

AGENDA ITEM XI

July 12, 2000
s. 13.10 Meeting

Workforce Development: Request related to the Child Care Development Block Grant Funds.

Comments:

DWD is requesting the release of \$48,096,600 in additional federal spending authority for the CCDB. This funding request is broken down between 6 programs: Child Care Subsidy Program, Local Pass-Through, Infant Toddler Scholarship and Bonus Program, School-Age Child Care Technical Assistance and Child Care Resource and Referral, Child Care Scholarships and Bonuses and Training Local Administration Staff.

Child Care Subsidy Program

Gov. requests \$16,417,000 for the child care subsidy program. Of that sum, he proposes using \$8,400,000 for the projected deficit in the program in 1999-00 & placing the remaining \$7,917,000 in unallotted reserve in 2000-01 to cover any shortfall that may occur. According to LFB, based on current caseload & projected growth, even with this \$7.9 million in reserve, there will be a shortfall of \$15.3 million in this program for 2000-01. (Even Kelsey at LFB admits this number is a total crap shoot. With provisions of Act 9 just now taking effect, this is only a guess on what may happen over remainder of the biennium. Could be better, could be worse. It's really too early to tell.)

Two obvious places to make up some of this \$15.3 million are the \$5.7 million placed in unallotted reserve within DWD as part of Act 9, and \$2.7 million in TANF fund that have not been appropriated in the 1999-01 biennium. This still leaves a balance of \$6.9 million needed for the projected deficit.

Support full funding for this & the projected short fall. Use the \$5.7 & \$2.7 million listed above and put these funds in unallotted reserve to specify that DWD has to use it for this purpose only.

Local Pass-Through

Gov. requests \$25,965,700 of the original request for local public agencies that can identify & certify the required match. DWD will use a formula to determine the amount available to each county. \$5 million of this request would be allocated based on each county's share of statewide births & the remaining \$20.9 million would be based on each county's share of children at or below the

federal poverty level. Milwaukee would receive 34.56% of this request under this scenario.

In the paper DWD suggests 3 categories of programs they will allow local agencies to use this funding for, although there will be no formal rules and guidelines drafted. LFB suggests promulgating administrative rules, at the least, for the release of these funds.

We will be doing a motion on behalf of the City of Madison, at the request of Senator Risser, requiring DWD to allow participating local governments to use these funds to support any child care program eligible under federal rules. The City of Madison has a child care subsidy program that is more generous than the state's. They want to use these funds to expand that program, but under DWD's guidelines, they would not be able to.

Based on past experience, Gard may have a problem with this motion. He has always believed people should have some co-pay & the income guidelines are just fine. He may oppose the state allowing Madison to stretch the limits & lower the co-pays.

Regardless of what happens with the motion, we should, at the very least, require DWD to promulgate rules outlining how the funding will be allocated (Alternative 7). This is too much money to leave up to their willy-nilly discretion.

Support full funding for this, if possible. If we need some of this money for the child care subsidy program, support Alternative 2, which skims \$7.9 million off the top of this program & transfers it to that program.

INDIRECT CHILD CARE PROGRAMS

Infant Toddler Scholarship and Bonus Program

A request for \$753,600 to provide scholarships and bonuses to child care staff working with infants and toddlers. This program was first approved in 1998, and has been funded since with earmarked federal funds, these are not matching funds.

DWD "forgot" to request for the release of this funding earlier & are now obligated beyond their expenditure authority. A little over \$1.5 million has been obligated to date, and this request will be the total needed to cover all obligations through 2000-01.

Approve funding for this. But someone should remind DWD to be more careful in the way they do business.

School-Age Child Care Technical Assistance and Child Care Resource and Referral

Another continuing program that uses federally-earmarked dollars from the discretionary component of the CCDBG. Again, these are not federal matching dollars.

