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To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Technology-Related Requests (Financial Institutions)

[LFB Summary: Pages 228 thru 230, #2 thru 5, 7 and 9 thru 11]

CURRENT LAW

No provision.

GOVERNOR

Provide \$897,500 PR in 1997-98 and \$1,103,100 PR in 1998-99 for the following technology-related activities in the Department of Financial Institutions (DFI):

	<u>1997-98</u>	<u>1998-99</u>
Small Agency Infrastructure Support	\$369,100	\$369,100
Corporation Registration Information System	250,000	250,000
Optical Imaging	40,000	200,000
UCC Lien System -- County Equipment Upgrade	114,000	114,000
Shared Data Base Management System	69,400	100,000
Information Technology Training	30,000	30,000
UCC Lien System Study	0	40,000
UCC Lien System -- Additional Lines	<u>25,000</u>	<u>0</u>
TOTAL	\$897,500	\$1,103,100

DISCUSSION POINTS

1. The funding recommended for technology-related activities in the Department would be used for the following activities:

a. **Small Agency Infrastructure Support.** Funding represents the last two years of the three-year payment plan for master leases and charges for Infotech support.

b. **Corporate Registration Information System.** Replace and rewrite the corporation registration information system (CRIS) and convert the application to a local area network (LAN). The CRIS maintains records and conducts inquiries of registered corporations in the state, including the corporate name, type, date of incorporation, annual report information, registered agent and address.

c. **Optical Imaging.** Fund an optical imaging project in the Division of Banking and the Uniform Commercial Code (UCC) lien section of the Department. Optical imaging electronically scans and stores paper documents, which allows each document to be retrieved more quickly and viewed simultaneously by multiple users.

d. **UCC Lien System -- County Equipment Upgrade.** Upgrade computer equipment used by the register of deeds in each county to access the statewide UCC lien system computer. The funding would be used to upgrade 18 county computers each year (\$3,000 per computer and \$3,000 per printer) for a total of \$108,000, plus \$6,000 annually for travel expenses. At this level of funding, all counties would be upgraded by 2000-01.

e. **Shared Data Base Management System.** Develop and install a data base management system in DFI. As part of the 1995-97 biennial budget, five state agencies were combined into DFI, each of which had its own computer system. This funding would be used to convert the separate systems into a common data base that would operate on a local area network (LAN).

f. **Information Technology Training.** Increase the amount available for DFI staff information technology training. Department of Administration staff have indicated that DFI will not be eligible to receive SASI help desk support until DFI's staff is trained to IT standards.

g. **UCC Lien System Study.** Study the feasibility of converting the UCC lien system applications currently on a WANG computer, previously supported by the Secretary of State, to the LAN. The WANG is eight years old and will be ten by the time the study is completed. The WANG application is out-of-date and is supported by consultants. In addition, the application does not conform to state information technology standards. The study would allow a new system to be created, which could be integrated with DFI's other databases.

h. **UCC Lien System -- Additional Lines.** Provide 64 additional lines of connection to the UCC lien system computer. Currently there are 64 lines available for the 72 counties and 70 public access UCC computers.

2. Most of the funding for technology-related activities appears reasonable. However, the \$250,000 recommended annually for converting the CRIS application warrants consideration.

The CRIS application in Division of Corporate and Consumer Services (DCCS) is currently on the Infotech mainframe. The existing system is currently 15 years old and is in a format that Infotech does not intend to support in the future.

The Department intends to conduct a feasibility study prior to converting the system. However, at this time, there is no data available to provide an estimate of how much it will cost to convert the system. An alternative could be to provide \$150,000 in 1997-98 to allow DFI to conduct the feasibility study and to develop a plan for converting the CRIS. (The \$150,000 figure is based on discussions with staff at the Department of Administration's Division of Technology and Management.) When the study is complete, the Department could request funding under s. 16.515 to begin converting the system, based on the study results.

The Department is funded with program revenues. The Department indicated that DCCS is funded with fees charged for its services. At the end of each fiscal year, any balance exceeding 10% of the Department's expenditures lapses to the general fund as GPR-Earned (the 10% amount is retained by DFI as an opening balance for the following fiscal year). If the funding for the CRIS is reduced by \$100,000 in 1997-98 and by \$250,000 in 1998-99, both PR revenues and PR expenditures would decrease by that amount. However, the lapse to the general fund would increase by \$10,000 in 1997-98 and by \$15,000 in 1998-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$897,500 PR in 1997-98 and \$1,103,100 PR in 1998-99 for technology-related activities in the Department of Financial Institutions.

2. Delete \$100,000 in 1997-98 and \$250,000 in 1998-99 from the funding recommended to replace and rewrite the CRIS. The \$150,000 remaining in 1997-98 would be used to conduct a feasibility study and develop a plan to convert the system.

<u>Alternative 2</u>	<u>GPR</u>	<u>PR</u>
1997-99 REVENUE (Change to Bill)	\$25,000	
1997-99 FUNDING (Change to Bill)		- \$350,000

3. Delete the Governor's recommendation.

Alternative 3	GPR	PR
1997-99 REVENUE (Change to Bill)	\$110,300	
1997-99 FUNDING (Change to Bill)		-\$2,000,600

Prepared by: Kelsie Doty

MO# AH#2

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
ALBERS	Y	N	A
GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A

BURKE	Y	N	A
ZDECKER	Y	N	A
GEORGE	Y	N	A
JAUCH	Y	N	A
WINEKE	Y	N	A
SHIBILSKI	Y	N	A
COWLES	Y	N	A
PANZER	Y	N	A

AYE 9 NO 7 ABS _____

FINANCIAL INSTITUTIONS

Definition of Capital in Banking Laws

Motion:

Move to include the bank's surplus in the definition of capital in the banking laws.

Note:

1995 Wisconsin Act 336 made a number of changes to the state's banking laws. One provision modified the definition of "capital" which is used to limit loans and investments that can be made by a state bank to any one person or entity. Under Act 336, capital is the sum of all the following, less the bank's tangible assets: capital stock, preferred stock, undivided profits and outstanding notes and debentures. Surplus was included with capital to determine loan and investment limits prior to Act 336, but was inadvertently omitted when the provision was modified in Act 336.

The motion would add the bank's surplus to the amounts that are added to determine a bank's capital. Since surplus is not included in the definition of capital under current law, this motion would increase a bank's capital and the amount that could be lent to one person or entity. Surplus is made up of a bank's retained earnings.

MO# 1069

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A
BURKE	X	N	A
DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A

Motion #1069

AYE 16 NO 0 ABS _____

Representative Harsdorf
~~Representative Shibilski~~
Senator

FINANCIAL INSTITUTIONS

Registration of Community-Based Organizations

Motion:

Move to delete the requirement that community-based organizations that provide housing assistance to low-income individuals have to register with the Department of Financial Institutions as loan originators, loan solicitors or mortgage bankers. Specify that community-based organizations are not subject to certain disciplinary provisions related to registration.

Note:

Under current law, community-based organizations that provide services to low-income individuals directly related to housing assistance are required to register with the Department and are subject to certain disciplinary actions. However, these organizations are not regulated by DFI. This motion would delete the registration requirement and discipline provision.

MO# 1070

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A

BURKE	X	N	A
DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A

AYE 16 NO 0 ABS _____

FINANCIAL INSTITUTIONS

Nondiscrimination Rules -- Automated Teller Machines

Motion:

Move to require the rules of the division of banking to provide that any bank ATM would be available for use, on a nondiscriminatory basis, by any state or national bank and by all customers designated by a bank.

Note:

This provision currently applies to credit unions, savings banks and savings and loans. This provision, as it relates to banks, currently states that ATM service shall be available for use, on a nondiscriminatory basis, by any state or national bank. The nondiscrimination provision is not extended to the customers of other banks. This motion would correct a drafting error in 1995 Wisconsin Act 55.

