1997-98 SESSION COMMITTEE HEARING RECORDS

Committee Name:

Joint Committee on Finance (JC-Fi)

Sample:

Record of Comm. Proceedings … RCP
- 05hrAC-EdR_RCP_pt01a
- 05hrAC-EdR_RCP_pt01b
- 05hrAC-EdR_RCP_pt02

- Appointments … Appt
- **

- Clearinghouse Rules … CRule
- **

- Committee Hearings … CH
- **

- Committee Reports … CR
- **

- Executive Sessions … ES
- **

- Hearing Records … HR
- **

- Miscellaneous … Misc
- 97hrJC-Fi_Misc_pt76_LFB

- Record of Comm. Proceedings … RCP
- **

Investment Board

(LFB Budget Summary Document: Page 354)

LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
2	Investment Management Operating System (Paper #515)
3	Bonus Compensation Funding and Eligibility Modifications (Paper #516)
4	Leased Space Increase (Paper #517)
5	Minor Policy and Technical Changes -- Increased LTE and Per Diem Funding (Paper #518)
6	Charging Expenses to Current Income Accounts (Paper #519)
7	Statutory Changes Regarding Senior Management Staff (Paper #520)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Investment Management Operating System (Investment Board)

[LFB Summary: Page 354, #2]

CURRENT LAW

The Investment Board has base level supplies and services funding of $1,796,800 PR annually. Of these amounts, $219,800 PR annually supports the agency's LAN network hardware and software, training costs, equipment replacement and DOA user charges. There are currently 7.0 FTE employes, budgeted at $413,000 PR annually for salaries and fringe benefits, who currently provide network operations support and applications development support for existing information technology (IT) operations.

GOVERNOR

Provide total additional funding of $2,641,000 PR in 1997-98 and $835,800 PR in 1998-99 and 5.0 PR unclassified positions for the development and installation of an investment management operating system to improve the Board's internal accounting controls, monitor cash movements and compile comprehensive financial statements. Of the amounts provided, $2,358,300 PR in 1997-98 and $491,700 PR in 1998-99 provided for systems development would be placed in unallotted reserve for subsequent release by DOA.

The remaining amounts, $282,700 PR in 1997-98 and $344,100 PR in 1998-99, would be provided to support:

• 3.0 PR permanent positions (2 systems analysts and 1 database analyst) to install the new operating system and provide ongoing system maintenance and support; and

• 2.0 PR two-year project positions (systems analyst and accountant) to provide additional staffing during the development and implementation phase related to project management assistance and general accounting support.

DISCUSSION POINTS

1. In February, 1996, the Investment Board began a comprehensive review of its business operations and investment management processes for the purpose of defining the types of software and hardware modifications necessary to implement a comprehensive integrated information system for the agency. As initially envisioned by the Board, the new system was to provide: (a) automated investment policy compliance reporting linked through a central data system; (b) linkages between risk management, asset allocation and performance evaluation functions; (c) improved tools for portfolio management and analysis; and (d) integration of portfolio management and accounting systems.

2. Later during the year, the Board engaged the services of a consultant (Tradewinds) to derive a preliminary cost estimate for the project and to develop a request for proposals (RFP) designed to secure the services of a prime contractor for the project. As described in the RFP, the prime contractor would initially be responsible for project planning, software selection and limited initial systems integration activities ("Phase A") and then would move on to complete all systems integration activities, including any customizing of products, testing and final implementation ("Phase B"). The RFP was circulated in late August, 1996. All of the contract costs associated with this RFP development phase of the project ($472,300) were funded as a direct charge against the current income of funds under management rather than being appropriated for this purpose by the Legislature.

3. Prior to the actual selection of a prime contractor, the Board submitted its biennial budget proposal. The Boards's proposed budget included a request for $5,443,900 PR in 1997-98 and $1,957,100 PR in 1998-99 and 6.0 PR positions representing the planning consultant's preliminary estimate of the amounts required to purchase and install the planned integrated information system. (These requested expenditures were to be used to fund the "Phase B" activities noted above). As initially proposed, all major components of the system would have been implemented during the 1997-99 biennium.

4. In early November, 1996, the Board selected Price Waterhouse as the prime contractor for the project. Shortly thereafter, Price Waterhouse began "Phase A" activities relating to the initial planning of the project, leading up to development and circulation of an RFP to secure one or more vendors to provide the appropriate software packages and associated hardware. The contract costs associated with retaining Price Waterhouse for "Phase A" activities (an amount not to exceed $750,000) were also funded as a direct charge against the current income of funds under management rather than being appropriated for this purpose by the Legislature.

5. As identified in the RFP document used to select the prime contractor, one of Price Waterhouse's initial responsibilities was to develop by March 1, 1997, a more detailed "Phase B" budget proposal which could be used by the Legislature during its budget deliberations on the level of funding required to be appropriated for that phase of the project. However, as an interim adjustment to accommodate the estimated increased costs of Price Waterhouse's services for the project, the Board indicated to DOA on November 19, 1996, that its initial budget proposal for project management, installation and customization activities would require an additional $1,350,500 PR in 1997-98 and $650,000 PR in 1998-99. With this requested adjustment, the total amount being requested by the Board for the project (both systems and staffing related costs) amounted to $6,794,400 PR in 1997-98 and $2,607,100 PR in 1998-99 and 6.0 PR positions. If the costs of the project's planning consultants were included in these totals ($1,222,300 of charges expensed directly against current income), the projected total cost of the system by the end of 1996 stood at $10,623,800.

6. The Governor's subsequent budget recommendation did not provide any of the additional funding requested by the Board in its November 19, 1996, letter and, further, substantially reduced the funding levels, as originally requested for the project.

SWIB Investment Management System Request
Original Request and Governor's Recommended Reductions
(PR Funds)

Funding Component	1997-98	1998-99
System Purchase, Installation and Testing Initial Request	$5,075,000	$1,475,000
Governor's Recommendation	2,358,300	491,700
Net System-Related Reduction	-$2,716,700	-$983,300
Systems Management and Support Staffing Request [6.0 FTE's]	$368,900	$482,100
Governor's Recommendation [5.0 FTE's]	282,700	344,100
Net Staffing-Related Reduction	-$86,200	-$138,000
Total Governor's Reductions	-$2,802,900	-$1,121,300

7. In denying the agency's supplemental funding request and reducing its original funding proposal, the Governor: (a) noted that specific information about the project had been difficult to obtain; (b) expressed a concern that the total projected costs for this project for a single agency ($10.6 million) would exceed the cost of the recently installed multiagency

WISMART accounting system (total cost of $9.2 million); and (c) cited the level of off-budget consulting expenditures associated with the project. This latter concern resulted in a companion budget recommendation which would limit the types of expenditures which the Board could charge directly against current income accounts of funds under management (this issue is discussed in a separate paper).