Again, another program DWD has obligated funds beyond their authority. They are requesting \$842,300 to cover obligations for: \$395,900 to the WI Child Care Improvement Project for advise & assistance for start-up, expansion & improvement of school-age child care services; and \$446,400 to the Child Care Resource and Referral network to assist them in providing training and technical assistance & data collection.

Again, approve the request with an admonishment to DWD.

Child Care Scholarships an Bonuses

The infamous T.E.A.C.H. program that got axed in the budget in order to fully fund the direct child care subsidy program, and which the child care workers got hacked off at us about. This proposal is for \$2.5 million in 2000-01 for the expansion of the above infant and toddler program scholarship program. This is a new program.

Support full funding for this at all costs.

Training Local Administration Staff

\$102,500 in 00-01 to train county, tribal and W-2 staff who administer the child care subsidy program. Another new program.

Doesn't matter one way or the other. Fund it if we've got the money, otherwise let it go.

Staff Recommendation:

We will have a motion on behalf of Risser & the City of Madison relating to the local pass through funding. The motion will not affect the actual funding or

formula of the proposal, but will direct DWD to allow the municipalities greater flexibility on the kinds of programs they can fund with this money. They will still have to stay within federal guidelines.

Also, Gwen will have a motion on this entire paper which will be a departure from any of the alternatives listed and will fully fund all the programs, both the direct and indirect child care parts. It's a Moore & Gard motion & Kelly asked me if you wanted to be listed on it & I said yes, if it's ok with the others.

Here's where we get the funding for the direct child care funding shortfall predicted by LFB:

\$7.9M that's part of this request to be put in unallotted reserves
\$5.7M in TANF vetos from Act 9
\$2.7M TANF balance that was not appropriated in the 99-01 biennium
\$3.5M from the contingency fund that was to be used for start-up funding for new W-2 agencies that was not needed when the new contracts were signed.

This totals \$19.8 million that will be placed in DWD's unallotted reserves. LFB will phrase the motion to make it clear that DWD can only use these funds for the child care subsidy program & nothing else.

The motion will also incorporate Alternative 7, which says DWD has to promulgate administrative rules regarding how the local pass through program funds will be allocated.

We still need our motion to give Madison the flexibility it needs to fund the programs it wants to. Gard may speak against this as mentioned above.

Staff: Cindy



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

July 12, 2000

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Workforce Development: Section 16.54 Request Related to the Approval of Federal Child Care Development Block Grant Funds -- Agenda Item XI

REQUEST

On June 15, 2000, the Governor submitted a request to the Joint Committee on Finance for the approval of additional expenditure authority in appropriations 20.445(3)(mc) and 20.445(3)(md) in the Department of Workforce Development (DWD) in order to utilize additional federal child care development block grant (CCDBG) funds. Under s. 16.54(2)(a)2., the Governor may not administer and no state agency may encumber or expend certain federal monies unless the Governor first notifies the cochairpersons of the Finance Committee under a 14-day passive review process. The Finance Committee's Cochairpersons notified the Governor on June 30, 2000, that a meeting would be scheduled to discuss this request.

BACKGROUND

Child care assistance is provided through direct child care subsidies and through indirect child care programs. The subsidy program provides direct child care assistance to families who meet certain financial and nonfinancial eligibility criteria. The indirect expenditures are for state administration of the child care program and activities designed to increase the capacity and quality of child care providers in the state. Table 1 shows the amount of funding budgeted in 1999 Act 9 (the 1999-01 biennial budget) for child care.