MO# 1068

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A
1 BURKE	X	N	A
2 DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A
AYE	<u>16</u>	NO	<u>0</u> ABS

FINANCIAL INSTITUTIONS

Reinstatement of Administratively Dissolved Corporations

Motion:

Move to repeal the two-year limit on the reinstatement of stock and nonstock corporations that have been administratively dissolved. Provide that the application for reinstatement include a statement that each ground for dissolution either did not exist or has been cured and that the corporation's name is valid. Direct the Department to reinstate the corporation if the application contains the required information and if all fees and penalties owed by the corporation to the Department under the Wisconsin business corporation law or Wisconsin nonstock corporation law, whichever is applicable, have been paid.

Increase the application fee for reinstatement following administrative dissolution from \$10 to \$90 for stock corporations and to \$35 for nonstock corporations.

Provide that these provisions would apply to a nonstock corporation administratively dissolved before, on or after January 1, 1994.

Note:

Under current law, a stock or nonstock corporation may be administratively dissolved by the Department if the corporation fails to pay certain fees or file certain reports. A corporation that has been administratively dissolved may generally apply for reinstatement within two years after the effective date of the dissolution. Corporations applying for reinstatement must pay a \$10 application fee. The increased fees in the motion are the same for an original incorporation.

There were approximately 1,000 reinstatements of administratively dissolved corporations in 1996. Based on this data, it is estimated that this motion would increase revenues by \$50,000 annually.

[Change to Bill: \$100,000 GPR-E

	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A	A
	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N	N
	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X	X
MO# <i>B15</i>	JENSEN	ZOURADA	HARSDORF	ALBERS	GARD	KAUFERT	LINTON	COGGS	BURKE	DECKER	GEORGE	JAUCH	WINEKE	SHIBILSKI	COWLES	PANZER	AYE	NO	ABS

FINANCIAL INSTITUTIONS

Wisconsin Business Corporation Law -- Term Substitution

Motion:

Move to substitute the term "resident domestic corporation" for the term "issuing public corporation" for purposes of the anti-takeover provisions of the Wisconsin business corporation law.

Note:

The anti-takeover provisions in the Wisconsin business corporation law generally refer to "issuing public corporations," which are domestic corporations that have assets exceeding \$1 million and equity securities held of record by 500 or more persons, 100 of which are residents of Wisconsin. In the past, an individual who owned a security was recorded as the security owner. However, it has become more common for the security owner to hold the stock in the name of a clearing house (such as a broker or bank), which is often located outside of the state. One clearing agency may hold stock in the name of many individuals. In addition, stock is often held in the form of retirement plans or mutual funds. As a result, record ownership of stocks has declined in recent years and it has become difficult to identify who owns a specific stock.

The term "resident domestic corporation" means a domestic corporation that has its principal offices located in Wisconsin, significant business operations in the state, has more than 10% of the holders of record of its shares as residents of Wisconsin and more than 10% of its shares are held of record by residents of this state. This definition does not refer to the actual number of outstanding securities held by state residents, but rather, to a percent of total securities. In addition, it defines a Wisconsin business based on its location and its operations.

This motion would affect the fair price, defensive action and control shares provisions of the Wisconsin business corporation law. These provisions were enacted prior to the business combination provision, which currently uses the term "resident domestic corporation". This motion would allow more businesses to be covered by Wisconsin anti-takeover laws.

MO# 810

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A

BURKE	X	N	A
DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A

Motion #810

AYE 16 NO 0 ABS _____

FINANCIAL INSTITUTIONS

LFB Summary Items for Introduction as Separate Legislation

<u>Item #</u>	<u>Title</u>
12	Division of Savings Institutions -- Name Change
13	Financial Record Matching Program -- Delinquent Child Support Payments
14	License Denial, Suspension and Revocation -- Delinquent Support and Taxes
15	Release of Confidential Information for Support Enforcement and Public Assistance Administration

Employe Trust Funds

(LFB Budget Summary Document: Page 212)

LFB Summary Items for Which Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
1&7	Minor Policy and Technical Changes (Paper #360)
2	Information Technology Funding (Paper #361)
3	Employe Health Insurance Data Collection Activities (Paper #362)
6	Supplies and Services Cost Increases -- Mailing and Forms Production Volume Increases (Paper #363)

<p>To: Joint Committee on Finance</p> <p>From: Bob Lang, Director Legislative Fiscal Bureau</p>

ISSUE

Minor Policy and Technical Changes (ETF)

A. STANDARD BUDGET ADJUSTMENTS

[LFB Summary: Page 212, #1]

Governor

Provide total standard budget adjustments for the agency of -\$2,261,700 SEG in 1997-98 and -\$2,257,900 SEG in 1998-99 and -3.0 project positions. Included in the standard budget adjustments is \$16,300 SEG annually for full funding of lease costs for the agency.

Modification to Bill

Delete \$16,300 SEG annually provided as a standard budget adjustment for full funding of agency lease costs.

Explanation: As part of the base year reconciliation process used to develop the agency's adjusted base level of funding for each fiscal year of the 1997-99 biennium, \$16,300 SEG annually was added to the agency's adjusted base for lease cost increases. Consequently, the identical additional amounts provided as standard budget adjustments are duplicative and may be deleted.

<u>Modification</u>	<u>SEG</u>
1997-99 FUNDING (Change to Bill)	- \$32,600

B. RETIRED EMPLOYEES' BENEFITS SUPPLEMENT REESTIMATE

[LFB Summary: Page 214, #7]

Governor

Reduce base level funding by \$39,800 GPR in 1997-98 and \$73,900 GPR in 1998-99 to reflect the reduced amounts necessary to fund benefit supplements for retirees who first began receiving annuities prior to 1974. The reestimate is due to a declining number of retirees eligible for these supplements due to deaths.

Modification to Bill

Make the following reestimates:

1997-98			1998-99		
<u>Budget Bill</u>	<u>Revised</u>	<u>Change</u>	<u>Budget Bill</u>	<u>Revised</u>	<u>Change</u>
\$299,700	\$300,000	\$300	\$265,600	\$268,400	\$2,800

Explanation: This new sum sufficient reestimate under the modification is based on the most recent projections of the supplements to be paid out in 1997-99.

<u>Modification</u>	<u>GPR</u>
1997-99 FUNDING (Change to Bill)	\$3,100

C. BASE LEVEL FUNDING REDUCTION

Governor

Continue base level funding of \$15,000 SEG annually in unallotted reserve for contractual legal services relating to federal tax matters.

Modification to Bill

Delete base level funding of \$15,000 SEG annually budgeted in unallotted reserve for contractual legal services.

Explanation: The 1995-97 biennial budget act provided one-time legal services funding of \$10,000 SEG in 1995-96 and \$15,000 SEG in 1996-97. The funding was placed in unallotted reserve for release by DOA after ETF identified its legal assistance needs relating to conforming the operation of the Wisconsin Retirement System to the requirements of the Internal Revenue Code. This review has now been completed with many of its results enacted as part of 1995 Wisconsin Act 302.

The 1996-97 one-time legal services funding amounts should have been deleted as a standard budget adjustment but were instead retained in the agency's base during the base year reconciliation process. This modification deletes these one-time funds.

<u>Modification</u>	<u>SEG</u>
1997-99 FUNDING (Change to Bill)	-\$30,000

Prepared by: Tony Mason

MO# Modifications
under A, B, C

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A
1 BURKE	X	N	A
2 DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A
AYE	16	NO	ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Information Technology Funding (ETF)

[LFB Summary: Page 212, #2]

CURRENT LAW

Base Level IT Funding. The Department's general administrative appropriation includes base level supplies and services IT funding of \$965,200 SEG annually to support on-going maintenance, data entry, contract programming, software and user charges for the agency's IT operations.

Applications Development Funding. The Department's long-term information systems upgrade project, the Wisconsin Employee Benefits System (WEBS), and its current optical imaging project are funded from a separate, continuing appropriation provided solely to support expenditures associated with the actual design and implementation of automated data systems for the agency. One-time funding of \$1,866,600 SEG in 1995-96 and \$1,291,500 SEG in 1996-97 was provided to fund the installation of the agency's new optical imaging system.