8. The level of funding recommended by the Governor was based on an expectation that the project would proceed on a phased basis with only a comprehensive accounting system installed during the 1997-99 biennium. Under the Governor's recommendation, the proposed accounting system would be installed during the 1997-98 fiscal year, with any required customization and testing occurring in the 1998-99 fiscal year.

9. Based on the reduced level of funding recommended by the Governor for a phased implementation of the agency's proposed investment management operating system, the Board adopted a revised overall project schedule. Under this new approach, which is more ambitious than that which could be implemented under the Governor's recommended level of funding, the following systems would be installed and funded during the 1997-99 biennium ("Phase 1" activities):

- A comprehensive accounting system for managing all income collection, trade management and financial reporting responsibilities. This system would replace the Board's current decentralized accounting and operations processing systems which track and reconcile more than 20,000 transactions annually;

- An electronic stock trading system to enable the Board to identify advantageous trades without having direct broker contact;

- A centralized database repository to permit the integration of all key investment functions in the agency; and

- An automated trading and compliance system, to ensure compliance with investment guidelines either before or after a trade and to provide automatic notifications when investment holdings meet certain reporting thresholds.

10. Under "Phase 2" activities, which would be implemented during the 1999-2001 biennium, additional systems relating to risk management monitoring, asset allocation management and an expanded data storage capability would be undertaken.

11. Based on the Board's revised, two-phase implementation approach over four years, Price Waterhouse began to develop a revised project budget for the 1997-99 biennium. The development of this proposed budget was undertaken simultaneously with an on-going analysis of the various vendor proposals submitted for the hardware and software solutions associated with implementing the major system components noted above.

12. In March, 1997, during the Board's public hearing before the Committee, an additional $1.9 million was requested by the agency to fully implement its desired "Phase 1" activities of the project. However, no specific detail was provided. In a follow-up letter on April 11, 1997, to the Committee Co-chairs, the Board's Executive Director indicated that the additional funding requested "reflects the functional specifications and cost data we received from prospective vendors after the Governor's budget was determined." Further, the Executive Director noted that "[o]ur current request has the support of the Administration." The administration has not separately communicated its position to this additional request to the Committee. As part of these cost refinements, the Board's consultant is now estimating that on-going licensing, maintenance and DOA computer charges for the fully implemented "Phase 1" are likely to cost from $300,000 to $600,000 PR annually. "Phase 2" implementation costs are currently estimated at $3,300,000 PR for the 1999-2001 biennium.

13. At this juncture, the Board has not yet selected a final vendor for the software and hardware products necessary to implement the "Phase 1" system. Based on the current, best available budget figures for "Phase 1" activities, the following costs are indicated:

Estimated 1997-99 "Phase 1" Investment Management Operating System (PR Funds)

Cost Component	1997-98	1998-99
Software		
Trading/Compliance Package	$355,000	$242,600
Portfolio Management/Accounting Package	763,700	175,200
General Ledger Package	25,000	-0-
Related Risk Management Controls	53,000	7,000
Database Software	12,000	12,000
Vendor Conversion Costs	176,300	-0-
Database Software Maintenance	-0-	7,000
Contingency Costs	-0-	231,400
Software Subtotal	$1,385,000	$675,200
Hardware		
Database and Applications Servers	$50,000	$50,000
Infrastructure Changes	4,000	-0-
System Software Monitoring	10,000	16,000
Communications Links	9,200	9,200
Equipment Testing	45,000	-0-
DOA System Support Charges	60,000	60,000
Hardware Subtotal	$178,200	$135,200
Consultant Services		
Project Management	$218,400	$436,800
Systems Implementation	482,700	965,400
Integration and Reengineering of Agency Functions	-0-	383,000
Consultant Services Subtotal	$701,100	$1,785,200
TOTAL	$2,264,300	$2,595,600

14. With respect to the agency's request for additional resources for the installation of an investment management operating system, the development of such a centralized, integrated system would appear to be reasonable and desirable because of the limitations of the agency's current systems, and the total amount and diversity of assets under management by the Board. However, the Committee may wish to review the total level of additional funding resources which it wishes to provide initially for this undertaking. A separate discussion of the agency's position requests follows this review.

Systems Development Funding

15. Compared to the amounts provided by the Governor in unallotted reserve for system installation and development activities to meet the Board's revised costs for Phase I of the project, $94,000 PR could be deleted in 1997-98; however, an additional $2,103,900 PR would be required for 1998-99 (representing a net funding increase of $2,009,900 PR over the Governor's recommendation. The Committee could provide this net additional funding.

16. However, with respect to the costs identified in the estimated "Phase 1" budget, the following points may be made:

• There are elements of uncertainty in the 1998-99 budget proposal for the software items of the project. A portion of the on-going costs associated with the software packages constitute estimated system maintenance costs. These estimated costs have been budgeted at 20% of the cost of the original software package. Projections of on-going maintenance requirements will be better known when the final software solutions have been determined and there is a better sense of the level and degree of maintenance needs. A contingency factor for software applications has been included. This factor approximates 5% of the total "Phase 1" project costs.

• The identified consultant services costs for the "Phase 1" project have remained the same under a variety of alternative vendor solutions that have been under consideration by the Board. The consultant services costs have been developed based on the total number of hours that are expected to be required under various phases of the project:

• The project management costs are based on a total of 2,060 project hours of project planning and oversight over an 18-month period by the consultant.

• The systems implementation costs are associated with: (a) hardware and software installation; (b) identification of required custom programming and testing; (c) analysis of the degree of technical and procedural changes required affecting the vendor's products and outside fund managers and custodians; (d) data conversion; and (e) training. These costs assume 6,400 project hours over an 18-month period.

• Finally, the integration and reengineering costs will be associated with evaluating and developing modifications to the Board's current workflow, operating procedures and resource utilization. This activity is expected to involve 1,440 project hours over an 18-month period.

17. It would normally be expected that a product requiring less customization, for example, might require less involvement on the part of the consultant. However, the estimated consultant services costs have remained invariable regardless of the vendor solution being considered. Further, since the agency is also requesting additional IT staff in association with the new system, it is not known the degree to which the final vendor solution might affect the availability of the new IT staff to undertake activities that might otherwise have to be provided by the consultant.

