Financial Institutions

(LFB Budget Summary Document: Page 182)

LFB Summary Items for Which an Issue Paper Has Been Prepared

Item #	Title
2	Department Operations (Paper #355)
4, 5, & 6	Charitable Organizations, Trademark, and Securities Software Projects (Paper #356)

LFB Summary Items Removed From Budget Consideration

Item #	Title
3	Small Business Retirement Savings Program
7	Agency Equity Officer
8	Transfer to the Secretary of State
9	Achieving a Better Life Experience (ABLE) Savings Account Program

LFB Summary Item Addressed in Standard Budget Adjustments (Paper #105)

Item #	Title
1	Standard Budget Adjustments

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

May 4, 2023 | Joint Committee on Finance | Paper #355

Department Operations (Financial Institutions)

[LFB 2023-25 Budget Summary: Page 182, #2]

CURRENT LAW

With certain exceptions, fees and assessments imposed on regulated entities and individuals by the Department of Financial Institutions (DFI) are deposited in DFI's general program operations appropriation. Base funding of $17,286,700 PR with 138.54 PR positions is provided for DFI's general program operations. Any balance in this appropriation at the close of a fiscal year transfers to the general fund.

DISCUSSION POINTS

1. The Department is "dedicated to protecting the safety and soundness of Wisconsin's financial institutions, safeguarding the investing public, facilitating commerce, and increasing financial capability throughout the state." Over the previous three biennia, reductions were made to DFI's budget. The table below provides information on the cumulative effect of administrative lapses and permanent reductions from 2017-18 to 2022-23 on DFI's budget.

TABLE 1

Administrative Lapses and Permanent Reductions 2017 to 2023

Fiscal Year	Type	Fiscal Year Reduction	Previous Permanent Reduction	Total Annual Reduction
2017-18	permanent 5% reduction	$940,400		$940,400
2018-19	permanent 5% reduction	940,400		940,400
2019-20	administrative 5% budget lapse	898,600	$940,400	1,839,000
2020-21	administrative 8% budget lapse	1,450,000	940,400	2,390,400
2021-22	permanent reduction	1,305,000	940,400	2,245,400
2022-23	permanent reduction	1,305,000	940,400	2,245,400
	Total Reduction	$6,839,400	$3,761,600	$10,601,000

2. These reductions plus rising costs led to financial challenges in the 2021-23 biennium for DFI as travel and training as well as IT needs expanded. Cost increases were due to inflation and increasing business travel, training, and conference costs that were artificially suppressed by the COVID-19 pandemic.

3. The Department attempted to address these challenges by: (a) using internal resources, normally used for maintaining IT operations, rather than contracting for IT solutions for two budget-funded projects; (b) holding vacancies; (c) utilizing a gifts, grants, and settlements appropriation to augment expenditures, an appropriation with resources fully expended by the end of 2022-23; and (d) reductions to supplies and services.

4. Of DFI's base funding for the 2023-25 biennium, $3,122,100 PR is allocated to supplies and services, with an additional $3,200 allocated to limited-term employee salaries and fringe benefits. In the 2017-19 biennium, DFI had a base supplies and services budget of $4,512,400 (a difference of -$1,390,300 PR annually from the 2023-25 base). To partially offset these reductions from 2019-20 to 2021-22, DFI received a total of $187,500 in federal COVID relief funding.

5. The Administration has proposed an increase in supplies and services expenditure authority of $3,393,100 PR annually, as identified below.

	Funding
Contractors	$2,604,500
Travel and Training	620,000
LTE Funding	108,900
Accreditation	59,700
Total	$3,393,100

6. Since the pandemic, DFI's software costs, to perform regulatory obligations, have increased to cover the licensing fees for approximately 30 different software licenses. The amount spent on software is 11.1% of the supply and services allotment.

7. Two 2021-23 budget-funded projects (Financial Integrity Information Technology Modernization and Notary Information Technology Modernization) used internal IT resources, rather than contracting for IT solutions, to manage a permanent budget cut to its general operations appropriation. These internal IT resources, normally used for maintaining IT's legacy systems throughout the biennium, subsequently delayed normal maintenance projects for the agency's legacy systems by completing these projects instead. This has resulted in a backlog of normal maintenance projects and other improvements that DFI does not have the staff resources or funding to address.

8. Therefore, the bill would provide total contractor funding of $3,144,500 to help DFI meet its IT maintenance needs. The Department would use $2,193,400 contractor funding to restore funding for a team to support daily operations consisting of: (a) one project manager at $80 an hour; (b) three server administrators at $65 and $62; and (c) a database administrator, as well as two solution delivery teams consisting of: (a) one project manager at $80 an hour; (b) five developers at $90 or $80; (c) a business analyst at $60; and (d) two quality assurance personnel at $50 to manage larger maintenance projects for the agency's nearly 100 legacy systems. Plus a 10% inflation factor to account for increasing costs.