GOVERNOR

Base Level IT Funding. Provide \$452,300 SEG in 1997-98 and \$601,200 SEG in 1998-99 to fund increased costs of on-going maintenance, data entry, contract programming and software licenses, IT user charges by DOA and to establish a permanent property base for IT hardware replacements. Of the amounts provided, \$31,500 SEG in 1997-98 and \$20,000 SEG in 1998-99 would be one-time funding for software purchases.

Applications Development Funding. Provide \$649,000 SEG in 1997-98 and \$614,400 SEG in 1998-99 to support contractor and LTE costs associated with the processing of rollovers disbursements from other tax-qualified retirement plans into the Wisconsin Retirement System (WRS), the installation of an interactive voice response system and the development of thirteen projects ("reengineering projects") to convert a variety of annuity files and related processing activities into ETF's comprehensive database system (WEBS). Of the amounts provided, \$129,900 SEG in 1997-98 would be one-time funding for new hardware and software purchases and \$90,000 SEG annually would be placed in unallotted reserve for release by DOA pending a final determination on how the Department will track rollovers into the WRS.

A. BASE LEVEL IT FUNDING

Discussion Points

1. The Department has identified total base level supplies and services IT funding in its general program operations appropriation of \$965,200 SEG annually. Included in these identified base level amounts are \$415,200 SEG annually appropriated in unallotted reserve. Provisions of the 1995-97 biennial budget act originally placed in unallotted reserve all amounts in the agency's general administrative appropriation (as well as the applications development appropriation) identified as relating to the support and implementation of the agency's electronic documents imaging system for retirement system records. These funds could not be released to the agency until the Secretary of DOA had conducted a thorough review of the project and the Secretary's report had been submitted to the Joint Committee on Finance under a 14-day passive review mechanism. Pursuant to these procedures, the funding in unallotted reserve was released to ETF on January 10, 1996.

2. During the base reconciliation process for developing the 1997-99 biennial budget base funding level, the agency continued these base level funds in unallotted reserve. The base level funds in unallotted reserve actually support: (a) the salary, fringe benefits and related costs of the optical imaging project manager (\$51,900 SEG annually); (b) salaries, fringe benefits and related costs of 2.0 project positions associated with the optical imaging project (\$94,300 SEG annually); (c) programming costs (\$104,300 SEG annually); and (d) IT user charges payable to DOA (\$164,700 SEG annually).

3. The optical imaging project positions and associated funding have been deleted elsewhere in the ETF's budget proposal as a standard budget adjustment. However, comparable funding amounts for these positions have been continued incorrectly as part of these base level amounts budgeted in unallotted reserve. Further, the agency's total base level funding requirements for on-going IT resources do not identify a continuing need for the funds associated with these project positions. The Committee could, therefore, delete \$94,300 SEG annually of base level funding still in unallotted reserve attributable to these project position costs.

4. It would also be appropriate to reallocate the remaining base level funding amounts from unallotted reserve to the appropriate expenditure lines within the agency's administrative appropriation. The funds associated with the imaging system project manager (\$51,900 SEG annually) should be reallocated to the appropriate permanent salary, fringe benefits and supplies and services lines, and the amounts attributable to programming costs (\$104,300 SEG annually) and IT user charges (\$164,700 SEG annually) should be reallocated to the supplies and services line.

5. Following the above adjustments, the agency's base level resources (supplies and services) for on-going IT activities would be reestablished at \$819,000 SEG annually.

6. The Governor has recommended additional funding for the agency's IT base budget (supplies and services and permanent property) as follows:

TABLE 1

**Recommended 1997-99 IT Base Funding Increases
(SEG Funds)**

<u>Funding Category</u>	<u>1997-98</u>	<u>1998-99</u>
Communications Links	\$ 43,100 ^a	\$ 29,100
Software/Hardware Maintenance	37,100	50,900
DOA IT Mainframe User Charges (Imaging Project)	183,400	334,400
Data Entry (Imaging Project)	16,600	16,600
Software Purchases	31,500 ^b	20,000 ^b
Hardware Purchases ^c	<u>140,600</u>	<u>150,200</u>
TOTAL	\$452,300	\$601,200

^aIncludes \$14,000 of one-time funding.

^bOne-time funding.

^cFunding to establish a base to support a four-year hardware replacement cycle.

7. In the context of the agency's overall budget for on-going IT-related activities, the proposed increased funding generally appears to be reasonable. The preponderance of the increased funding (\$808,600 SEG of the total biennial increase of \$1,053,500 SEG) is related to two items:

- First, a significant increase in user charges to ETF for increased access to the DOA mainframe computer is expected as the agency implements its new records imaging system.

- Second, in accordance with DOA IT infrastructure standards, additional funding is provided to establish a funding base to allow for replacement of the agency's IT infrastructure equipment on an average four-year cycle.

8. However, the Committee could make the following modifications to the Governor's recommendations for base level IT funding relating to these to items:

- The budget detail supporting the agency's identified hardware needs for the 1997-98 fiscal year totals to \$129,600 SEG rather than the \$140,600 SEG recommended in the budget. Accordingly, the Committee could delete \$11,000 SEG in 1997-98 for hardware purchases.

- The amounts recommended by the Governor include one-time funding of \$31,500 SEG in 1997-98 and \$20,000 SEG in 1998-99 attributable to software purchase costs. However, \$14,000 SEG of the \$43,100 SEG identified in 1997-98 for communications links is also one-time funding associated with a cable line installation. Accordingly, the Committee could place that \$14,000 SEG in 1997-98 also in the one-time funding category.

9. Finally, it may be noted that ETF is heavily involved on an on-going basis in both the operation of its existing comprehensive database system (WEBS) and a variety of applications development projects requested in this and previous biennial budgets to modify and enhance that system. As a result, it is reasonable to assume that the agency's base supplies and services and permanent property costs for IT services will continue to be increased in future budgets. To facilitate the Legislature's ability to monitor and review these expenditures, the Committee could adjust the agency's budget structure to establish a separate numeric appropriation within ETF's single statutory appropriation for general administrative operations. If the changes outlined above are adopted, a total of \$1,260,300 SEG in 1997-98 and \$1,420,200 SEG in 1998-99 would be shifted within the agency's general administrative appropriation to a new numeric appropriation for IT funding. This new numeric appropriation would be used solely for IT supplies and services and permanent property expenditures. ETF would still have the flexibility to expend its total statutory appropriation total as it determined was necessary, but it would have to request approval from the State Budget Office to transfer funds between the two numeric account appropriations that would be established under this approach. With a separate numeric for IT costs, year to date and total annual expenditures for IT supplies and services and permanent property costs would be readily ascertainable. IT funding would also be automatically base budgeted under the biennial budget process.

Alternatives to Bill

A1. Approve the Governor's recommendation to provide \$452,300 SEG in 1997-98 and \$601,200 SEG in 1998-99 for increased base level funding for agency IT supplies and services and permanent property costs.

A2. Modify the Governor's recommendation by deleting : (a) \$94,300 SEG annually of base-level funding in unallotted reserve budgeted for expiring IT project positions; and (b) \$11,000 SEG in 1997-98 of excess hardware acquisition funding;

<u>Alternative A2</u>	<u>SEG</u>
1997-99 FUNDING (Change to Bill)	-\$199,600

A3. Modify the Governor's recommendation by: (a) reallocating from base level unallotted reserve funding \$51,900 SEG annually to the appropriate permanent salary, fringe benefits and supplies and services lines under the agency's general administrative appropriation; (b) reallocating from base level unallotted reserve funding \$104,300 SEG annually for programming costs and \$164,700 SEG annually for IT user charges to the supplies and services line under the agency's general administrative appropriation; and (c) shifting \$14,000 SEG in 1997-98 from base-building supplies and services funding to one-time funding.