18. Given these types of uncertainties, the Committee could consider not providing any project funding at this time for the 1998-99 fiscal year. This action could be taken with the understanding that once the final vendor (or vendors) have been selected and second-year costs have been more precisely developed based on actual system implementation activities during 1997-98, the Board could return to the Committee with a s. 16.515 request during the spring of 1998 with a detailed budget for its 1998-99 investment management operating system funding needs. If the Committee chooses this alternative, it could delete the previously identified $94,000 PR of excess project funding from unallotted reserve in 1997-98 and delete $491,700 PR from unallotted reserve for the project in 1998-99.

Additional Staff

19. The Governor has also recommended providing 3.0 PR unclassified permanent and 2.0 PR two-year unclassified project positions for the project, as follows:

• A senior systems analyst permanent position would be authorized to provide applications support in the development of risk management, policy compliance and performance measurement systems that will be installed as part of the project. The position would be involved with the implementation of the new systems, developing expertise in their operations, engaging in ongoing development and modifications to the systems, direct testing and upgrading of the systems and training Board staff in the use of the systems.

• A second systems analyst permanent position would be authorized to provide applications support in the new trade management system and fixed income and equity portfolio management systems. As with the senior systems analyst position, this second position would similarly engage in the development and modifications to the systems, their testing and upgrading and providing user training.

• A senior database analyst permanent position would be authorized to provide overall database technical, operations management, planning and system security support for all database files in the new operating system. During the implementation phase of the project, the position would be involved in the interfacing of new software and hardware elements of the new systems with existing agency software and hardware components.

• A junior systems analyst project position would be authorized to provide assistance during transitional phases of the project, when the newly installed systems will be operating along side existing agency systems. The project will also provide disaster recovery support, function as liaison between DOA and vendors in the installation and testing of new hardware and software and engage in similar liaison activities with custodial banks. The position would also be available for assignment to project undertaken by any of the permanent positions described above.

• An accountant project position would be authorized to assist with the design, development, installation and testing of a variety of new accounting systems and routines, ensure that trade transactions are properly entered into multiple accounting systems, and oversee the reconciliation of accounts during the conversion process between existing accounting systems and the newly installed ones.

20. While planned uses have been prepared for each of the above positions, no specific workload data has yet been developed to justify the number of positions requested. Notwithstanding the lack of workload indicators, it may be noted that currently, there is no existing position at the Board which could provide the types of data base technical support that would appear to be required following the implementation of the new investment management operating system. Further, it is likely that the two proposed two-year project positions could have an effect on reducing the amount of consultant services required for the project.

21. However, with respect to the two system analyst positions that would provide applications support for various components of the project, it may be noted that the agency already has 2.0 FTE permanent positions that provide such support for other existing systems. An argument could be made that until the new systems are installed and become operational, it is difficult to determine the degree to which additional systems applications support will be required on a permanent basis or whether existing staff assignments may be able to be modified to accommodate additional workload. Accordingly, the Committee could choose to modify the Governor's recommendation and provide the 2.0 additional systems analyst positions on a two-year project basis rather than as permanent positions. Continuation of the positions could then be reviewed as part of the Legislature's deliberations on the 1999-2001 biennial budget.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation by: (a) deleting $94,000 PR in 1997-98 of excess first year funding for the investment management operating system project; (b) deleting $491,700 PR in 1998-99 of funding in unallotted reserve for second year costs associated with the project; and (c) authorizing 2.0 PR unclassified systems analyst positions as two-year project positions rather than as permanent positions. *[Under this alternative the understanding would be that once the final vendor (or vendors) have been selected for the investment management operating system and second year costs have been more precisely developed based on actual system implementation activities during 1997-98, the Investment Board could return to the Joint Committee on Finance during the spring of 1998 with a s. 16.515 request detailing its additional 1998-99 funding requirements for the system.]*

Alternative 2	PR
1997-99 FUNDING (Change to Bill)	- $585,700

3. Modify the Governor's recommendation by: (a) deleting $94,000 PR in 1997-98 of excess first year funding for the investment management operating system project; (b) providing an additional $2,103,900 PR in 1998-99 in unallotted reserve to fully fund projected second-year costs associated with the project; and ~~(c) authorizing 2.0 PR unclassified systems analyst positions as two-year project positions rather than as permanent positions.~~

Alternative 3	PR
1997-99 FUNDING (Change to Bill)	$2,009,900

Prepared by: Tony Mason

MO# Alt #3a & b

JENSEN	Y	N	A
OURADA	Y	N	A
HARSDORF	Y	N	A
2 ALBERS	Y	N	A
1 GARD	Y	N	A
KAUFERT	Y	N	A
LINTON	Y	N	A
COGGS	Y	N	A
BURKE	Y	N	A
DECKER	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 12 NO 4 ABS ____

Senator George

INVESTMENT BOARD

Investments in Certificates of Deposit of at Least $25,000 for the Purpose of Supporting Small Business Loans

Motion:

Move to include statutory language to require the Investment Board to invest in certificates of deposit of at least $25,000 issued by solvent Wisconsin financial institutions. Specify that the funds received by the financial institution from the purchase of the certificates must be used by the financial institution to make loans to small businesses. Require the Investment Board to: (1) accept applications for the purchase of the certificates of deposit on a continual basis; (2) purchase the certificates of deposit on a continual basis; and (3) actively market its program to purchase the certificates of deposit for the purpose of supporting loans by financial institutions to small businesses. Finally require the Investment Board to include in its annual March 31 report to the Legislature on investment activities, a statement of the amounts invested in certificates of deposit under this program.

Note:

Under current law, the Investment Board is authorized to invest funds under management in certificates of deposit issued by banks located in the United States and by savings and loan associations, savings banks and credit unions located in Wisconsin. Current law also authorizes the Investment Board to invest in certificates of deposit of at least $100,000 issued by solvent financial institutions in the state. There is no current law requirement that the institutions issuing the certificates of deposit utilize the proceeds for specific program purposes.

This motion would direct that the Investment Board accept applications on a continual basis for the purchase of certificates of deposit of at least $25,000 issued by solvent Wisconsin financial institutions, purchase such certificates on a continual basis and actively publicize the purchase program. A financial institution selling the certificate of deposit to the Investment Board would be required to use the proceeds to make loans to small businesses. Annually, the Investment Board would be required to report to the Legislature on the amounts invested in certificates of deposit under the program.