TABLE 1

Child Care Funding Budgeted in Act 9

	<u>1999-00</u>	<u>2000-01</u>
Direct Subsidies	\$159,560,000	\$181,050,000
Indirect Programs	<u>11,812,300</u>	<u>11,367,600</u>
Child Care Total	\$171,372,300	\$192,417,600

Child care expenditures are funded with a combination of state GPR and federal revenues from the CCDBG and the temporary assistance for needy families (TANF) block grant as follows:

TABLE 2

Child Care Funding Sources Under Act 9

	<u>1999-00</u>	<u>2000-01</u>
GPR	\$16,449,400	\$16,449,400
CCDBG	39,314,000	39,311,400
TANF	<u>115,608,900</u>	<u>136,656,800</u>
Total	\$171,372,300	\$192,417,600

Act 9 increased the amount of TANF provided for child care expenditures and reduced the amount of CCDBG and GPR funding from prior levels. This reflected a proposal recommended by the Governor and approved by the Legislature to not access the state's matching component of the federal CCDBG. States are required to meet a maintenance-of-effort (MOE) and matching requirement for CCDBG matching funds, but there is no MOE or matching requirement for the other two components of the CCDBG (the discretionary and mandatory allocations). The amount of GPR provided (\$16.4 million annually) meets Wisconsin's MOE requirement. At the time Act 9 was being deliberated, it was estimated that state expenditures would have to be increased by \$14.2 million in 1999-00 and \$16.7 million in 2000-01 in order to meet the matching requirement, which would allow the state to access an estimated \$20.2 million in 1999-00 and \$23.8 million in 2000-01 in federal funds. In total, this would have increased funding by \$34.4 million in 1999-00 and \$40.5 million in 2000-01.

As noted, Act 9 did not provide sufficient GPR to access the CCDBG matching allocation. However, DWD was directed to identify sources of GPR expenditures that could be used to access these monies and to submit the information to the U.S. Department of Health and Human Services.

DWD was then required to submit a plan for expenditure of any additional federal dollars to the Finance Committee for approval no later than 60 days after receiving federal approval.

ANALYSIS

The request for additional expenditure authority is made up of three parts; two relate to federal CCDBG matching funds and one relates to spending federally earmarked monies. Table 3 summarizes the request. The CCDBG amount shown in this paper for child care subsidies in 2000-01 is slightly higher than the amount used in the Governor's request because the federal Medicaid matching rate used to determine the matching percentage has been recently updated. The amount used in this paper reflects the update.

TABLE 3

**Governor's s. 16.54 Request Summary
Additional Federal Expenditure Authority for Child Care**

	<u>1999-00</u>	<u>2000-01</u>	<u>Biennium</u>
CCDBG Matching Funds			
Direct Subsidies	\$8,500,000	\$7,917,000	\$16,417,000
Local Pass-Through	<u>0</u>	<u>25,965,700</u>	<u>25,965,700</u>
CCDBG Matching Total	\$8,500,000	\$33,882,700	\$42,382,700
Federally Earmarked Funds			
Indirect Programs	<u>\$1,201,800</u>	<u>\$4,512,100</u>	<u>\$5,713,900</u>
Total Additional Federal Funds	\$9,701,800	\$38,394,800	\$48,096,600

The table shows that the Governor is requesting the approval of an additional \$48,096,600 (\$9,701,800 in 1999-00 and \$38,394,800 in 2000-01) in federal spending authority. Of this amount, \$42,382,700 is made up of CCDBG matching funds and \$5,713,900 is additional federally earmarked funds. Specifically, the request would increase spending authority in appropriation 20.445(3)(md) by \$8,500,000 in 1999-00 and \$7,917,000 in 2000-01 for child care subsidies. Spending authority for 20.445(3)(mc) would be increased by \$25,965,700 in 2000-01 for the local pass-through program and by \$1,201,800 in 1999-00 and \$4,512,100 in 2000-01 for indirect child care programs. The following sections discuss the three parts of the request.

CCDBG Matching Funds: Child Care Subsidy Program

As required under Act 9, the Department has identified \$11,414,000 (\$6,785,600 in 1999-00 and \$4,628,400 in 2000-01) in state expenditures that can be used to match \$16,417,000 (\$9,676,300 in 1999-00 and \$6,740,700 in 2000-01) in federal CCDBG funds. The following table shows the state expenditures identified by DWD and the corresponding amount of federal dollars. The federal Medicaid matching rate (approximately 41% state/59% federal in Wisconsin) is used to determine how much federal matching funds can be made available. In other words, Wisconsin is able to access approximately \$59 in federal funds for every \$41 in state expenditures.