A4. Modify the Governor's recommendation by establishing a separate appropriation numeric for ETF's IT supplies and services and permanent property expenditures and shift \$1,260,300 SEG in 1997-98 and \$1,420,200 SEG in 1998-99 within the agency's general administrative appropriation to this new appropriation numeric for IT funding.

B. APPLICATIONS DEVELOPMENT FUNDING

Discussion Points

10. The agency's IT system applications development and installation costs are funded from a separate, continuing appropriation. One-time funding provided to this appropriation in the 1995-97 biennial budget has been removed from the base budget appropriation as a standard budget adjustment. However, under a continuing appropriation, even if no additional funds are appropriated in a subsequent biennium, any funds previously appropriated continue to remain available until expended.

11. At the end of April, a total of \$2,717,100 SEG remained available in this appropriation. Of this amount, \$2,200,000 SEG is reserved for contracted costs associated with the actual implementation of the agency's optical imaging records conversion project, which is expected to commence in the next several weeks. The remaining funds are budgeted for nine systems development projects associated with WEBS and reengineering projects associated with recent legislation affecting federal tax compliance issues (1995 Wisconsin Act 302) and converting certain WRS-covered educational staff from a calendar year to a fiscal year basis for determining annual earnings (1995 Wisconsin Act 381).

12. The Governor has recommended providing additional funding in the 1997-99 biennial budget for the agency's applications development appropriation, as follows:

TABLE 2

**Recommended 1997-99 IT Applications Development Funding Increases
(SEG Funds)**

<u>Funding Category</u>	<u>1997-98</u>	<u>1998-99</u>
<u>Rollover Project</u>		
Conversion Funding	\$90,000	\$90,000
<u>Interactive Voice Response (IVR) System</u>		
One-time Hardware and Software Purchases	106,900	-0-
On-Going Operating Support	63,200	82,200
<u>Reengineering Projects</u>		
LTE Staffing	38,000	26,700
Development Costs	256,400	320,000
Contract Programming Costs	71,500	95,500
One-time Hardware and Software Purchases	<u>23,000</u>	<u>-0-</u>
TOTAL	\$649,000	\$614,400

13. *Rollover project.* The Governor has recommended that \$90,000 SEG annually be appropriated in unallotted reserve to fund the costs associated with the development of a separate accounting subsystem for account balances disbursed from other tax-qualified retirement plans that are rolled into the WRS. Provisions of 1991 Wisconsin Act 141 directed the agency to develop such a capability; however, the requirement does not actually go into effect until ETF develops and promulgates implementing administrative rules. Because of a complex number of interest crediting issues, the agency has determined that a separate accounting subsystem will likely be required to track these balances. Until the subsystem is in place, ETF will be unable to promulgate the necessary administrative rules.

14. The agency's budget request narrative discussed three possible solutions to the development of such a subsystem:

- Incorporation of the required system changes into the WEBS system. The agency's request indicated that this first option would be the "most administratively-practical" method and

identified a system development cost of \$109,700 SEG (although a need for other unspecified system testing and implementation costs was also mentioned);

- Development of a customized, stand-alone system under contract with a systems development vendor. ETF indicated that preliminary estimates under the second option for contracting for these services ranged from \$138,000 SEG to \$229,000 SEG. A more recent estimate from the agency puts the figure at \$182,900 SEG. The Governor has recommended total funding of \$180,000 SEG for the project split evenly between two fiscal years;

- Purchase of an off-the-shelf accounting package was indicated as a third possibility. It was suggested that such a package could cost considerably less than the development of a customized subsystem (either in-house or by a vendor). However, ETF indicated that staff had yet to identify such a suitable available system.

15. It appears there could be cost-effective options available to the agency that have not been fully explored with respect to implementing the rollover accounting subsystem. Therefore, a complete review of the options would seem desirable before the Legislature commits funding for the project. The Committee could transfer \$90,000 SEG annually from unallotted reserve under ETF's automated operating systems appropriation and place the total amount of this funding (\$180,000 SEG) in the Committee's supplemental SEG appropriation in 1998-99 for release under s. 13.10. The Department could submit a request for release of these funds once it had thoroughly reviewed and identified the most cost-effective approach for developing the accounting subsystem for tax-qualified disbursements from other retirement plans.

16. *Interactive voice response (IVR) system.* With respect to the interactive voice response system support costs of \$63,200 SEG in 1997-98 and \$82,200 SEG in 1998-99, these proposed expenditures appear to relate more to the operation of the system once it has been installed than to system acquisition and development. Accordingly, the Committee could provide these funds under ETF's general administrative appropriation rather than under its automated operating systems appropriation.

17. *Reengineering projects.* With respect to these recommended expenditures: (a) the LTE funding would provide temporary staffing back-up for permanent employees who would be detailed to a project team involved in the two reengineering projects associated with automation of the retirement annuity calculation process and the accumulated sick leave conversion process for state employee annuitants; and (b) the one-time hardware and software purchases would fund acquisitions related to the development of on-line access to WRS employer administrative manuals. These components of the agency's request appear reasonable and justified by the supporting budget detail.

18. With respect to the systems reengineering activities for which ETF is requesting funds for development costs, the agency has listed thirteen different projects that it wishes to undertake to make modifications to its database system to incorporate files and processes that are

not currently operating on that system. The agency has identified the following specific reengineering projects: (a) automated retirement annuity re-calculations; (b) conversion of annuity files; (c) conversion of accumulated sick leave conversion credits files; (d) enhancement of its database system for annuity functions; (e) automated calculation of retirement benefit estimates; (f) system-generated retirement application mailers; (g) automated retirement annuity check processing; (h) retirement annuity file maintenance; (i) year-end tax processing of annuity payments; (j) automation of mailers and extracts for annuitants; (k) on-line access for general inquiries for employer manuals; and (l) general inquiries for forms and documents on-line access. These twelve projects for which the development funds are being requested seem reasonable.

19. In addition to the above twelve projects, ETF listed as a thirteenth reengineering project a funding request for \$48,000 SEG annually for various applications enhancement projects to WEBS. Costs associated with these projects include funding needed for computer usage and for staff to test the operational reliability and validity of each completed system enhancement. A further review of the detail associated with these WEBS enhancements has identified likely total biennial project costs of \$79,400 SEG rather than the biennial total of \$96,000 SEG recommended by the Governor. Since these enhancements are all one-time activities, the Committee could provide the revised total funding of \$79,400 SEG on a one-time basis in 1997-98 rather than providing \$48,000 SEG annually. This modification would result in net biennial savings of \$16,600 SEG. [Although the funding would be provided on a one-time basis, it would remain available to the agency under a continuing appropriation until expended. Further, it would not be base building for the purpose of the next biennial budget.]

20. With respect to the contract programming funding of \$71,500 SEG in 1997-98 and \$95,500 SEG in 1998-99, recommended by the Governor, the Department had originally requested 2.0 FTE project programmers to assist with the 13 database conversion projects. The Governor's recommendation denied the project positions. Instead, the salary and fringe benefits funding associated with these positions was instead reallocated to the appropriation's supplies and services line for the purpose of contracting for the necessary programming assistance for these projects. Since ETF views these programming efforts as limited in duration (hence, the request for project positions), the question may be raised whether these funds should be provided as one-time funding or on-going, base-building basis. Accordingly, the Committee may wish to provide the \$71,500 SEG in 1997-98 and \$95,500 SEG in 1998-99 for contract programming as one-time funding. The Committee could then review any continuing need for this level of contract programmer funding as part of the 1999-2001 biennial budget process.

Alternatives To Bill

B1. Approve the Governor's recommendation to provide \$649,000 in 1997-98 and \$614,400 SEG in 1998-99 for new application development funding.

B2. Modify the Governor's recommendation by deleting \$48,000 SEG annually that is recommended for WEBS enhancement project and instead providing \$79,400 SEG as one-time funding for this purpose in 1997-98.