MO# 1624

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
2 COGGS	Y	N	A
BURKE	Y	N	A
DECKER	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 16 NO 0 ABS ____

Motion #1624

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Bonus Compensation Funding and Eligibility Modifications (Investment Board)

[LFB Summary: Page 355, #3]

CURRENT LAW

The Investment Board may award annual bonuses during a fiscal year to unclassified staff for investment performance and for meritorious service which occurred in the immediately preceding fiscal year. Currently, 89.5 FTE of the agency's 96.5 FTE base level employes are unclassified and are potentially eligible for bonus awards. The annual amount of funding available in the bonus pool is set by statute at an amount equivalent to 10% of the total base level salaries for the agency's unclassified employes. Individual bonus awards are limited by statute to a maximum of 25% of an employe's annual salary amount and must be paid out over a three-year period (50% in the year of the award and 25% in each of the succeeding two years), provided the individual continues employment with the agency. Exceptions to this continued employment requirement are provided for employes who retire or become disabled, and also for employes who die, in which case the employes' estates receive payment of the escrowed amounts. Unclassified staff first become eligible for an award after they have been employed with the Board for an entire fiscal year.

Funds for the bonus pool are appropriated each biennium as a part of the Investment Board's budget. Current base level salary and fringe benefits funding for the bonus award pool is $525,500 PR annually. Since the establishment of the Investment Board's bonus compensation program in 1988, bonus compensation distributions totaling $2,386,535 PR have been awarded to eligible unclassified staff.

GOVERNOR

Provide that unclassified Board employes who: (1) perform functions primarily related to information technology; and (2) are appointed to perform those functions on or after the general effective date of the 1997-99 biennial budget act would not be eligible for awards under the Board's performance-based bonus compensation program. Further, direct the Board to specify, in its plan governing the awarding of bonus compensation, all of the unclassified agency positions that perform functions primarily related to information technology. [In a separate budget recommendation, 5.0 FTE IT-related positions would be newly authorized and funded in the next biennium and would become the first IT employes subject to these provisions.]

Provide an additional $103,500 PR annually in unallotted reserve to fully fund the salary and fringe benefits bonus pool from which awards may be made.

DISCUSSION POINTS

1. The Investment Board uses a "dual release" mechanism to award different portions of the total bonus pool for investment performance and for meritorious performance. Under this procedure, the total bonus pool in any year is divided in half. One-half of the total pool is available for distribution to employes who work directly on individual investment portfolios and whose portfolios have exceeded their respective benchmarks, as calculated on a five-year rolling average basis.

2. "Benchmarks" are comparative measures developed by the Board to assess the performance of each investment portfolio. These benchmarks provide a basis for comparing the rate of return of each portfolio to a composite measure of the performance of the specific markets in which the individual portfolios invest. If a portfolio does not exceed its benchmark, that portfolio's proportionate share of the bonus pool is not allocated and these amounts lapse at the end of the fiscal year.

3. The second half of the pool is available only if the Fixed Retirement Investment Trust Fund, as a whole, exceeds its benchmark, as calculated on a five-year rolling average basis. The Fixed Retirement Investment Trust Fund benchmark is a compilation or "roll up" of all of the composite benchmarks of all of the separate portfolios that comprise the Fund. When the Fixed Retirement Investment Trust Fund benchmark is exceeded, an additional 20% of the total bonus pool is then added to the amount under the first 50% available for distribution to those individuals whose portfolios exceeded their benchmarks. The remaining 30% of the total bonus pool is then available for distribution as an award for meritorious service to any unclassified investment support staff whose work activities are determined to have contributed to the performance of the Fixed Retirement Investment Trust Fund. A meritorious service award may also be used to provide additional awards to investment staff whose portfolios performed exceptionally well.

4. Currently, the Board's existing IT staff (7.0 FTE positions) are eligible, along with all other unclassified investment support staff, for meritorious performance bonus awards from this 30% funding pool which becomes available for distribution when the entire Fixed Retirement Investment Trust Fund exceeds its benchmark. Although current Board IT staff have been eligible for bonus awards since the establishment of the program, it does not appear that they have benefitted disproportionately. A review of recent meritorious performance bonus awards to investment support staff indicates that only a small number of awards have actually been made to existing IT staff since 1990-91:

Number of Bonus Awards Granted to Investment Support Staff (for 1990-91 through 1995-96 Investment Performance)

Investment	Eligible Investment Support Staff			Eligible IT Investment Support Staff		
Performance for:	Total FTE	Awards	Percent	Total FTE	Awards	Percent
1990-91	22	10	45.5%	2	1	50.0%
1991-92	21	9	42.9	2	2	100.0
1992-93	23	9	39.1	3	0	0.0
1993-94	24	11	45.8	2	0	0.0
1994-95	26	16	61.5	3	1	33.3
1995-96	28	9	32.1	4	0	0.0

5. Although there have been only four bonus pool awards to IT staff during the past six years, the Governor's recommendation would prospectively terminate this bonus pool eligibility for all new IT investment support staff hires following the enactment of the biennial budget. Existing IT staff would not be affected by this provision and would continue to be eligible for bonus awards; however, any subsequent replacements of current IT staff would then become ineligible for bonuses. This new limitation would first affect the 5.0 FTE IT staff recommended for the Board as a separate decision item in the budget bill.

6. The Governor has advanced two principal rationales for limiting future IT staff eligibility for awards under the Board's bonus program:

• First, IT employes perform essentially the same functions across all state agencies. Equity concerns could arise if a few IT employes at the Investment Board received bonus compensation for these activities while other IT state employes did not.

• Second, even if the bonus is eliminated for these employes, the Investment Board would retain an advantage in attracting and retaining IT staff, since these positions would remain unclassified and competitive salaries could be set by the Board.

7. The Investment Board, for its part, has advanced several rationales for maintaining the eligibility of IT staff for bonus awards:

• First, since the inception of the bonus award program in 1988, all unclassified staff have been eligible to participate. The Board states that this inclusive approach is intended both to foster a team effort and to recognize that investment support staff can have an important impact on investment results. Precluding new IT staff from bonus pool eligibility would be detrimental to staff morale, the agency argues.

• Second, the Board indicates that its IT staff, including new positions recommended in the budget, will be involved in a significant redesign and upgrade of its trading, accounting and portfolio management systems. These IT efforts are expected to have an important impact on overall investment performance. The Board states that it is important for it to continue to have the option of rewarding meritorious performance in these system redesign efforts by the award of bonuses.

8. The concerns raised by the Governor about bonus payments for SWIB employes relating to general equity and unclassified staff salary levels are not new issues. Policy questions relating to the desirability of providing a permanent salary bonus program for unclassified Investment Board employes but not for other state employes have been a part of most discussions relating to both the initial establishment and the continuation of the Board's bonus program.