9. An additional $1,029,600 would be used to contract for a team consisting of: (a) an architect at $115 per hour; (b) one project manager at $80; (c) two developers at $80; (d) a quality assurance personnel; and (e) a system administrator at $62 to address bug fixes and smaller enhancement efforts plus a 10% inflation factor to account for increasing costs.

10. The Department indicates that since it has approximately 100 diverse legacy systems to maintain, "contractors offer better flexibility to obtain the skill sets necessary to manage this technical debt. Contractor candidate pools are also traditionally deeper than state employee candidate pools. This helps to minimize time lost time in failed recruitments. Until the DFI is able to reach a state where maintenance is more predictable and manageable, the DFI's position is that contractors are more desirable an option to fill its immediate needs."

11. Base funding for IT contractors is $540,000 and projected costs are estimated at $3,223,000 in 2023-24 leaving a difference of $2,683,000. The bill would provide $2,604,500, as a result, DFI would need to reallocate $78,500 to fund the estimated IT contractor costs.

12. Similarly, the industries that DFI regulates require training events throughout the country for new staff and professional development. The cost of travel has been subject to inflation as professionals travel again for training, since the pandemic.

13. Out of its 141.54 positions (all funds), DFI has 43 field Bank and Credit Union examiners (examiners) who travel to examine the financial institutions. During the pandemic, DFI implemented a hybrid approach of conducting exams remotely. Since then, institutions have indicated a preference for DFI examiners to travel to the institutions for security reasons. Additionally, DFI has 25 examiners who need to travel to examine Securities and Licensed Financial Services.

14. The pre-pandemic average training and travel costs were $820,000. Using a 2% inflation each year for five years, results in training and travel costs of $900,000 ($300,000 for training and $600,000 for travel). While pre-pandemic costs were $820,000, budgeted funding for training and travel has been $280,000, leaving a difference of $620,000 to reallocate.

15. The Department receives accreditation from CSBS (Conference of State Bank Supervisors) and NASCUS (National Association of State Credit Union Supervisors). Accreditation memberships are based on assets of the financial institutions being examined. In the last five years, the CSBS and the NASCUS accreditation fees have increased 20.9% and 115.9% respectively. Base funding for accreditation is $104,000, and projected accreditation costs are $163,700 in 2022-23 leaving a difference of $59,700.

16. Given the cumulative effect of prior budget reductions, the Committee could provide an increase to DFI's program operations. [Alternative 1] This alternative would provide $3,393,100 PR annually for the Department's central duties.

17. Given DFI's responsibilities related to monitoring and regulation of state financial institutions and securities, providing some increase in agency operational funding could be beneficial to the agency. However, the Committee could provide such an increase but at a level of 75% or 50% of DFI's request. [Alternative 2a and b] Under either of these alternatives, DFI would be required to prioritize use of the increased funding.

18. Alternatively, the Committee could restore DFI's supplies and services funding to 2019 levels by providing $1,390,300 PR annually. [Alternative 3]

19. If no action is taken by the Committee, increased expenditures from DFI's general program operations appropriation would not occur. As a result, no reduction to revenue to the general fund would be realized. [Alternative 4]

ALTERNATIVES

1. Provide $3,393,100 PR annually for the Department's central duties including: (a) the maintenance and upgrade of critical information technology infrastructure, financial examiner travel and training costs, and accreditation costs ($3,284,200 PR); and (b) limited-term-employee salary and fringe costs ($108,900 PR). Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 1	Change to Base
PR	$6,786,200
GPR-REV	- $6,786,200

2. Choose one of the following, provide up to: (a) 75% or (b) 50% of the amount specified in the bill annually. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 2a	Change to Base
PR	$5,089,600
GPR-REV	- $5,089,600

ALT 2b	Change to Base
PR	$3,393,100
GPR-REV	- $3,393,100

3. Provide $1,390,300 PR annually for the Department's central duties. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 2c	Change to Base
PR	$2,780,600
GPR-REV	- $2,780,600

4. Take no action.

Prepared by: Sarah Wynn

Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

May 4, 2023 Joint Committee on Finance Paper #356

Charitable Organizations, Trademark, and Securities Software Projects (Financial Institutions)

[LFB 2023-25 Budget Summary: Page 185, #4, #5, and #6]

CURRENT LAW

With certain exceptions, fees and assessments imposed on regulated entities and individuals by the Department of Financial Institutions (DFI) are deposited in DFI's general program operations appropriation. Base funding of $18,329,700 PR is provided for DFI's general program operations. Any balance in this appropriation at the close of a fiscal year transfers to the general fund.