<u>Alternative B2</u>	<u>SEG</u>
1997-99 FUNDING (Change to Bill)	- \$16,600

B3. Modify the Governor's recommendation by: (a) providing \$71,500 SEG in 1997-98 and \$95,500 SEG in 1998-99 for contract programming as one-time rather than base level funding; (b) providing \$63,200 SEG in 1997-98 and \$82,200 SEG in 1998-99 of on-going operational funding for the proposed interactive voice response system under ETF's general administrative appropriation rather than under its automated operating systems; and (c) transferring \$90,000 SEG annually from unallotted reserve under ETF's automated operating systems appropriation to the Committee's supplemental SEG appropriation in 1998-99 with the understanding that the Department could submit a request under s. 13.10 for a supplementation from these funds once it has thoroughly reviewed and identified the most cost-effective approach for developing an accounting subsystem for tax-qualified disbursements from other retirement plans.

Prepared by: Tony Mason

MO# page 5
A2, A3, A4

Z	JENSEN	X	N	A
	OURADA	X	N	A
	HARSDORF	X	N	A
	ALBERS	X	N	A
	GARD	X	N	A
	KAUFERT	X	N	A
	LINTON	X	N	A
	COGGS	X	N	A
I	BURKE	X	N	A
	DECKER	X	N	A
	GEORGE	X	N	A
	JAUCH	X	N	A
	WINEKE	X	N	A
	SHIBILSKI	X	N	A
	COWLES	X	N	A
	PANZER	X	N	A
AYE	<u>16</u>	NO	<u>0</u>	ABS

MO# B2+B3

JENSEN	X	N	A	
OURADA	X	N	A	
HARSDORF	X	N	A	
ALBERS	X	N	A	
GARD	X	N	A	
KAUFERT	X	N	A	
LINTON	X	N	A	
COGGS	X	N	A	
BURKE	X	N	A	
DECKER	X	N	A	
GEORGE	X	N	A	
JAUCH	X	N	A	
WINEKE	X	N	A	
SHIBILSKI	X	N	A	
COWLES	X	N	A	
PANZER	X	N	A	
AYE	<u>16</u>	NO	<u>0</u>	ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Employe Health Insurance Data Collection Activities (ETF)

[LFB Summary: Page 213, #3]

CURRENT LAW

A separate health insurance data collection and analysis appropriation is provided under ETF to enable the Group Insurance Board to contract for these services relating to the development of enrollment and membership information for the state group health insurance program. The funding provided in the 1995-97 budget for this appropriation was designated as one-time funding.

GOVERNOR

Provide \$320,900 SEG in 1997-98 and \$300,900 SEG in 1998-99 to continue health insurance data collection activities for the Group Insurance Board. The recommended funding would provide for: (a) vendor contracts to maintain ETF's state employe health care enrollment database; (b) actuarial services in connection with the negotiation of premium rates with state employe health care providers; (c) annual surveys of employe participant satisfaction with their health plans; and (d) a one-time study of the sources of complaints concerning employe health plans.

DISCUSSION POINTS

1. The agency's separate health insurance data collection and analysis appropriation was first established in the 1992 budget adjustment act and was originally funded at \$80,000 SEG

in 1991-92 and \$300,000 SEG in 1992-93 and in each fiscal year thereafter through 1994-95. As part of its 1995-97 biennial budget request, ETF again sought a continuation of the \$300,000 SEG base funding level in this appropriation in both 1995-96 and 1996-97.

2. However, during the Committee's deliberations on ETF's 1995-97 budget, a review of actual health insurance data collection and analysis expenditures indicated that this appropriation had been consistently overbudgeted in prior years relative to the agency's actual needs. In addition, ETF was only able to identify potential 1995-96 health data collection and analysis costs of \$257,000 SEG which would be funded from this appropriation. Finally, it was determined that no detailed budget had been developed for this appropriation for the 1996-97 fiscal year.

3. As a result of this analysis, the Committee reduced base level funding by \$43,000 SEG in 1995-96 to provide a total of \$257,000 SEG in that fiscal year. For 1996-97, the entire \$300,000 SEG of base level funding was deleted with the understanding that ETF could return to the Committee with a supplementation request under s. 13.10 of the statutes, after a detailed 1996-97 budget had been developed. ETF subsequently proposed a 1996-97 budget of \$290,700 SEG for activities funded from the appropriation. On June 27, 1997, the Committee approved the requested supplementation, but specified that the funds be considered one-time in nature rather than base-building. This action was taken so that the Committee could review the detailed funding needs for the appropriation as part of its deliberations on the 1997-99 biennial budget.

4. ETF's health insurance data collection and analysis budget for the 1997-99 biennium, as recommended by the Governor, is summarized in the table below. Each component of the recommended budget is then reviewed in the discussion points which follow the table.

**Recommended 1997-99 Health Data Collection and Analysis Budget
(SEG Funds)**

<u>Type of Contractual Service</u>	<u>1997-98</u>	<u>1998-99</u>
Actuarial Services for Negotiation of Health Care Provider Premium Rates	\$41,400	\$41,400
Data Entry Services for Health Insurance Enrollment Database	67,700	67,700
Database Maintenance and Access Services	120,400	120,400
Annual Survey of Participant Satisfaction with Group Health Insurance Plans	71,400	71,400
Complaint Database Development	<u>20,000</u>	<u>-0-</u>
TOTAL	\$320,900	\$300,900

5. *Actuarial Services.* The Department retains a consulting actuary to assist the Group Insurance Board in the annual negotiation of premium rates with health plan providers. The consulting actuary utilizes information in the membership enrollment database to develop utilization and cost targets for each plan. The actuary then compares these target premium rates with the actual bids submitted by each health plan. Where the proposed bid and the target premium rates fall outside an established range, negotiations may be undertaken with selected plans regarding the submitted bids. While plans are not required to revise their bids, ETF indicates that some have done so, resulting in lower premium rates. Since the development of the Department's budget request for the actuarial services funded from this appropriation, a new actuary has been selected at a reduced cost of \$37,500 SEG annually, rather than the original estimate of \$41,400 SEG annually. Accordingly, the Committee could delete \$3,900 SEG annually from the budgeted levels recommended by the Governor.

6. *Data Entry Services.* Currently, ETF contracts with a vendor to provide in-house data entry of health insurance enrollment and subscriber information. The current enrollment database contains, for each state group health insurance plan participant, comprehensive information on such items as the identity of each subscriber and dependents of the subscriber, relevant demographic data for the subscriber and dependents, employer data, all relevant health plan coverage information for the subscriber and dependents, data on third party coverage, source of premium payments and complaint filings. Whenever this information changes, the revised data is incorporated into the database. Since the development of the Department's budget request for the health insurance data collection and analysis appropriation, a new vendor has been selected to provide these data entry services at a reduced cost of \$40,500 SEG annually, rather than the original estimate of \$67,700 SEG annually. Accordingly, the Committee could delete \$27,200 SEG annually from the budgeted levels recommended by the Governor.

7. *Database Maintenance and Access Services.* The actual health insurance membership enrollment database is operated on a proprietary system owned by the contract administrator (Grant Thornton). The administrator maintains the database and provides ETF with ongoing access to it. Data in the system is constantly being revised and permits the preparation of a series of monthly status, trend, and error-control reports which ETF uses in the overall management of the health insurance program. The Department has identified approximately three dozen types of reports which are now generated on a monthly basis from the enrollment database. The budgeted database maintenance and access costs (\$120,400 SEG annually) reflect estimated computer usage, storage, access and printing charges associated with data input and the development of staff reports. These budgeted costs also include technical assistance fees charged by Grant Thornton. These fees are incurred when ETF staff require assistance in the redesign of the existing database in order to prepare special reports.

8. Since the development of the Department's budget request for this appropriation, increased funding requirements of \$31,100 SEG annually have been identified by ETF to meet estimated additional usage charges associated with accessing the database. The agency is

proposing to meet these newly identified increased costs by applying the savings identified from the actuarial and data entry services vendor cost decreases previously noted.

