



Legislative Fiscal Bureau

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December 14, 2010

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Department of Administration: Request for approval of Deficit Reduction Plans --
Agenda Item X

REQUEST

The Department of Administration (DOA) is requesting that the Joint Committee on Finance approve plans of various agencies to address 2008-09 unsupported overdrafts in program or segregated revenue appropriations.

BACKGROUND

Section 16.513 of the statutes requires state agencies to submit quarterly reports to the Department of Administration (DOA) on projected revenues and expenditures for each appropriation supported with program or segregated revenue. If it is projected that there will be insufficient revenues in the ensuing quarter to meet expenditures in any appropriation, the agency must submit a plan to DOA to "assure that there are sufficient moneys, assets, or accounts receivable to meet projected expenditures under the appropriation." If the plan is approved by DOA, it must then be submitted to the Joint Committee on Finance for its approval under a 14-day passive review process.

On November 29, 2010, the Secretary of the Department of Administration forwarded plans from the Department's of Agriculture, Trade and Consumer Protection; Commerce; Corrections; Health Services; Justice; Veterans Affairs; Administration; Employee Trust Funds; Revenue and the State Fair Park to address unsupported overdrafts for fiscal year 2008-09. The Secretary indicates that the plans have been approved by the DOA.

An objection to the DOA request was received on December 7. Therefore, the request has

been included on the agenda for the Committee's December 14 meeting under s. 13.10 of the statutes.

The appropriations contained in the DOA request and the amount of unsupported deficiency in each appropriation at the end of the 2008-09 fiscal year are shown in the table below.

2008-09 Unsupported Appropriations Deficiencies

<u>Agency/ Appropriation</u>	<u>2008-09 Deficiency</u>
<i>Agriculture, Trade and Consumer Protection</i>	
Grain Inspection and Certification	\$392,100
Seed Testing and Labeling*	12,300
<i>Commerce</i>	
Safety and Buildings Operations*	690,700
<i>State Fair Park</i>	
General Program Operations	4,882,600
<i>Corrections</i>	
Juvenile Operations	2,203,700
<i>Health Services</i>	
Inter-Agency and Intra-Agency Programs	4,463,100
<i>Justice</i>	
Crime Lab	5,334,500
Penalty Surcharge Receipts	4,046,400
Gun Purchaser Records Checkers	1,062,800
<i>Veterans Affairs</i>	
Federal Aid Cemetery Appropriations*	85,300
<i>Administration</i>	
Print, Mail, InfoTech	21,135,200
IBIS Development	5,289,300
Grants for Substance Abuse	1,542,900
Information Technology Investment Fund	2,814,000
<i>Employee Trust Funds</i>	
Local Government Health Insurance*	6,140,500
<i>Revenue</i>	
Special Tax Districts*	<u>25,900</u>
Total	\$60,121,300

*Deficit resolved in 2009-10 or 2010-11

The following is an identification of the plans submitted by DOA to address the 2008-09 unsupported deficits.

Agriculture, Trade and Consumer Protection

Grain Inspection. The DATCP PR grain inspection appropriation supports the state program for inspecting grain shipped for export or domestic consumption. The appropriation is funded by fees charged for inspecting grain shipments moving through ports in the state and showed a June 30, 2009, unsupported deficit of \$392,100.

DATCP's plan to address the unsupported overdraft is to continue to transfer any unspent GPR from departmental general operations GPR appropriations to the grain inspection account at the close of each fiscal year. This transfer is required under s. 16.56 of the statutes, and has totaled \$1.1 million since it began in 2005-06. Further, operating revenues (fees) have fallen short of program expenditures every year since 1999-2000, operating revenues and expenditures for recent years are shown in the following table. DATCP reports revenues and expenditures for 2010-11 are expected to increase from 2009-10 due to higher grain production in 2010 and international market conditions favorable to increased exporting.