TABLE 4

Identified State Expenditures and Federal Match

	<u>1999-00</u>	<u>2000-01</u>	<u>Biennium</u>
Pre-Kindergarten	\$4,647,000	\$4,215,600	\$8,862,600
Tribal Child Care	412,800	412,800	825,600
Child Care Regulation	<u>1,725,800</u>	<u>0</u>	<u>1,725,800</u>
Total State Expenditures	\$6,785,600	\$4,628,400	\$11,414,000
Federal Match	\$9,676,300	\$6,740,700	\$16,417,000

These state expenditures were identified by DWD in consultation with other state agencies and represent eligible expenditures that could be documented as required at the federal level. Of the total amount of state expenditures identified over the biennium, \$8,862,600 is for the portion of state funded pre-kindergarten programs that are attributed to low-income students. The tribal child care expenditures represent the amount of GPR that the Department of Health and Family Services (DHFS) provides to tribes for child care activities. Finally, DHFS is expected to incur \$1,725,800 in GPR expenditures on child care regulation in 1999-00. The regulation expenditures are only shown for one year because they will be funded with CCDBG monies in 2000-01 and thereafter.

The Governor requests using \$8,500,000 of the \$16,417,000 in CCDBG monies to fund the projected deficit in the child care subsidy program in 1999-00 and placing the remaining amount (\$7,917,000) in unallotted reserve for the subsidy program in 2000-01 to cover any short-fall that may occur. As noted, Act 9 provided total funding of \$159.6 million in 1999-00 and \$181.1 million in 2000-01 for child care subsidies. The Legislature increased funding by \$5.0 million in 1999-00 and \$19.7 million in 2000-01 from the Governor's budget recommendation due to reestimates of the subsidy program's costs and to fund program expansions adopted by the Legislature. The increase in the subsidy program was partially funded with a reduction in indirect child care expenditures (-\$7.2 million in 1999-00 and -\$5.5 million in 2000-01) from the level recommended by the Governor. Specifically, the Legislature eliminated three new programs proposed by the Governor and reestimated other indirect program costs. The Act 9 provision

directing DWD to identify state expenditures in order to access federal matching dollars was included in Act 9 as a means to fund the indirect programs not approved by the Legislature.

The request to increase funding for the subsidy program for 1999-00 by \$8.5 million would provide a total of \$168.1 million, which is an increase of 5.3% above the Act 9 level. This reestimate reflects strong participation growth over the prior fiscal year. Table 5 compares child care data for April, May and June of 1999 to March, April and May of 2000. These time periods were chosen because they include consistent data from Milwaukee County and represent an equal number of reporting periods. However, the 2000 data reflects the implementation of the child care expansions included in Act 9. In addition to the information shown in the chart, there has been a shift in the type of child care being used from 76.9% of families using more expensive licensed child care (as opposed to certified care) in the early part of 1998 to 79.6% at the end of 1999.

TABLE 5

Direct Child Care Subsidy Program Growth

	<u>1999</u>	<u>2000</u>	<u>Growth</u>
Average Monthly Subsidies	\$11,199,000	\$13,710,000	22.4%
Average Number of Children	29,200	32,500	11.3
Average Number of Families	16,500	18,600	12.7
Average Subsidy per Family	\$679	\$737	8.6

Even with the \$7,917,000 in unallotted reserve, it is estimated that there will be a deficit in the subsidy program in 2000-01 if participation growth exceeds 0.17% per month. Participation has grown at an average of 1.2% per month over the 1999-00 fiscal year (through May). If this rate continues, there will be a deficit of an estimated \$15.3 million in 2000-01 even after accounting for the \$7,917,000 reserve. However, since the Act 9 modifications to the program began only recently (March 1), it is difficult to assess the full impact of the changes at this time. Five possible funding sources that could be used to make up the difference are listed below. Options (a) and (b) would require the Committee to modify one or both of the remaining two parts of the Governor's request. No action would need to be taken at this time under options (c), (d) or (e).