9. When the Legislature created the bonus program under 1987 Wisconsin Act 399, when it first provided base funding for the bonus program under 1989 Wisconsin Act 31 and then when it subsequently directed the modification of bonus distribution procedures for investment support staff (among others) under 1991 Wisconsin Act 39, these general state employe equity issues were repeatedly raised. However, they were always ultimately deemed to be superseded by the stated need of the Board to have additional tools to attract and retain qualified staff and to recognize superior performance. The issue of alternative means of determining compensation for SWIB employes has not, however, been reviewed since the original creation of the bonus pool.

10. As part of its deliberations on the 1995-97 biennial budget, the Committee placed the funding for the bonus program in unallotted reserve pending a review by the Legislative Audit Bureau to determine whether the bonus program might have had any direct or indirect impact on investment losses which had recently occurred at the Board. The Committee directed that no bonus awards could be provided during the 1995-97 biennium until: (a) the Board had updated its bonus distribution procedures to take into account any Legislative Audit Bureau recommendations after its review of the bonus program; and (b) the Committee had approved the updated plan.

11. The Legislative Audit Bureau's August 1995, report did not make any recommendation regarding equity concerns as it relates to all state employes. Instead, the report raised the issue of whether the bonus program should be eliminated for investment support staff and their portion of total bonus pool funds reallocated to investment staff to increase the size of awards for such staff. However, the Audit Bureau chose not to recommend any such

modification since there appeared to be ample evidence that the Legislature had clearly intended that investment support staff also be participants in the program. The audit noted, for example, that when the Legislature established the bonus program, it moved most of the Board's investment support staff into the unclassified service and authorized the Board to provide bonuses to all unclassified staff. The audit also noted that the Legislature specifically required the Board to adopt a plan specifying the percentage of the bonus pool to be awarded for noninvestment-related performance. The auditors also cited the Board's view that recognition of the meritorious contributions of all staff, including investment support staff, to agency operations was important in establishing a sense of teamwork and a positive working environment.

12. Following the release of audit report, the Board resubmitted its existing bonus program plan and the Committee, at its April 16, 1996, meeting under s. 13.10, "approved the Investment Board's Incentive Awards Policy as submitted by the Board." The Committee thereby also approved the release of bonus pool funding for the 1995-97 biennium.

13. Based on the foregoing actions since the original establishment of the bonus program, it could be argued that the issue of eligibility of all Board investment support staff for bonus pool awards has previously been settled as a matter of policy. If the Committee determines that it does not wish to reopen the matter at this time, it could delete the Governor's recommendation terminating bonus pool eligibility for unclassified Board employes who perform IT-related functions and are first employed on or after the general effective date of the biennial budget act. Under this action, the additional $103,500 PR annually recommended by the Governor to fully fund the salary and fringe benefits bonus pool would also be provided.

14. Alternatively, if the Committee believes the issue should be revisited, then there appears to be no particular logic for terminating bonus pool eligibility only with respect to new IT staff hires but not for the existing IT staff. It can be argued that if the approach of excluding a certain category of employe from bonus eligibility has validity and is to be adopted, then it should be applied in a manner to achieve a uniform result with respect to all such employes. Accordingly, the Committee could modify the Governor's recommendation to terminate bonus pool eligibility for all of the Board's IT-related staff for performance relating to 1997-98 and thereafter. If the Committee adopts this approach, it could also delete $32,700 PR in 1998-99 of salary and fringe benefits amounts required to fully fund bonus pool amounts for such staff for 1997-98 meritorious performance for which bonuses would be payable in 1998-99.

15. However, it could similarly be argued that there does not seem to be any particular rationale for denying one classification of noninvestment staff eligibility for bonus awards and yet allowing other classifications of noninvestment staff to retain eligibility. It could be argued that it would be inconsistent to eliminate bonus program eligibility only for IT staff when there are other unclassified investment support staff positions at the agency that perform functions that are arguably quite comparable to counterpart positions in other state agencies (for example, auditors, accountants, attorneys, paralegals and policy and budget analysts). If a type of bright line distinction were to be sought, the simplest distinction would seem to be to establish a

delineation between investment staff and noninvestment staff. The question could be poised whether any unclassified staff at the Board not directly involved in portfolio management should continue to be eligible for bonuses.

16. Among these other staff would be all the senior management positions at the Board (including the executive director, executive assistant, chief investment officer, chief financial officer and chief legal counsel). As noted above, the Audit Bureau did review the possibility of ending bonus pool eligibility for all investment support staff, including senior managers, but chose not to recommend any modifications to current arrangements.

17. The Committee could act to terminate bonus pool eligibility for all of the Board's noninvestment staff for performance relating to 1997-98 and thereafter. If the Committee acted to remove all such noninvestment staff from eligibility for bonus awards for performance relating 1997-98 and thereafter, it could also delete $247,200 PR in 1998-99 of salary and fringe benefits amounts required to fully fund the bonus pool for 1997-98 meritorious performance for which bonuses would be payable in 1998-99.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation: (a) terminating eligibility for bonus awards for Investment Board staff that perform functions primarily related to information technology that are hired on and after the general effective date of the biennial budget act; (b) directing the Board to specify, in its plan governing the awarding of bonus compensation, all of the unclassified agency positions that perform functions primarily related to information technology; and (c) providing an additional $103,500 PR annually in unallotted reserve to fully fund the salary and fringe benefits bonus pool from which awards may be made.

2. Modify the Governor's recommendation by: (a) terminating bonus pool eligibility for all IT-related staff at the Investment Board for performance relating to 1997-98 and thereafter; and (b) deleting $32,700 PR in 1998-99 of salary and fringe benefits amounts required to fully fund the bonus pool for 1997-98 meritorious performance for which bonuses would be payable in 1998-99.

Alternative 2	PR
1997-99 FUNDING (Change to Bill)	- $32,700

3. Modify the Governor's recommendation by: (a) terminating bonus pool eligibility for all investment support staff at the Investment Board for performance relating to 1997-98 and thereafter; and (b) deleting $247,200 PR in 1998-99 of salary and fringe benefits amounts required to fully fund the bonus pool for 1997-98 meritorious performance for which bonuses would be payable in 1998-99.

Alternative 3	PR
1997-99 FUNDING (Change to Bill)	- $247,200

4. Maintain current law. *[Under this alternative, all existing unclassified staff at the Investment Board, as well as any newly authorized IT staff, would continue to be eligible for bonus compensation awards.]*

Prepared by: Tony Mason

MO# AH #4

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
DECKER	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 10 NO 6 ABS

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Leased Space Increases (Investment Board)

[LFB Summary: Page 355, #4]

CURRENT LAW

The Investment Board has base level supplies and services funding of $1,796,800 PR annually. Current annualized space rental charges of $331,800 PR are paid from the supplies and services line.