9. Following inquiries concerning the nature of these additional usage charges, ETF now indicates that much of the increase has been identified by Grant Thornton but has not been passed on to ETF because of conditions in the current vendor contract. Further, to the extent that additional user charges are ultimately passed on to the Department, a question may also be raised as to whether a portion of this increased usage is attributable to the agency's staff accessing information in the database in the furtherance of their regular oversight and administrative duties. If this is the case, to the extent that the increased costs are passed on to the Department in the future, an argument can be made that such costs should be supported instead from the agency's general program operations appropriation. Thus, until it is determined: (a) how much, if any, of the increased usage costs will be passed on to the agency; and (b) whether any such costs should be apportioned to ETF's administrative appropriation, a case can be made that no additional funding for database maintenance and access services above the amount recommended by the Governor should be budgeted at this time.

10. However, if the Committee believes the \$31,100 SEG annually should be provided, it could so by approving the Governor's recommendation. This action would allow ETF to keep the equivalent amount of savings identified above that would be realized from reduced actuarial and data entry contractor costs and apply these amounts to the data base maintenance and access function.

11. *Annual Participant Survey.* The Department proposes expending \$71,400 SEG annually to contract with a vendor to continue its annual survey of health plan subscribers. The survey asks a random sample of insured participants about their perceptions of the care and services provided by their health plan. The results of the survey are published annually as plan "report cards" which are included in the information provided to employees and annuitants as part of the annual health insurance dual choice enrollment process. The budgeted figure is based on the cost of prior year's survey done by the UW Survey Research Lab, adjusted to accommodate anticipated inflationary increases. ETF indicates that a new DOA procurement bulletin lists several vendors who might be available to perform the survey in addition to the Survey Research Lab; however, no potential cost savings have yet been identified as a result of the increased vendor competition to perform the survey.

12. *Development of a Complaint Database.* The Department has proposed using one-time funding of \$20,000 SEG in 1997-98 to contract for the development of an enrollee complaint database. This funding would be used to hire a consultant to evaluate the best way of collecting and reporting information on state group health insurance plan enrollees' complaints. This proposal is an outgrowth of a Legislative Audit Bureau audit report of the state group health insurance program issued in March of 1996. The audit recommended implementing procedures to: (a) document and analyze all complaints received by ETF from plan participants; and (b)

ensure that complaints regard the state employee group health insurance plan that are received by the Office of the Commissioner of Insurance also be collected and analyzed by ETF.

13. Since the time ETF developed its original budget proposal on this item, the agency has begun an examination of the feasibility, potential costs and possible benefits for agency user access of transferring the health insurance enrollment database from the proprietary system operated by Grant Thornton to the agency's own comprehensive database system currently being used for Wisconsin Retirement System. It appears that a thorough examination of this option is warranted, especially in view of the access charge question raised above.

14. Thus, it could be argued that providing funding to begin a complaint database project may not be the most efficient use of resources by ETF at this time. This is because the new health insurance enrollee complaint management database would reside on the Grant Thornton proprietary system and there is a reasonable potential that an in-house alternative to that system may be selected as a result of the agency's review. If the Committee believes that this view has merit, it could deny providing \$20,000 SEG in 1997-98 for the complaint database project.

15. Alternatively, the Committee could place the funds in its supplemental SEG appropriation for future release to ETF in 1998-99 under s. 13.10 following the conclusion of the agency's review of what is the most cost effective location of the employee health care database.

16. Further, to ensure that the Committee has an opportunity to review as soon as possible the issue of the potential transfer of the employee health insurance enrollment database to ETF, the Committee could choose to not provide ETF at this time with the \$120,400 SEG in 1998-99 recommended for database maintenance and access services. Instead, these funds could also be placed in the Committee's supplemental SEG appropriation for future release to ETF under s. 13.10 following the submission of a report by ETF on the results of the agency's review of the best location for the employee health care database. Addressing this issue before the release of continued funding for 1998-99 for the current system would help to ensure that if it is determined that the development of an in-house system would be cost-effective, steps could begin to be taken in 1998-99 to plan for the conversion.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation to provide \$320,900 SEG in 1997-98 and \$300,900 SEG in 1998-99 for continued health care data collection activities.

2. Modify the Governor's recommendation by adopting one or more of the following alternatives:

a. Delete \$27,200 SEG annually from the funds recommended for data entry services and \$3,900 SEG annually from the funds recommended for actuarial services to reflect decreased contract costs.

Alternative 2a	SEG
1997-99 FUNDING (Change to Bill)	- \$62,200

b. Adopt either b.(1) or b.(2):

(1) Delete \$20,000 SEG of one-time funding recommended in 1997-98 for the development of a health insurance enrollee complaint management system.

Alternative 2b	SEG
1997-99 FUNDING (Change to Bill)	- \$20,000

(2) Place \$20,000 SEG of one-time funding in 1997-98 in the Committee's supplemental SEG appropriation in the 1998-99 fiscal year for release to ETF under s. 13.10 following the conclusion of the agency's review of what is the most cost-effective location of the employe health care database.

c. Place the funds recommended in 1998-99 for database maintenance and access services for the current proprietary database system in the Committee's supplemental SEG appropriation for release to ETF under s. 13.10 following its submission of a report to the Committee on the feasibility, possible benefits and potential costs of shifting the employe health insurance database from the current vendor's proprietary system to the agency's own database system.

MO# AF 206
(2) c

Prepared by: Tony Mason

JENSEN	X	N	A
OURADA	X	N	A
HARSDORF	X	N	A
ALBERS	X	N	A
GARD	X	N	A
KAUFERT	X	N	A
LINTON	X	N	A
COGGS	X	N	A
BURKE	X	N	A
DECKER	X	N	A
GEORGE	X	N	A
JAUCH	X	N	A
WINEKE	X	N	A
SHIBILSKI	X	N	A
COWLES	X	N	A
PANZER	X	N	A

AYE 16 NO 0 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Supplies and Services Cost Increases -- Mailing and Forms Production Volume Increases

[LFB Summary: Page 214, #6]

CURRENT LAW

ETF has base level supplies and services funding of \$420,400 SEG annually for participant and annuitant forms costs and associated mailing expenses.

GOVERNOR

Provide \$21,000 SEG in 1997-98 and \$22,100 SEG in 1998-99 to meet costs associated with a projected 5% annual increase in the volume of participant and annuitant forms and associated mailing expenses.

DISCUSSION POINTS

1. Since 1993, the rate of annual increase in the total number of participants and annuitants under the Wisconsin Retirement System has never exceeded 2.25% per year.
2. In addition, the forms volume increase actually experienced during the last two-year period for which data is available was less than 0.7% annually.
3. Accordingly, the Committee could modify the bill by deleting \$10,500 SEG in 1997-98 and \$11,100 SEG in 1998-99 for volume-driven forms production and mailing cost

increases. This modification would result in providing total additional funding of \$10,500 SEG in 1997-98 and \$11,000 SEG in 1998-99 which would be sufficient for ETF to accommodate an overall 2.5% annual volume-driven cost increase.

MODIFICATION TO BILL

Modify the bill to provide \$10,500 SEG in 1997-98 and \$11,000 SEG in 1998-99 for increased participant and annuitant forms costs and associated mailing expenses.