Options to Fund the Estimated Child Care Subsidy Program's Deficit in 2000-01

a. The Committee could modify the Governor's request for the local pass-through program to retain a portion of the federal matching funds at the state level. This option, which would provide up to \$7,969,500, is described in the following section of this paper.

b. The Committee could modify the request for additional expenditure authority for federally earmarked funds by eliminating two new programs proposed by the Governor, which would provide \$2,602,500. This option is discussed later in this paper.

c. The Committee's supplemental appropriation for 1999-00 contains approximately \$105.5 million in TANF funds made up of \$102.0 million in contingency funds and \$3.5 million in start-up funding for new W-2 agencies that was not needed when the contracts were signed.

d. The Governor's veto of Act 9 placed \$5.7 million (\$2,450,000 in 1999-00 and \$3,250,000 in 2000-01) in TANF funds in unallotted reserve within a DWD appropriation.

e. The estimated balance of TANF funds that have not been appropriated to DWD, other agencies or the Committee in the 1999-01 biennium is \$2.7 million.

As noted, the request would place the \$7,917,000 in CCDBG monies in unallotted reserve in 20.445(3)(md) in order to ensure that there are sufficient funds devoted to the subsidy program in 2000-01. The Committee could instead choose to place this funding in the Finance Committee's supplemental appropriation to be released upon the request of the Department.

CCDBG Matching Funds: Local Pass-Through

The Governor requests \$25,965,700 in additional federal expenditure authority for 2000-01 and the approval of a new program that would allow DWD to pass these monies through to local public agencies that can identify and certify the required match. The identified state expenditures discussed above would draw only a portion of federal CCDBG matching funds available to Wisconsin. The Governor's proposal would allow the remaining funds to be passed through to local governments. The following table shows the amount of Wisconsin's CCDBG matching funds that would be retained by the state and the amount that would be passed through to local governments by federal fiscal year (FFY).

TABLE 6

Proposed State and Local Share of Federal CCDBG Matching Funds

	<u>FFY 2000</u>	<u>FFY 2001*</u>	<u>Total*</u>
State Share	\$9,676,300	\$6,740,700	\$16,417,000
Local Pass-Through	<u>11,444,700</u>	<u>14,521,000</u>	<u>25,965,700</u>
Total CCDBG Funds	\$21,121,000	\$21,261,700	\$42,382,700

* Estimated

The Department proposes using a formula to determine the amount of federal matching funds available to each county. Under this formula, \$5,000,000 would be allocated based on each county's share of statewide births and \$20,965,700 would be based on each county's share of children who are at or below the federal poverty level. The Attachment to this paper shows the amount that would be allocated to each county under the formula.

In order to access the federal funds, local public agencies would have to certify qualifying expenditures and the intended use of the federal funds to DWD by August 1, 2000. The local governments would have to identify a total of \$17,996,200 in expenditures over the biennium to access all of the federal monies that would be passed through. If more money is requested and matched from a particular county than the formula would provide, the requests from within that county would be reduced proportionally. Funds that are not claimed would be reallocated to the other counties that have sufficient matching funds.

The Department proposes allowing the federal funds to be used by the local government for the following purposes:

- a. Programs that provide subsidies, training and consultation to child care programs in order to allow providers to integrate disabled children into child care programs with children without disabilities;
- b. Programs that aid in the prevention and management of illnesses and injuries; and
- c. Collaborative child care services (centers that provide services to children from more than one entity), including the start-up and expansion of certain types of care (sick child care, second shift care and school-aged child care), quality improvement and implementation.