DATCP Grain Inspection Operations

	2008-09	2009-10	2010-11
	<u>Actual</u>	<u>Actual</u>	<u>Estimated</u>
Inspection Fee Revenues	\$1,245,600	\$1,381,400	\$1,633,800
Expenditures	<u>-1,548,100</u>	<u>-1,520,200</u>	<u>-1,731,000</u>
Annual Operations	-\$302,500	-\$138,800	-\$97,200

DATCP reports 2.0 positions of the 21.0 authorized have been vacant since at least February, 2010. However, the Department is in the process of hiring for these positions, and the positions are expected to be filled in January, 2011.

DATCP also reports it is in the process of determining whether a fee increase for its grain inspection activities may be appropriate. The Department is currently conducting an internal review of such a possibility. If the Department moves ahead with a proposed increase, officials hope to have it in place about May, 2011, for the beginning of the next shipping season. A fee increase would require approval from the U.S. Department of Agriculture (USDA). However, even if a fee increase were intended to balance revenues with expenditure levels, grain shipments are heavily influenced by domestic factors such as annual production, crop quality and demand, as well as international market conditions. It is also presumed that USDA would authorize additional fees only to levels that would correct yearly imbalances between revenues and program costs, but not fund past deficiencies.

Commerce

Safety and Buildings Operations. Revenues deposited in the Safety and Buildings operations appropriation come from a variety of plan review and inspection activities related to construction such as commercial buildings, multi-family dwellings, plumbing, private sewage systems, electrical and heating systems, and elevators. In 2010-11, the appropriation is authorized 156.8 positions. Revenues and expenditures for 2008-09 through 2010-11 are shown in the following table. It should be noted that, from state fiscal years 2001-02 to 2007-08, a total of approximately \$10.3 million in fee revenues was transferred to the general fund.

Safety and Buildings Division General Operations Revenues and Expenditures

	2008-09 <u>Actual</u>	2009-10 <u>Actual</u>	2010-11 <u>Estimated</u>
Opening Balance, July 1	\$404,200	-\$1,103,700	-\$777,700
Revenue	<u>14,146,500</u>	<u>15,580,300</u>	<u>15,577,200</u>
Total Revenue Available	\$14,550,700	\$14,477,200	\$14,799,500
Expenditures	\$15,653,800	\$15,254,900	\$16,379,300
Planned Expenditure Reductions	<u>N.A.</u>	<u>N.A.</u>	<u>-2,238,900</u>
Total Expenditures	\$15,653,800	\$15,254,900	\$14,140,400
Closing Balance, June 30	-\$1,103,100	-\$777,700	\$659,100
Receivables	<u>493,400</u>	N.A.	N.A.
Unsupported Deficit	-\$609,700		

Primarily due to economic conditions, safety and buildings revenues have declined from over \$18 million in 2004-05 to less than \$16 million each of the past three years. In order to bring expenditures in line with declining revenue and associated workload, Commerce indicates that it has been: (a) holding positions vacant; (b) implementing permanent and temporary layoffs and work hour reductions; and (c) increasing fees for permits to operate elevators and boilers. The number of vacancies under the appropriation has increased from 12.5 in mid-2009 to 29.5 in the fall of 2010.

State Fair Park

Program Operations. The State Fair Park PR general operations appropriation receives all revenues from the annual Wisconsin State Fair as well as other events taking place on the grounds. These revenues support all State Fair Park operations and program revenue-supported debt service. The cash deficit has decreased from \$11.5 million at the close of 2005-06 to \$7.8 million on July 1, 2009, which includes a \$4,882,600 unsupported deficiency after certain receivables are considered.

The long-term deficit reduction owes to several factors. State Fair Park has adjusted agency operations to contract for certain services, and it did not operate the Milwaukee Mile race track internally starting in 2006 through mid-2009. It has also pursued additional revenues through Park event bookings, various renegotiated contracts and sponsorship agreements.