<u>Modification</u>	<u>SEG</u>
1997-99 FUNDING (Change to Bill)	- \$21,600

Prepared by: Tony Mason

MO# *Modifications to the Bill*

JENSEN	<input checked="" type="checkbox"/>	N	A
OURADA	<input checked="" type="checkbox"/>	N	A
HARSDORF	<input checked="" type="checkbox"/>	N	A
ALBERS	<input checked="" type="checkbox"/>	N	A
GARD	<input checked="" type="checkbox"/>	N	A
KAUFERT	<input checked="" type="checkbox"/>	N	A
LINTON	<input checked="" type="checkbox"/>	N	A
COGGS	<input checked="" type="checkbox"/>	N	A
BURKE	<input checked="" type="checkbox"/>	N	A
DECKER	<input checked="" type="checkbox"/>	N	A
GEORGE	<input checked="" type="checkbox"/>	N	A
JAUCH	<input checked="" type="checkbox"/>	N	A
WINEKE	<input checked="" type="checkbox"/>	N	A
SHIBILSKI	<input checked="" type="checkbox"/>	N	A
COWLES	<input checked="" type="checkbox"/>	N	A
PANZER	<input checked="" type="checkbox"/>	N	A
AYE	<i>16</i>	NO	<i>0</i> ABS

EMPLOYEE TRUST FUNDS

LFB Summary Items for Which No Issue Papers Have Been Prepared

<u>Item #</u>	<u>Title</u>
4	Additional Staff for Creditable Service Determinations
5	Space Rental Cost Increases
6	Supplies and Services Cost Increases -- Mail Room Courier Service

LFB Summary Items for Introduction as Separate Legislation

<u>Item #</u>	<u>Title</u>
8	Withholding from Public and Private Pension Plans Lump Sum Distributions and Annuity Payments
9	Access to Individual Medical Information Contained in Agency Records

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- 741 Minimum and Maximum Payment Provisions
- 742 Payments for Municipal Services -- Garbage and Trash Disposal and Collection
- 743 Payments for Municipal Services -- Agency Chargebacks

Paper #

Shared Revenue and Property Tax Relief -- Property Tax Credits

- 745 Transfers from Property Tax Relief Fund to General Fund
- 746 Homestead Tax Credit Reestimate
- 747 Homestead Tax Credit -- Definition of Household Income

State Fair Park

State Treasurer

- 770 Unclaimed Property Program Printing and Advertising Costs
- 771 Minor Policy and Technical Changes
- 772 Staffing Modifications

Supreme Court

- 780 Circuit Court Automation Project
- 781 Information Technology
- 782 Law Library Book Inflation
- 783 Fees for the Sale of Court Documents
- 784 Personnel Specialist
- 785 District Court Administrative Staff -- Milwaukee County

Technology for Educational Achievement in Wisconsin Board

- 790 Governance of TEACH Functions
- 791 GPR Block Grants to School Districts
- 792 Block Grants to School Districts from the Common School Fund for Educational Technology
- 793 Block Grants to CESAs for Educational Technology
- 794 Educational Technology Infrastructure Loans
- 795 Modifications to the Current Status and Purposes of the Universal Service Fund
- 796 Educational Telecommunications Access Program
- 797 Modify DOA Educational Technology Responsibilities
- 798 Minor Policy and Technical Changes

Paper #

Tourism

- 800 Sponsorship of Tourism Publications
- 801 Rent Increases
- 802 Heritage Tourism Grants
- 803 Travel Information Centers -- LTE Funding
- 804 Licensing State Symbols, Surplus Property and County Associations
- 805 Milwaukee Symphony Radio Show

Wisconsin Health and Educational Facilities Authority

Wisconsin Technical College System

- 945 General Aids for Technical College Districts
- 946 Faculty Development Grants
- 947 Contracts for Youth Apprenticeship Instruction
- 948 Minor Policy and Technical Changes -- Position Authority



Legislative Fiscal Bureau

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May 13, 1997

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Budget Issue Papers

Attached are budget issue papers, prepared by this office, on the following agencies:

- Wisconsin Housing and Economic Development Authority
- Clean Water Fund
- Department of Natural Resources -- Forests and Parks

These agencies have been scheduled for executive action by the Joint Committee on Finance. The meeting will be held at 9:00 a.m. on Thursday, May 15, in 119 MLK Building, Joint Finance (back of Senate Chambers).

BL/sas
Attachments

MO# *Attendance*

JENSEN	<input checked="" type="checkbox"/>	N	A
OURADA	<input checked="" type="checkbox"/>	N	A
HARSDORF	<input checked="" type="checkbox"/>	N	A
ALBERS	<input checked="" type="checkbox"/>	N	A
GARD	<input checked="" type="checkbox"/>	N	A
KAUFERT	<input checked="" type="checkbox"/>	N	A
LINTON	<input checked="" type="checkbox"/>	N	A
COGGS	<input checked="" type="checkbox"/>	N	A
BURKE	<input checked="" type="checkbox"/>	N	A
DECKER	<input checked="" type="checkbox"/>	N	A
GEORGE	<input checked="" type="checkbox"/>	N	A
JAUCH	<input checked="" type="checkbox"/>	N	A
WINEKE	<input checked="" type="checkbox"/>	N	A
SHIBILSKI	<input checked="" type="checkbox"/>	N	A
COWLES	<input checked="" type="checkbox"/>	N	A
PANZER	<input checked="" type="checkbox"/>	N	A

AYE _____ NO _____ ABS _____

1997-99 BUDGET PAPERS

May 15, 1997

Paper

Wisconsin Housing and Economic Development Authority

- 940 Safe Drinking Water Loan Guarantee Program
- 941 Small Business Loan Guarantee Program

Clean Water Fund

- 230 Biennial Finance Plan
- 231 Clean Water Fund Statutory Changes
- 232 Land Recycling Loan Program
- 233 Safe Drinking Water Loan Program

Natural Resources -- Forests and Parks

- 580 Shift Stewardship Debt Service to Forestry Account
- 581 Forest Landowner Grant Program
- 582 Local Fire Department Equipment Assistance Grants
- 583 Highway Landscaping Initiative
- 584 Forest Landscape Ecology Research
- 585 Convert Pike Lake State Park to a Southern Forest Property
- 586 Campground Reservation System

Wisconsin Housing and Economic Development Authority

(LFB Budget Summary Document: Page 649)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #

Title

2

Safe Drinking Water Loan Guarantee Program (Paper #940)

5,7

Small Business Loan Guarantee Program (Paper #941)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Safe Drinking Water Loan Guarantee Program (WHEDA and Clean Water Fund)

[LFB Summary: Page 652, #2 and Page 113, #9]

CURRENT LAW

WHEDA administers several loan guarantee programs related to business development and environmental contamination remediation and pollution abatement. WHEDA is typically authorized to guarantee up to 90% of the principal value of the loans.

GOVERNOR

Create a safe drinking water loan guarantee program to guarantee up to 80% of the principal of loans for projects that improve the quality of drinking water in water systems not owned by the local units of government.

WHEDA would be allowed to guarantee collection of a percentage, not exceeding 80%, of the principal of an eligible loan. The Authority could establish a single percentage for all loans guaranteed or establish different percentages for individual loans. The total outstanding principal amount for all guaranteed safe drinking water loans would not be allowed to exceed \$3.0 million, unless the Joint Committee on Finance, under s. 13.10, permits the Authority to increase or decrease the total outstanding guaranteed principal amount. A request for additional authority would have to include a projection that compares the next June 30 balance, less the amount necessary to fund guarantees under the program and to pay outstanding claims, with the same balance if the request is approved.

Require WHEDA to enter into a guarantee agreement with lenders wishing to participate in the program. Consistent with the terms of the program, WHEDA would be allowed to determine the form of the agreement, any conditions upon which the authority may refuse to enter into a guarantee agreement and the procedures required to carry out the agreement, including default procedures and the guarantee percentage for each loan. Further, allow WHEDA to establish a review panel, consisting of experts in the finance and drinking water systems area to provide advice about lending requirements and issues related to the loan guarantee program.

Direct the Department of Natural Resources (DNR) to: (a) in consultation with the Department of Administration (DOA) to promulgate rules, consistent with the federal Safe Drinking Water Act, for determining whether a loan is eligible for a guarantee; (b) determine which loans would be eligible for a guarantee; and (c) with the approval of DOA, to transfer funds from the SEG and FED safe drinking water loan program appropriations for financial assistance to the WHEDA drinking water reserve fund.