GOVERNOR

Provide $76,600 PR in 1997-98 and $75,400 PR in 1998-99 to fund increased leased space for staff additions authorized by 1995 Wisconsin Act 274 and for new positions and consulting staff associated with the agency's proposed investment management system project. Of the amounts recommended in 1997-98, $1,200 would be provided as one-time funding for data/voice cable installation costs.

DISCUSSION POINTS

1. The Investment Board has requested increased funding for additional leased space, as follows:

- 1,705 square feet of space to house the additional staff authorized by Act 274. The agency moved into this space in September, 1996, and is now seeking to fully fund the associated

rental costs. These costs were not requested by the agency as a part of Act 274. Current space rental charges for this space are $25,700 PR annually.

• 3,380 square feet of additional space to house the 5.0, IT-related positions requested under the bill for the agency's investment management operating system. Some or all of the staff associated with the prime vendor and the management consultant overseeing the operating system project would also be housed in this space. The Governor has recommended providing $49,700 PR annually for this new space and an additional $1,200 PR in 1997-98 for one-time data/voice cable installation costs.

2. With respect to the 1,705 square feet which the agency currently occupies and for which space rental costs have now been requested, DOA's budget instructions on lease cost increases provide the following:

• Where an agency expands its occupied space because of program growth, the related increased rental costs are generally not subject to a standard space rental supplementation by DOA. This policy is based on the assumption that the agency initiating the expansion had funds available within its existing base to cover such costs.

• However, where agencies foresee the need for additional space (such as the 3,380 square foot component of this request), but lack the resources within their base to fully fund the incremental costs, a regular budget decision item should be developed for such funding.

• Finally, "[t]here should be no decision items for added space rental costs of program growth which an agency has already acquired, but is now seeking funding which is after the fact."

3. Based on these general budget instruction considerations, the Committee may wish to deny providing $25,700 PR annually of additional funding for the costs associated with the 1,705 square feet of space it is already occupied and which it is currently funding from base level resources.

4. With respect to future occupied space expansion, when the Board first developed its space and funding requirements associated with the IT project staff and consultants, it believed that space in the Lake Terrace State Office Building, where the agency is currently housed, would become available once the Office of Heath Care Information was transferred from the Office of the Commissioner of Insurance, which also occupies space in the building. However, this space has now been assigned to OCI.

5. Since that time, the Board has been exploring leasing options in other state buildings and in private space. While several units of available space have been identified in the 3,100 to 3,500 square foot range, the Board has yet to settle on a preferred site (or sites),

primarily because much of this available space is several blocks away from the agency's current offices.

6. Nonetheless, the agency indicates that it must move into some additional space during the summer even though it cannot now identify its precise space and funding needs.

7. The Committee could provide the entire recommended funding amounts of $50,900 PR in 1997-98 and $49,700 PR in 1998-99 at this time for projected increased lease and cable installation costs for new space yet to be identified.

8. Alternatively, if the Committee believes that it should not provide additional funding for the Board's projected increased space costs during the next biennium until the agency's actual needs have been definitively established, it could deny the additional $50,900 PR in 1997-98 and $49,700 PR in 1998-99 at this time for additional space rental and cable installation costs. Once any additional lease agreements had been finalized, the agency could return to the Committee for additional funding under s. 16.515 to the extent that the lease cost increases could not be supported from base level funding.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation by deleting $25,700 PR annually for lease costs associated with space which the agency has already acquired and is funding from base level resources.

Alternative 2	PR
1997-99 FUNDING (Change to Bill)	- $51,400

3. Delete the Governor's recommendation. *[Under this alternative the understanding would be that the Board could return to the Committee for additional funding under s. 16.515 to the extent that any future cost increases associated with new leased space could not be supported from base level funding.]*

Alternative 3	PR
1997-99 FUNDING (Change to Bill)	- $152,000

MO# Alt #2

JENSEN	~~Y~~	N	A
1 OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
2 GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	~~Y~~	N	A
COGGS	~~Y~~	N	A

BURKE	Y	~~N~~	A
DECKER	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 12 NO 4 ABS ____

Prepared by: Tony Mason

Investment Board (Paper #517)

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Minor Policy and Technical Changes -- Increased LTE and Per Diem Funding (Investment Board)

[LFB Summary: Page 356, #5]

GOVERNOR

Provide net additional funding of $28,100 PR in 1997-98 and $23,900 PR in 1998-99 for increased LTE salary and fringe benefits amounts for the agency. Included as part of this recommended additional funding is the deletion of $6,700 PR annually from the agency's project position salary line.

MODIFICATION TO BILL

Restore $6,700 PR annually to the agency's project position salary line and instead delete an additional $6,700 PR annually from the agency's LTE salary line.

Explanation: The agency had included in its original budget proposal a request for $7,200 PR annually for LTE salaries and fringe benefits associated with a request for funding to support a graduate student internship program. The Governor denied this portion of the agency's budget request and deleted the requested additional funding. However, the intended deletion of funding was applied to the agency's project position salary line rather than to the LTE salary line. The modification adjusts the funding levels in the agency's project position and LTE salary lines to accomplish the Governor's intent.

Prepared by: Tony Mason

Investment Board (Paper #518)

MO# Modification to Bill

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
DECKER	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 16 NO 0 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Charging Expenses to Current Income Accounts (Investment Board)

[LFB Summary: Page 356, #6]

CURRENT LAW

Under current law, any expenses incurred by the Investment Board relating to the following activities may be charged against the current income accounts of the funds for which the services have been provided:

• Employing special legal or investment counsel in any matter arising out of the scope of the Board's investment authority;

• Employing professionals, contractors or other agents to evaluate or operate any property if a fund managed by the Board has an interest in, or is considering purchasing or lending money based on the value of the property;

• Securing insurance for loss of securities or property owned by the Board;

• Employing outside professionals to evaluate, operate and maintain properties managed by Board; and

• Insuring against or paying for actions of its employes involving activities carried out while acting as an officer or director of a company in which the Board has invested money.

Amounts expensed from current income accounts are not appropriated by the Legislature but rather, are charged against the gross revenue receipts of the appropriate fund. As such, costs for services paid in this manner represent an "off-budget" source of funding for the agency.

GOVERNOR

Prohibit the Investment Board from charging expenses to or paying costs from, the current income accounts of funds under Board's financial management, if the expenses or costs would be for:

- Data processing services;
- Information technology and telecommunications services;
- Accounting services (other than actuarial services); or
- General management services.