In 2009-10, the state purchased the Wisconsin Exposition Center, which is located on Park grounds but had been owned and operated by a private, nonprofit corporation. In assuming control of the Expo Center, State Fair Park realized both a 2009-10 operating surplus (\$1.4 million) and one-time cash transfers (\$1.4 million) as a result of the sale. Park officials anticipate a surplus from Expo Center operations of at least \$400,000 beginning in 2010-11. State Fair Park in 2009-10 also received proceeds of a \$2.6 million letter of credit from a former promoter of the Milwaukee Mile. All proceeds were deposited to the general fund. However, \$1.9 million is still under litigation; State Fair Park officials consider this amount restricted until the litigation is resolved, and it does not yet factor into the balance of the operations appropriation. State Fair Park's customary operations, including the Wisconsin State Fair, Milwaukee Mile, facilities rentals and consumer and trade shows, generated an operating surplus of about \$630,000 in 2009-10.

State Fair Park expects an approximately \$400,000 operating surplus for 2010-11 from non-Expo Center operations, or about \$800,000 for the total annual surplus.

Corrections

Juvenile Correctional Services. The juvenile correctional services appropriation funds the operation of juvenile correctional facilities and certain aftercare services provided to juveniles following release from the facilities. Program revenue credited to the appropriation derives from daily rates charged for facility care that are paid by counties or the state for certain serious juvenile offenders. If monies generated by the daily rate exceed actual institutional costs in a fiscal year by 2% or more, the amounts in excess of 2% must be remitted to the counties during the subsequent fiscal year, in amounts proportionate to the total number of days of juvenile placements at the facilities for each county and for the state. In 2008-09, the deficit in the appropriation was \$2,203,700.

The s. 16.513 submission indicates that the deficit is the result of declining populations in juvenile institutions over several fiscal years, resulting in reduced revenues available for juvenile correctional operations. However, the deficit was reduced during the 2007-09 biennium as a result of increased rates provided in 2009 Act 28 and the transfer of certain unexpended 2008-09 program revenue balances. The request further states that the Governor "appointed a statewide Juvenile Corrections Review Committee on April 8, 2010. The committee discussed the future of Wisconsin's juvenile justice system and recommended consolidation of the two juvenile male facilities. However, the committee did not identify which facility should be closed in this consolidation."

It should be noted that the DOA request does not suggest any plan(s) to address the deficit. Thus, there is nothing before the Committee to approve.

While not currently before the Committee, it should be noted that the Department's 2011-13 agency budget request contains three items related to the reduction of the juvenile corrections deficit. First, Corrections requests -\$17,445,300 PR in 2011-12 and -\$17,453,300 PR in 2012-13 associated with closing a male juvenile facility as a result of declining juvenile populations. According to the request: "All costs associated with the closure of a juvenile facility are estimates and will need to be redone once the specific location is determined." No position reduction is identified in the request. Second, the Department requests that all available program revenue balances in the juvenile residential aftercare and corrective sanctions appropriations be transferred to the juvenile correctional services appropriation on June 30, 2011. Finally, the agency request includes a \$6 add-on to the juvenile correctional facilities statutory daily rate in 2011-12 and 2012-13 to address the deficit.

Health Services

DHS Facilities -- Inter-agency and Intra-agency Programs. The Department of Health Services (DHS), Division of Long Term Care operates three residential treatment centers for individuals with developmental disabilities -- Central Center in Madison, Southern Center in Union Grove, and Northern Center in Chippewa Falls. A program revenue appropriation to the Division permits DHS to expend all moneys it receives from other state agencies and all moneys transferred from other units within DHS to administer its programs and projects. DHS uses this appropriation to fund the costs of utilities and maintenance of common areas and vacant buildings at Northern Center. At the end of 2008-09, the appropriation had an unsupported deficit of \$4,463,100. This deficit occurred because costs that were previously eligible for reimbursement under the state's medical assistance (MA) program are no longer MA-eligible, due to the reduction in long-term care services at that facility since 2004-05.