DISCUSSION POINTS

1. The Department of Financial Institutions is responsible for the regulation, examination, and licensure of banks and other financial institutions in Wisconsin. The Department utilizes several automated systems on its website and operates nearly 100 software applications to track and manage departmental revenue. Among the applications are those used for: (a) regulation of charitable organizations; (b) uniform commercial code (UCC) filings and trademarks; and (c) certain securities filings. According to DFI, these systems need to be modernized to eliminate inefficiencies and minimize manual data entry by existing staff associated with these tasks.

2. Filings using these three systems generated over $41 million in revenue in 2021-22. The Department indicated that these time-sensitive projects "require substantially more resources outside of maintenance." Therefore, DFI requested one-time funding for these initiatives ($1,115,900 PR in 2024-25 for charitable and professional organizations technology systems, $724,500 PR in 2023-24 for UCC and trademark processing and filing technology systems, and $1,038,900 PR in 2024-25 the securities filing technology systems).

Charitable Organizations Program Modernization

3. Charitable organizations, fund-raising counsels, and professional fund-raisers are regulated under Chapter 202, subchapters I and II, of the Wisconsin Statutes. Charitable organizations are those that are established for a charitable purpose. Fund-raising counsels plan, manage, advise, consult, or prepare materials with respect to solicitations for charitable organizations. Professional fund-raisers request contributions that will be used for a charitable purpose or that will benefit a charitable organization. In 2021-22, charitable organizations brought in $602,100 in program revenue.

4. Under 2013 Wisconsin Act 20 regulatory authority of professional employer organizations, professional employer groups, charitable organizations, professional fund-raisers and fund-raising counsel was transferred from the Department of Safety and Professional Services to DFI. With this transfer, DFI became responsible for credentialing charitable organizations and the legacy system with an Oracle database and Oracle specific database objects.

5. The Department uses Microsoft products and has no Oracle personnel on staff. Despite this, due to the transition timeline of only three months, DFI decided to transfer the database to a desktop version of Oracle, leaving the transfer to a DFI-supported platform (SQL Server) for a future time. Besides being on an unsupported platform, DFI indicates the system does not fit the needs of charitable organizations. According to DFI, "the current application is inefficient and creates unnecessary manual labor that is paper intensive."

6. Further, 2015 Wisconsin Act 163 made a variety of changes to the regulation of charitable organizations, individuals who solicit on behalf of charitable organizations, and professional employer organizations. The modifications to charitable organization regulation placed additional demands on DFI's technology.

7. In order to address these information technology issues, DFI determined that it needs to build a new system and migrate data from the old system. A replacement system would: (a) increase the online filing options for credential holders; (b) maintain or improve existing public search capabilities; (c) provide better tools for DFI staff to support tracking and processing of submitted filings and complaints; and (d) improve DFI communication with credential holders. The updated system is intended to allow DFI to accept annual reports from approximately 11,000 active charitable organizations electronically, rather than on paper. Further the new system will allow fund-raising costs as a percentage of donations received to be automatically added to the publicly-available database.

8. The Department's IT Director estimated IT contractor needs for the charitable organizations project to be $1,115,900 based on an estimated number of project hours. Funding would support full-time contractors at: (a) $80 an hour for a project manager and three application developers; (b) $74 for a database administrator; (c) $60 for a business analyst; and (d) $51 for quality assurance, as well as a halftime contractor for operations personnel.

9. Given the identified upgrades to the charitable organization data system, the Committee could provide $1,115,900 PR in 2024-25 in one-time financing for the new technology system. [Alternative 1]

UCC/Trademark IT Project

10. The Uniform Commercial Code Section of the Division of Corporate and Consumer Services at the DFI examines and files documents under the UCC, including statements of business indebtedness, consignments, terminations, and financing statements and maintains the statewide UCC lien system. In 2021-22, UCC and trademarks brought in $1,596,000 in program revenue.

11. In April, 2019, DFI completed a project to replace in-house systems for UCC processing and trademarks with a third-party vendor. The initial term of the contract was five years with two options to extend the contract by one year upon mutual agreement of the parties. Both parties opted to extend the contract for an additional year, 2023-24, on the same terms. This extended contract will expire on March 15, 2024, unless the parties exercise the second option to extend the contract for a final additional year. Even then, additional funding would be needed by March 15, 2025 for a new contract.

12. The Department has identified several issues with the current software including: (a) filing gaps in compliance (for example, some filings are not given correct expiration or lapsed dates); (b) resource distribution and access issues (for example, trademark filings are not currently purging); (c) customer service delays: and (d) support to DFI and constituents. Given these issues, DFI indicates the agency will search for a new vendor. A new vendor would provide: (a) timely resolution to production issues; (b) bulk filer onboarding; and (c) support a core system with regular maintenance and upgrades. The Department hopes to find "a vendor to take on more DFI program areas to reduce the number of different applications used in the division."