WHEDA could only use the Wisconsin drinking water reserve fund to guarantee safe drinking water loans. WHEDA could guarantee a loan under the program if all the following apply:

- a. The borrower is not a local unit of government;
- b. The borrower is either: (a) an owner of a "community water system" (a public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year round residents); or (b) is the owner of a public not for profit water system that is not a community water system (for example, a private school).
- c. The loan, as determined by DNR, would:
 - (1) facilitate compliance with national primary drinking water regulations; or
 - (2) otherwise significantly further the health protection objectives of the federal Safe Drinking Water Act.
- d. The lender of the loan enters into a guarantee agreement with WHEDA.

Require WHEDA to submit an annual report on the number and total dollar amount of loans guaranteed under the program and the default rate on the loans.

Specify that all loans guaranteed under this program would be backed by the moral obligation of the Legislature to appropriate any funds necessary to meet the obligations created.

DISCUSSION POINTS

Background

1. The bill would create a safe drinking water loan program, administered by DNR and DOA, as well as a safe drinking water loan guarantee program administered by WHEDA and DNR. The safe drinking water loan program would provide subsidized loans to local governments to plan, design, construct and modify public water systems, if the projects comply with national primary drinking water regulations.

2. Non-governmental public water systems would be ineligible for direct loans to plan, design, construct and modify their system. These entities would be ineligible because the federal grant that primarily funds the program is blended with state issued general obligation bonds. While proceeds from Wisconsin general obligation bonds can be used to fund capital improvements, the proceeds cannot be provided for non-governmental capital improvements, unless the improvements accrue benefits to the state. For example, bond proceeds cannot be used to replace a water system, but could be used install improvements that would protect groundwater (or any waters of the state) from contamination. Consequently, the bill would allow direct loans to the owner (whether or not a local government) of a community water system or a nonprofit community water system for various water source protection activities (such as easement purchases, education, water source assessments and wellhead area protection).

3. The bill would create a loan guarantee program to assist private parties in meeting state and federal drinking water requirements. Technical modifications would be required to provide the proper cross reference for WHEDA's loan guarantee activities.

Funding

4. Eligible loans would be guaranteed by funds deposited to the Wisconsin drinking water reserve fund created under the bill. The reserve fund would consist of deposits from the safe drinking water loan program, funds received for the program by any other source and the interest income from the fund.

5. DNR, with the approval of DOA, would be provided the authority to transfer funds from the safe drinking water loan program. No estimate of the fund transfer is included in the bill. WHEDA would be required to regularly monitor the fund balance to ensure a balance of at least one dollar for every four dollars in total outstanding guaranteed principal authorized under the program.

6. The bill requires a 4 to 1 reserve ratio to be maintained in the Wisconsin drinking water reserve fund (one dollar in reserves for every \$4 in outstanding guarantees). Other provisions in the bill would increase the reserve ratio for most of WHEDA's loan guarantee

programs backed by the Wisconsin Development Reserve Fund (WDRF) to 4.5 to 1. The reserve ratio for the Wisconsin drinking water reserve fund could be made consistent with the WDRF ratio.

7. WHEDA indicates that the legal and other administrative costs associated with establishing a safe drinking water loan guarantee program would be approximately \$100,000 in the biennium. The estimate is based on the start-up costs associated with WHEDA's other loan guarantee programs. However, the bill would only allow the transfer of funds to maintain the guarantee reserve ratio (up to \$750,000 based on \$3.0 million in guarantee authority under the bill), but not to assist with WHEDA's initial administrative costs. Under its other guarantee programs, WHEDA covers much of its administrative costs associated with issuing loan guarantees from the balance in the WDRF. The WDRF is funded from the direct appropriation of funds, origination or other fees associated with making loans, as well as the interest earnings on the fund balance.

8. To cover WHEDA's costs associated with establishing the guarantee program, the Committee could clarify that DNR has the authority, under its federal general administration appropriation, to contract with WHEDA to administer the loan guarantee program. Federal safe drinking water revenues should be sufficient to cover WHEDA's administrative costs.

Loan Guarantees

9. WHEDA's primary mission is to provide financing for: (a) affordable housing for low- and moderate-income people; and (b) business development. As a result, WHEDA's expertise related to providing financing to entities to meet environmental concerns is limited. Further, WHEDA officials indicate that programs aimed at specific environmental concerns and that require specialized technical expertise are difficult to market to lenders in that WHEDA has to educate the state's financial community about the availability and requirements of the programs. Therefore, other than the expired recycling loan guarantee program, many of WHEDA's environmental guarantee programs have gone unused (such as the clean air act and the agricultural cleanup loan guarantee programs).

10. WHEDA also indicates that their direct loan programs and most of the loan guarantee program's activity generally involve private business and housing development activities rather than the more public infrastructure improvement projects that could be guaranteed under the proposed safe drinking water loan guarantee program.

11. The bill would provide DNR three positions to administer the direct loan and some of the loan guarantee program activities. The DNR staff would assist WHEDA with much of the engineering and technical aspects of the guarantee program and assist in determining the potential costs of particular projects. The bill would require DNR to promulgate rules on what projects and costs would be eligible under the program. DNR indicates that those projects eligible for

loan guarantees would go through the same application and processing procedures as projects for the direct loan program. In addition, DNR and DOA would have to determine the size of an eligible loan because the agencies would need to know how much funding to transfer to the Wisconsin drinking water reserve fund to back each loan. DOA indicates that WHEDA's primary role under the program would be to determine the borrowers ability to repay the loan. Therefore, unlike WHEDA's current environmental programs, WHEDA would not have to rely heavily on its own staff for environmental expertise.

12. Eligible borrowers for the safe drinking water loan guarantee program would be either: (a) an owner of a "community water system" (a public water system that serves at least 15 service connections used by year-round residents or regularly serves at least 25 year-round residents); or (b) the owner of a public not for profit water system that is not a community water system. Examples of entities eligible for loan guarantees would include private facilities that own the water system serving the sites, such as certain private schools, mobile or manufactured home parks and apartment buildings.

13. WHEDA has concerns about the ability of the non-governmental entities that would be eligible under the guarantee program to repay the loans. That is, nonprofit, or private owners of public water systems, unlike local governments cannot spread the costs over a large number of residents. As a result, the debt service costs per resident using the water system could be substantial. Further, most of WHEDA's loan and guarantee programs involve private business and housing development activities that are expected to generate additional revenues to repay the loan rather than public infrastructure improvement projects which do not necessarily generate additional revenues. Therefore, WHEDA is uncertain how many guarantees could be made under the proposed program and the viability of any loans that would be guaranteed.

14. DOA officials indicate that the bill would allow WHEDA the option to determine what the guarantee amount would be on each loan, therefore, WHEDA's risks could be reduced in that its exposure could be less than 80% on loans made.

15. As with the loan guarantees backed by the WDRF, all loans guaranteed by the Wisconsin drinking water reserve fund would be backed by the moral obligation of the Legislature to appropriate any funds necessary to meet the obligations created.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation, as technically modified, to create a safe drinking water loan guarantee program in WHEDA.

2. Approve the Governor's recommendation, as technically modified, and provide DNR the authority and \$100,000 FED in 1997-98 to contract with WHEDA to establish and administer a safe drinking water loan guarantee program.

Alternative 2	FED
1997-99 FUNDING (Change to Bill)	\$100,000

3. In addition to alternative 1 or 2, require WHEDA to maintain the same reserve ratio in the Wisconsin drinking water reserve fund as for the WDRF.
4. Maintain current law (no guarantee program would be established).

Prepared by: Al Runde

MO# ALT #2 #3

JENSEN	<input checked="" type="checkbox"/>	N	A
OURADA	<input checked="" type="checkbox"/>	N	A
HARSDORF	<input checked="" type="checkbox"/>	N	A
ALBERS	<input checked="" type="checkbox"/>	N	A
GARD	<input checked="" type="checkbox"/>	N	A
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COWLES	<input checked="" type="checkbox"/>	N	A
PANZER	<input checked="" type="checkbox"/>	N	A

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