DHS indicates that it intends to address the deficit by: (a) seeking the approval of the Governor and the Joint Finance Committee to credit revenue from the future sales of surplus land at Northern Center to the appropriation; (b) applying any balances in the agency's annual operating budget to reduce the deficit; and (c) allocating all utility and common area maintenance costs in future years proportionately to state agencies on the Northern Wisconsin Center campus (Corrections and Veterans Affairs) so that the deficit will not continue to increase.

Justice

Crime Laboratories; Deoxyribonucleic Acid Analysis (DNA). The crime laboratories; DNA analysis appropriation receives revenue from the \$13 crime laboratories and drug law enforcement surcharge, and the \$250 deoxyribonucleic acid analysis surcharge. Monies in the appropriation support DNA analysis and the DNA databank, pay the costs of mailing and materials for the submission of biological specimens by the Departments of Corrections and Health Services and by county sheriffs, drug law enforcement, drug law violation prosecution assistance, activities

of the state and regional crime laboratories, and DNA activities of the district attorneys. In 2008-09, the deficit in the appropriation was \$5,276,400.

Under 2009 Act 28 (the 2009-11 biennial budget), the crime laboratories and drug law enforcement surcharge was increased from \$8 to \$13. This assessment is applied if a court imposes a sentence, places a person on probation, or imposes a forfeiture for most violations of state law, or municipal or county ordinance. The s. 16.513 plan indicates that the fee increase "will cover costs and prevent the shortfall from growing, with the goal of moving the account to a positive position in the future."

Penalty Surcharge; Receipts. The penalty surcharge; receipts appropriation receives revenues from a 26% assessment whenever a court imposes a fine or forfeiture for most violations for state law or municipal or county ordinance. Monies from the appropriation support programs in the Departments of Justice, Public Instruction, Corrections, and Administration, the Office of Justice Assistance, and the Office of the State Public Defender. In 2008-09, the deficit in the appropriation was \$4,046,400.

According to the s. 16.513 plan: "The department anticipates that if no increases in spending are authorized and revenues remain constant, this appropriation can be expected to cover costs and ease the shortfall growth." The plan indicates that proposals to address the deficit have been made in the past and "it is expected that the 2011-13 budget will once again examine the deficit and potential solutions."

Gun Purchaser Records Checks. The handgun purchaser records checks appropriation receives revenue from a \$13 fee assessed on the dealer of a handgun (who may pass the charge on to the purchaser) for each background check. Monies from the appropriation support the Department of Justice's costs associated with the background checks. In 2008-09, the appropriation had a cumulative deficit of \$1,062,800.

Under 2009 Act 28, the record check fee was increased from \$8 to \$13 per background check. According to the s. 16.513 plan, revenue resulting from the increased fee "will meet overall costs for the foreseeable future, thereby reducing the growth of the shortfall. Elimination of the shortfall will depend on the level of handgun checks conducted annually."

Veterans Affairs

Federal Aid Cemetery Operations. The Department of Veterans Affairs (DVA) operates four veterans cemeteries in the state. Operations and care for the facilities are funded through a mix of funds, including payments from the federal government (\$164,800 FED and 4.0 FED positions annually); fees paid by veterans, spouses, or dependent children for burial services (\$231,800 PR and 5.0 PR positions); and the veterans trust fund (\$652,600 SEG and 6.0 SEG positions).

In its 2009-11 agency budget request, DVA stated that the federal payments for veteran burials were not keeping up with agency costs for burial services and that there was a projected negative cash balance for the end of the 2008-09 fiscal year. Under 2009 Wisconsin Act 28, the Legislature granted the Department's request to shift \$141,600 and 3.0 positions from federal funding to program revenue funding. The Department was anticipating that increases to the federal plot allowances would eventually allow for a reshift of these expenses [the federal Veterans Benefit Act of 2010 will increase the federal burial allowance from \$300 to \$700, effective October 1, 2011]. The Department believes that the shift approved under Act 28 will allow DVA to eliminate the negative cash balance by the end of the biennium. As of June 30, 2009, the negative balance was \$85,300 FED.