13. The original projected costs of this project included a one-time implementation fee of $630,000 in 2019. Based on an assumed increase in costs over the period of 15%, $724,500 would be provided on a one-time basis in 2023-24 for implementation.

14. In order to support the modernization of DFI's Uniform Commercial Code and trademark processing and filing technology systems, the Committee could provide $724,500 PR in 2023-24 in one-time financing. [Alternative 2]

North American Securities Administrators Association (NASAA) Electronic Filing Depository (EFD) Automation IT Project

15. The Division of Securities registers and monitors the activities of broker-dealers, securities agents, investment advisers, and investment adviser representatives. The Division also conducts field audits of broker-dealer and investment advisers and investigates customer complaints. When violations of the securities law are detected, the Division initiates the appropriate administrative, injunctive, or criminal action. There are two bureaus within the Division: Enforcement, and Professional Registration and Compliance. In 2021-22, program revenue related to Securities Revenue Related to EFD automation fees was $38,966,700 PR.

16. Securities sold in Wisconsin must be: (a) registered with the Division of Securities; (b) be exempt from registration; or (c) submitted to the division via a notice filing. Most of DFI's securities filings and corresponding revenue is from notice filings made for federally-covered

securities. The Blue Express filing system, used by numerous states to facilitate electronic filing of securities products, was developed by Clear Sky/Automated Business Development Corporation and is not owned or supported by DFI. The Department does, however, support an interface that moves data from Blue Express to a DFI database called Phoenix automatically.

17. A new system, Electronic Filing Depository (EFD), was launched in December, 2022, to replace Blue Express. Blue Express will be phased out and unsupported within two years of December, 2022. As a result, DFI indicates it needs to prepare to transition from Blue Express to EFD for mutual fund and similar notice filings for federally covered securities. Both filers and states are moving away from Blue Express, because EFD functions as a "one-stop shop for filers to submit certain filing types to multiple states at the same time."

18. The goal of this project is to enable mutual fund and other filings electronically submitted to EFD (replacing current practice of through Blue Express) to be uploaded and automatically process in Phoenix without manual data entry.

19. Without this new interface, data would have to be manually loaded from EFD to Phoenix. In 2021, the agency's Division of Securities received 32,446 notice filings for federally-covered securities. This does not include either registration or exemption filings because they are subject to review and, therefore, unable to auto-process. The Division of Securities indicates that it does not have the staff to manually process a large volume of mutual fund and other filings received through EFD because each individual filing would require manual review and data entry.

20. Once an interface is created by DFI's IT staff, mutual fund filings should automatically process (downloaded from EFD and uploaded to Phoenix) in a manner similar to the automatic processing from Blue Express to Phoenix. Mutual fund filers who begin using EFD to submit their filings to other states will want to include Wisconsin for their submissions without needing to use alternatives such as Blue Express (until phased out) or paper filings.

21. The Department's IT Director projected the IT contractor needs for the EFD Securities Automation project to be $1,038,960.00 based on estimated project hours. Funding would support full-time contractors at: (a) $80 an hour for a project manager and three application developers; (b) $60 for a business analyst; and (c) $51 for quality assurance, as well as half-time contractors for operations personnel and $74 for a database administrator.

22. Given the benefits of automation between the new filing system and Phoenix, the Committee could provide $1,038,900 in 2024-25 in one-time financing to update and enhance the Department's securities filing technology systems. [Alternative 3]

23. Since increased expenditures from DFI's general program operations appropriation result in a reduction to revenue to the general fund, adoption of Alternative 1, 2 or 3 will result in a corresponding reduction in revenue in the year the appropriation is made. [Alternative 4] However, since the increase in expenditure authority in one-time in nature, the impact would not be on-going.

ALTERNATIVES

1. Provide $1,115,900 PR in 2024-25 in one time financing for modernization of the Department's charitable and professional organizations technology systems. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 1	Change to Base
PR	$1,115,900
GPR-REV	- $1,115,900

2. Provide $724,500 PR in 2023-24 in one time financing for modernization of DFI's Uniform Commercial Code and trademark processing and filing technology systems. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 2	Change to Base
PR	$724,500
GPR-REV	- $724,500

3. Provide $1,038,900 PR in 2024-25 in one time financing to update and enhance the Department's securities filing technology systems. Reduce the estimated year-end transfer to the general fund by a corresponding amount.

ALT 3	Change to Base
PR	$1,038,900
GPR-REV	- $1,038,900

4. Take no action.

Prepared by: Sarah Wynn