Further, require the Board to submit to DOA no later than 45 days after the conclusion of each calendar quarter a report detailing all costs and expenses which have been charged during that calendar quarter to the current income accounts of funds under the Board's financial management.

Under the Governor's recommendation, if the Board wished to make a future expenditure for a type of service which could no longer be charged to current income accounts, the Board would have to seek a specific appropriation of funds for the undertaking.

DISCUSSION POINTS

1. The Board's authority to make off-budget expenditures through the use of direct charges against the current income account of funds under management was initially provided under 1983 Wisconsin Act 27. According to the agency, this authority was originally requested to provide the Board with sufficient expenditure flexibility to allow the taking of any actions necessary to make, maintain and protect its investments.

2. The Governor's current proposal would limit this expenditure flexibility with regard to expenditure of funds for outside professional or contractual services by defining types of services for which costs could no longer be expensed against the current income accounts of funds under investment. As a consequence, the costs of these services would have to be funded through the Board's general program operations appropriation. The Governor's apparent rationale for recommending this modification stemmed from the identification that certain expenses relating to the development of the agency's investment management operating systems IT budget proposal were being funded off-budget in advance of gubernatorial and legislative approval of the project.

3. Specifically, a consultant was retained by the Board to develop a request-for-proposals (RFP) for securing a prime contractor with expertise in systems integration to be

responsible for the overall management, planning, selection, potential modification or custom development and installation of the proposed management operating system. The consultant's fee for developing this RFP was funded as a direct charge against current investment income.

4. Subsequently, Price Waterhouse was selected as the prime contractor and began initial planning and system design efforts for the project. These subsequent activities by Price Waterhouse were also expensed against current investment income. By early 1997, the State Budget Office had identified total off-budget consulting expenses and future commitments for the proposed IT project of $1,222,300. These findings apparently raised the concern that the agency was bypassing the budget approval process in order to begin funding the management operating systems IT proposal. The recommended language in the budget bill is apparently intended to end this off-budget funding option for obtaining any of the services identified above.

5. The Board has raised a concern that the Governor's proposed language limiting the use of direct charges for certain enumerated activities (data processing services, IT, telecommunications services, accounting services other than actuarial services, or general management services) may have the "unintended effect" of eliminating funding for types services other than those related specifically to the proposed IT project. It is open to question, however, whether it is the Governor's intent to foreclose the use of these off-budget expenditure mechanisms just with regard to current proposed IT project. Further, while it is true that, under the Governor's language, the Board's ability to use the direct charge mechanism for the enumerated activities would be ended, the Board would still have the option to fund any of the enumerated services pursuant to the regular appropriation process including supplemental PR appropriation adjustments under s. 16.515.

6. Specifically, the Board believes that it might not be able to fund the costs associated with custodial bank services as a charge against current income. Custodial bank charges typically result from such activities as receiving, holding and delivering securities; collecting interest and dividends; foreign exchange services; reporting on Board holdings; and undertaking tax recovery efforts. The Board views these as possibly covered under the proposed prohibition on using charges against current income amounts for accounting services and general management services as potentially restricting the ability of the Board to charge custodial bank services against current income. The Board also has a concern that the proposed language could be interpreted to prohibit the use of direct charges to retain outside consultants to evaluate the management and effectiveness of particular areas of investments.

7. The Executive Director of the Board has suggested alternative language, as a means to avoid such limitations on the use of direct charges to fund custodial bank costs, specialized consulting services or external management costs. The alternative language would: (a) create a session law provision applicable only to the period prior to the enactment of the 1999-2001 biennial budget act rather than a permanent statutory provision; (b) be narrowed in scope to apply only to expenses associated with the design and installation of computerized information systems; and (c) be clarified to exempt from that limitation any expenses incurred

in connection with transfers between the Board and third parties of data relating to investment matters. As proposed by the Board, the resulting limitation on the types of expenses that could no longer be expensed against current income would essentially apply on a one-time basis only to the implementation phase of the agency's proposed IT project.

8. The Executive Director has also proposed modifying the Governor's recommendation relating to requiring quarterly reports to DOA from the Board detailing its direct charge costs and expenses to provide that such reports also be submitted to the Joint Committee on Finance.

9. If the Committee agrees with the Board that the limitation on the use of direct charges should be applied on a one-time basis only, it could adopt the Board's proposed modifications. Or, if the Committee believes that the Board's revised limitation provisions should be continued on a permanent basis to apply to future IT projects, it could adopt the Board's modified language as a permanent statutory provision.

10. It could be argued, however, that the Executive Director's proposed language would prohibit, on a prospective basis, actions that have either already been taken, such as charging a large portion of the design costs to current expenses or would already be provided through budget funding for 1997-99.

11. The Board's concerns that it could not engage and ultimately pay for certain enumerated services if they could not be expensed as a direct charge against investment income does not recognize that the Board has the ability to seek appropriation authority to support any or all of these activities. It appears to be the Governor's intent that if the enumerated activities subject to the direct charge limitation are to be undertaken, the expectation is that they should be provided for through the regular appropriation process.

12. It can be argued that with adequate appropriation authority, there would be no reason why the Board could not engage (and fund) any of these services, if they were prohibited from continuing to being funded through the mechanism of direct charges against current income. Thus, an alternative approach would be to retain the Governor's proposed language but provide the Board with the appropriation authority sufficient to allow it to undertake any of the enumerated services currently covered by making direct charges against current income.

13. Establishing an appropriation for these activities would have the advantage of: (a) reducing the amount of expenditure activity at the Board that is "off-budget;" (b) requiring the Board to budget specifically for these activities; and (c) subjecting these expenditures to oversight and review by the Governor and Legislature.

14. If the Committee decides that it would be desirable to appropriate funds for the types of services that would be made subject to the direct charge limitation recommended by the

Governor, it must determine the manner of appropriating funds for such purposes and the amount of funding to be initially provided.

15. With respect to providing for an appropriation, the Committee could: (a) establish a separate PR continuing appropriation to fund the costs of the services that would be newly subject to the direct charge prohibition; or (b) provide the additional expenditure authority under the Board's existing PR annual appropriation which supports its general program operations.

16. A PR continuing appropriation established such that the agency may expend "all monies received" allows monies to be expended indefinitely to the extent of available revenues (in this case, earnings from the funds under investment). Specific dollar amounts appearing in the appropriation schedule merely represent estimates of the amounts to be expended during any given fiscal year but are not limiting.