Administration

Printing, Mail, Communication, and Information Technology Services; Agencies. The Department of Administration (DOA) provides printing, mail processing, communications, and information technology (IT) development, management and processing services to state agencies. The Department assesses state agencies for these services.

This DOA appropriation has statutorily authorized forestalling authority. This authority allows DOA to spend in excess of the revenues received, to the extent that the non-depreciated assets under the appropriation offset the excess expenditures. In this case, assets such as IT equipment, sorting machines and other equipment that have a multiple year expected value are depreciated over the expected life of the equipment. Base funding for the appropriation was \$111,459,500 PR in 2008-09. The negative cash balance of the appropriation was \$50,819,386 of which \$29,684,227 was supported by the non-depreciated value of assets under the appropriation. As a result, the appropriation had an unsupported balance of \$21,135,159 at the end of 2008-09.

The Department reports that the deficit is due to costs related to consolidation of data processing services among agencies and that delays in completion of this consolidation have resulted in the inability to assess agencies for shifted IT equipment costs, since agencies had to maintain their own equipment until consolidation occurred. The Department states that, beginning in 2010-11, consolidation will be completed and agencies will be assessed amounts sufficient to pay ongoing costs plus repayment of the deficit. The Department's plan states that this deficit will be paid off over time, but does not specify a target date for complete repayment.

Integrated Business Information System. Under 2007 Wisconsin Act 20, the Department was required to implement, operate, maintain, and upgrade an integrated business information system (IBIS) for all executive branch agencies for the following: (a) all financial services (including accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. The Department was authorized to provide these services to any executive branch agency as long as those services could be provided efficiently and economically. Legislative and judicial branch agencies were allowed participate at their discretion.

The IBIS appropriation is PR-continuing appropriation with forestalling authority (described above). While DOA initially purchased hardware and software under the state's master lease program, the project was put on hold in April, 2008. The Department, however, must continue to make two master lease payments annually through 2012-13. The Department does not have any current plans to proceed with construction and use of the IBIS system. The Department's s. 16.513 plan states that "[t]he department will bill agencies for the costs when the system has been implemented." As of the end of 2008-09, the appropriation overdraft was \$8,408,222, with support from revenues and undepreciated assets minus master lease payments still owed of \$3,103,337. As a result, the unsupported overdraft was \$5,289,313 as of June 30, 2009.

Grants for Substance Abuse Treatment Programs. The grants for substance abuse treatment programs appropriation receives funding from: (a) a portion of the drug abuse program improvement surcharge (DAPIS), a 75% surcharge on fines and penalty surcharges imposed for violations of the uniform controlled substances act (Chapter 961); and (b) a \$10 drug offender diversion surcharge assessed for property crime convictions under Chapter 943. Monies from the appropriation support grants to counties to enable them to establish and operate programs that provide alternatives to prosecution and incarceration for criminal offenders who abuse alcohol or other drugs, and for contracts to evaluate the program. In 2008-09, the appropriation had a cumulative deficit of \$1,542,900.

Under 2009 Act 28, expenditure authority for the appropriation was reduced from \$755,000 to \$7,500. Further, Act 28 increased the justice information system (JIS) surcharge from \$12 to \$21.50, specified that \$1.50 of the surcharge be provided to support grants, and created a separate appropriation for receipt and expenditure of JIS revenues for the program. According to the s. 16.513 plan: "The department anticipates that the deficit will be resolved by the combination of significantly reduced expenditures as provided in 2009 Wisconsin Act 28 and the continued revenue from the surcharges. These reduced expenditures were achieved by funding grants from a new revenue source."

Information Technology Investment Fund. Under 1995 Wisconsin Act 27, the Legislature created the information technology investment fund (ITIF) as a source of revenue for the initiation and development of IT in state agencies. Revenue was to be generated from assessments on vendors doing business with the state. A grant program was established for state agencies for IT projects. The amount of estimated revenue was never realized and the grant awarded resulted in unsupported borrowing from the general fund. Under 1999 Wisconsin Act 9, the grant program was repealed and the ITIF was renamed the VenderNet Fund with a purpose of administering VendorNet and repayment of the loan to the fund.

