOA for documented increases in individual agency's financial or procurement services assessments over their budgeted levels.

2. The services provided by DOA that are the subject of these assessments are costs associated with financial services provided to state agencies by the State Controller's Office within DOA and costs associated with procurement services (activities associated with statewide contracting for goods and services) provided to state agencies by DOA's Bureau of Procurement.

These activities in DOA, like much of DOA's operations, are funded entirely from program revenues. A majority of these program revenues are recovered by assessments levied by DOA against other state agencies for the costs of these services. These revenues are denominated as "program revenue – service," or PR-S, to distinguish the revenue source from revenue that is received when, for instance, private citizens of this state are assessed a fee (such as license or registration fees).

3. The assessment of costs by DOA for the financial services it provides to state agencies was initiated in the 1991-93 biennial budget when the GPR funding for those services was shifted to program revenue-service funding. The financial services supplement was created at that time. The use of supplemental appropriations provided a mechanism under which, when there were significant budget increases for the State Controller's Office, the resultant increased assessments against state agencies could be met by those agencies' budgets receiving allotments from the supplemental appropriation. That supplemental appropriation has been continued since that time.

4. In the 2001-03 biennial budget, a similar conversion from GPR funding to PR-S funding to be received from agency assessments was adopted for the Bureau of Procurement in DOA. The then GPR financial services supplement appropriation (and the corresponding PR and SEG supplemental appropriations) was modified to be the vehicle to also allow supplements to be made to GPR-funded agencies for any non-budgeted costs that they would incur from these assessments for procurement services provided by DOA. Such supplementation would be available for increased assessments that could not be paid for out of the agencies' approved budget amounts.

5. In the 2001-03 budget, funding of \$166,200 GPR in 2001-02 and \$423,600 GPR in 2002-03 was provided in this appropriation. Actual expenditures (release of supplements to state agencies) totaled \$106,900 in 2001-02 and \$72,400 in 2002-03. In the 2003-05 budget, funding of \$161,100 GPR was provided in 2003-04 and 2004-05 for this appropriation. No funds were expended in 2003-04 and the State Budget Office does not expect there to be any release of funds in 2004-05.

6. A question, therefore, may be raised regarding the amount of funding likely to be needed in the 2005-07 biennium for financial services supplements to state agencies. Several considerations may be noted in this regard.

7. First, under the Governor's 2003-05 budget, the adjusted base level of funding for this combined appropriation to supplement the costs of financial and procurement services assessments charged state agencies would have been continued in each year of the 2003-05 biennium. That base level funding was \$423,600 annually and was composed of \$161,100 GPR annually for supplements for financial services assessments and \$262,500 GPR annually for supplements for procurement services assessments. However, the Joint Committee on Finance deleted the proposed funding of \$262,500 GPR annually for supplements for procurement services assessments in view of questions that were raised about the likelihood that supplements would be needed for that purpose. The budget as enacted provided only the \$161,100 GPR for potential financial services supplements to state agencies. As noted, no funding was released in 2003-04 and

no release is expected in 2004-05.

8. Under AB 100, DOA's financial services function is funded at a level that is only \$104,900 PR above its adjusted base level in each of the two years of the budget. While DOA's procurement services function is funded at an increased level of \$837,600 PR in 2005-06 and \$1,085,100 PR in 2006-07, at least a substantial portion of this increased funding has to do with the centralization of certain procurement activities into DOA from agencies. Under this proposal of the Governor, certain procurement-related functions and staff in a number of agencies will be consolidated into DOA. However, under the proposal, funding for the purchase of these transferred procurement services from DOA is retained in the agencies' appropriations. It is anticipated that agency billings for these increased services would be covered by the funds retained in the agencies' appropriations, plus having remaining cost savings amounts available in agency budgets to be lapsed to the general fund.

9. DOA indicates that there is not any specific rationale for continuing this amount in this appropriation for supplementation purposes in the 2005-07 biennium. However, the agency states that it was felt desirable to retain funding in this appropriation for the 2005-07 biennium in the event that unexpected funding needs should develop in this area. DOA would likely further argue that if the funding is not needed, it would not be used for any other purposes and would, therefore, lapse at the end of each fiscal year.

10. The alternative argument could be made that it is unlikely, based on the last two years' experience, there will be any request for supplementation and therefore it is unnecessary to set any funds aside for this purpose. Under this view, if a funding requirement should develop, an agency could request a funding supplement from the Committee's general GPR appropriation.

ALTERNATIVES

1. Approve the Governor's recommendation.
2. Delete base level funding of \$161,100 GPR annually.

Alternative 2	GPR
2003-05 FUNDING (Change to Bill)	- \$322,200

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