17. Continuing appropriations tend to be seen as desirable where activities are cyclical or episodic in nature or are unpredictable in terms of expenditure demands. However, the types of expenditures which would be required to fund the services which would be subject to the direct charge limitation recommended by the Governor do not appear to be sufficiently cyclical or unpredictable in nature to warrant this type of appropriation. Further, these types of appropriations lessen the level of oversight compared to sum certain appropriations where a specific level of expenditure is set.

18. Budgeting instead for the costs of the services that would be subject to the direct charge limitation under the agency's current PR annual general program operations appropriation would have the effect of permitting expenditures for these activities only up to the amounts provided in the appropriation schedule. If the expenditure authority provided was insufficient, the Board would have to submit a s. 16.515 request for any increased expenditure authority.

19. The Board has identified both the types of services which have been charged to direct income during the last two calendar years that appear to be subject to the limitations proposed by the Governor and the amount of direct charges that have been made for these types of services. This information follows:

Estimated Board Expenses Subject to the Governor's Direct Charge Prohibition (Calendar Years 1995 and 1996)

Type of Expense or Fee	1995 Amount	1996 Amount
Investment Consultation and Accounting Fees	$438,900	$784,500
Custodial Bank Fees	3,670,900	3,498,500
Total	$4,109,800	$4,283,000

20. For the purpose of developing a base level of funding to be included for the charges and fees identified above, the Committee could initially provide an amount equivalent to the average of reported expenditures for the last two years. Under this scenario, a total of $4,196,400 PR annually would be indicated.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation by: (a) deleting the Governor's statutory enumeration of services that would be made subject to a direct charge prohibition; (b) creating a session law provision instead, applicable only to the period prior to the enactment of the 1999-2001 biennial budget act and providing that the types of services for which costs could not be expensed against current income would be limited to expenses relating to the design or installation of computerized information systems; (c) specifying that the session law direct charge prohibition provision would not apply to costs incurred in connection with transfers between the Board and third parties of data relating to investment matters; and (d) modifying the proposed statutory provision requiring the Board to submit quarterly reports to DOA detailing all costs and expenses charged to current income accounts to provide that such reports also be submitted to the Joint Committee on Finance.

3. Same as Alternative 2 except make the proposed session law language a permanent statutory provision.

4. Modify the Governor's recommendation by: (a) providing $4,196,400 PR annually under the Board's general program operations appropriation to fund the costs of data processing services, IT services, telecommunications services, accounting services other than actuarial services, or general management services that could no longer be expensed against current income; (b) clarifying the statutory purposes of the Board's general program operations appropriation to provide for the payment of these costs; and (c) modifying the statutory provision requiring the Board to submit quarterly reports to DOA detailing all costs and expenses charged to current income accounts to provide that such reports also be submitted to the Joint Committee on Finance.

Alternative 4	PR
1997-99 FUNDING (Change to Bill)	$8,392,800

5. Maintain current law.

Prepared by: Tony Mason

MO# A4 #2

PAPER #519

JENSEN	~~Y~~	N	A
1 OURADA	~~Y~~	N	A
HARSDORF	~~Y~~	N	A
ALBERS	~~Y~~	N	A
2 GARD	~~Y~~	N	A
KAUFERT	~~Y~~	N	A
LINTON	Y	~~N~~	A
COGGS	Y	~~N~~	A

BURKE	Y	~~N~~	A
DECKER	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 12 NO 4 ABS ____

To: Joint Committee on Finance

From: Bob Lang, Director
Legislative Fiscal Bureau

ISSUE

Statutory Changes Regarding Senior Management Staff (Investment Board)

[LFB Summary: Page 357, #7]

CURRENT LAW

The Executive Director of the Investment Board may appoint one division administrator and all investment directors. The Executive Director is also required to appoint a chief investment officer and all other employes necessary to carry out the functions of the Investment Board.

GOVERNOR

Include statutory language to: (a) authorize the Executive Director to appoint a chief legal counsel, chief financial officer and chief risk officer; (b) designate these three positions as "state public officers" under the state code of ethics and as "officials required to file" an annual statement of economic interests with the Ethics Board; (c) enumerate these three positions under the existing prohibitions applicable to all Board employes which bar employees from having a financial interest, either directly or indirectly, in any firm selling or marketing real estate or investments of any kind or from rendering investment advice to others for remuneration.

Repeal the current enumeration of one division administrator to be appointed by the executive director and associated statutory language relating to this position.

Modify the current requirement for the Board's trustees to appoint one of the agency's investment directors as assistant executive director by expanding the list of employes eligible to be appointed to include the agency's executive assistant, internal auditor, chief investment officer,

chief financial officer, chief legal counsel or chief risk officer. Designate the agency's executive assistant, chief financial officer, chief legal counsel and chief risk officer as subject to Board rules which restrict employes from having direct or indirect financial interests in entities providing service to the agency, govern the receipt of gifts or favors, and address personal investments of employees to prevent conflicts of interest.

DISCUSSION POINTS

1. The designation of any employe of the Investment Board as a "state public official" has the effect under current law of qualifying the employe for a higher retirement multiplier factor and increasing the employe's paid leave benefits. As a result of the Governor's recommendations, all of the following Board employes would be designated as state public officials: Executive Director, executive assistant, internal auditor, chief investment officer, chief financial officer, chief legal counsel, chief risk officer and all investment directors. Currently, there are eleven investment directors. Thus, under the Governor's proposal, a total of 18.0 FTE positions would then be designated as "state public officials" and be qualified for higher retirement benefits.

2. There is currently no statutory limitation on the number of investment directors that may be designated by the Executive Director of the Board and thereby qualify for the higher retirement benefits and additional leave time. By contrast, in state agencies with division administrators, the number of division administrators in the agency that may qualify for these enhanced benefits is specified by statute.

3. The number of positions actually designated as investment directors has increased steadily in recent years. In 1991, there were six; in 1993 there were seven; and since 1995 there have been eleven.

4. Since there is no current limitation on the number of investment directors that could be designated by the executive director, the Committee may wish to consider setting the authorized number at eleven, the current number of directors.

5. In the future, if the Executive Director wished to appoint additional investment directors who would be eligible for higher retirement benefits and additional leave time, a change in the statutory number of authorized investment directors could be requested in the same way that a change in the number of unclassified division administrators in other agencies must be sought.

ALTERNATIVES TO BILL

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation by including statutory language specifying that the Executive Director of the Investment Board may appoint eleven investment directors.

Prepared by: Tony Mason

MO# AH #2

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
1 BURKE	Y	N	A
DECKER	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 16 NO 0 ABS____

INVESTMENT BOARD

LFB Summary Item for Which No Issue Paper Has Been Prepared

Item #	Title
1	Standard Budget Adjustments