A total of \$3,957,700 was initially borrowed against the general fund, of which \$111,523 was unspent and returned. Between 1998-99 and 2002-03 a total of \$862,196 was repaid from VendorNet fees (\$810,474) and revenue from other agencies (\$51,722). Between 2003-04 and 2008-09, all repayments came from DOA general program operations, totaling \$170,000, leaving a

negative balance of \$2,813,981. The Department's s. 16.513 plan states that it will continue to look for available sources of revenue to make payments toward the amount owed.

Employee Trust Funds

Benefit and Coverage Payments; Employers Other than the State; Retired Employees. The benefits and coverage payments appropriation is for all moneys received for health care coverage from local public employers and their active and retired employees who elect to be included in health care coverage plans through a program offered by the Group Insurance Board. By law, the appropriation is not included in the Chapter 20 schedule. The 2008-09 deficit of \$6,140,525 was the result of employee trust fund investment losses.

Under s. 40.04(1), the Department of Employee Trust Funds (ETF) is authorized to manage separate accounts and reserves within the trust fund. Any deficit occurring within the accounts of a benefit plan must be eliminated as soon as feasible by increasing the premiums, contributions or other charges applicable to that benefit plan. The deficit in question was addressed by ETF under this authority and the appropriation had a positive balance of approximately \$11.3 million, as of June 30, 2010.

Revenue

Special Tax Districts. A local professional baseball park district for the construction and operation of a new baseball stadium (Miller Park) was created by 1995 Wisconsin Act 56. The district is made up of five counties, and is governed by a 13-member board. The five counties are: Milwaukee, Ozaukee, Racine, Washington, and Waukesha. A 0.1% sales and use tax is imposed in the five counties on the same goods and services that are subject to the state sales tax to provide funds to the District Board for construction and operation of the stadium.

DOR retains 1.5% of baseball park district taxes for administrative costs. The funds are placed in a program revenue, special district taxes administrative appropriation. The year-end unencumbered balance in the appropriation is lapsed to the District Board.

In fiscal year 2008-09, there was a negative beginning balance in the special district taxes administration appropriation. Fiscal year expenditures of \$373,381 were lower than fiscal year revenues of \$388,842. However, DOR did not account for the negative carryover balance in the year-end lapse to the District Board, and as a result, it lapsed \$25,858 more than the actual appropriation balance to the District Board. DOR addressed the deficit by reducing fiscal year 2009-10 expenditures to offset the negative balance. Specifically, fiscal year 2009-10 expenditures were \$317,100, while revenues were \$342,959, or a difference of \$25,859. The Department indicates that in fiscal year 2010-11 ongoing revenues exceed expenditures.

SUMMARY

The question before the Committee is approval of the plans submitted by DOA. The plans to

address the 2008-09 deficits include such things as consideration of items enacted in the budget, fee increases, increasing charges to state agencies, and cost control measures.

In total, the DOA request identifies 16 unsupported deficit appropriations. Five of those appropriation deficits have been, or soon will be, resolved. They are identified by an asterisk on the table. Given this, there is no need for Committee approval.

For one of the deficit appropriations (juvenile operations in the Department of Corrections) no plan has been submitted in the DOA report. Thus, there is nothing for the Committee to approve.

The Committee could approve the remaining 10 plans, however, approval of the plans would have little, if any, effect.

The purpose of s. 16.513 is to report on, and address, current and ensuing deficiencies, not those of two years ago. A more meaningful report, and one envisioned by the statute, would be one that would identify program and segregated revenue appropriations projected to be in deficit for the current fiscal year, the estimated amounts of those deficits, and the administration's plan to address them.

ALTERNATIVES

1. Approve the deficit reduction plans as requested by the Department of Administration with the exception of those for which deficits have been, or are being, resolved and the juvenile corrections appropriation in the Department of Corrections.
2. Take no action.