As noted above, under the federal CCDBG matching requirements, each \$41 that the state spends is matched with \$59 in federal funds. This is the equivalent to saying that each \$1 that the state spends draws \$1.44 in federal monies. These matching ratios also apply to local expenditures. However, the source of state and local match is not accounted for separately when the federal funds are awarded. In other words, federal guidelines allow the state to retain all of the CCDBG matching funds, even if local governments are making the qualifying expenditures.

Since it is possible that the state's child care subsidy program will experience a deficit in 2000-01, the proposed local pass-through program could be modified to provide funding for the state to cover any short-fall. A modification to pass-through \$1 in federal funds for every \$1 in local expenditures would provide \$7,969,500 in federal funds that could be applied to the subsidy program in 2000-01 if needed. The amount passed through to local governments would be reduced by the same amount so that \$17,996,200, rather than \$25,965,700, in federal matching funds would be allocated to local governments. It should be noted that if the local governments certify less than \$17,996,200 in expenditures, the amount available to the state for subsidies under this option would also be reduced.

The provisions described above that outline how the pass-through program would be implemented do not appear in the statutes and the Department indicates that it does not intend to promulgate administrative rules regarding this program. This proposal involves a significant amount of funding (nearly \$26 million over the biennium). Therefore, if the Committee approves

the pass-through proposal it may wish to direct DWD to promulgate rules outlining how the funding will be allocated and used. However, the Committee could specify that the rules would not need to be in place until allocations made during the 2001-03 biennium since federal matching funds for FFY 2000 must be obligated by the end of September.

Federally Earmarked Funds: Indirect Child Care Programs

The request would increase expenditure authority by \$5,713,900 (\$1,201,800 in 1999-00 and \$4,512,100 in 2000-01) to reflect the receipt of federally-earmarked dollars. These monies are from the discretionary component of the CCDBG; these are not federal matching funds. The funds would be used to fund the continuation of two indirect child care programs and the creation of two new programs proposed by the Department.

Continue Existing Programs. The Department has spent and obligated federal funds earmarked for infant/toddler child care, school-age child care and resource and referral services that were first made available in FFY 1998, causing DWD to exceed its federal expenditure authority. The earmarked funds have been obligated for two indirect child care programs that have been approved by the federal government but were not included in Act 9. The request would provide expenditure authority to continue the receipt of the earmarked funds for the two programs, which are described below.

Infant Toddler Scholarship and Bonus Program. This program provides scholarships and bonuses to child care staff working with infants and toddlers. Specifically, the program funds the cost of courses in infant and toddler care that lead to the completion of a newly-developed "infant toddler credential." Bonuses are also provided upon completion. The child care centers and the program participant also agree to contribute toward the cost of tuition. This program has been administered under contract with Wisconsin Early Childhood Association and approximately 400 applications have been approved as of May, 2000. A total of \$1,515,400 (\$641,800 in 1999-00 and \$873,600 in 2000-01) has been obligated to date, which represents the federal earmark for FFY 1998 and FFY 1999. The request includes an additional \$753,600 in 2000-01 (the federal earmark for FFY 2000). In total, funding for this program would equal \$2,269,000 (\$641,800 in 1999-00 and \$1,627,200 in 2000-01).

School-Age Child Care Technical Assistance and Child Care Resource and Referral. The Department has obligated \$842,300 (\$559,900 in 1999-00 and \$282,400 in 2000-01) in federal earmarks for FFYs 1998 through 2000. This funding has been provided by grant for the following purposes: (a) \$395,900 to the Wisconsin Child Care Improvement Project to provide advice and assistance for the start-up, expansion and improvement of school-age child care services; and (b) \$446,400 to the Child Care Resource and Referral (CCRR) network to assist the 17 CCRR agencies in meeting basic standards, provide training and technical assistance and standardize data collection.

Create New Programs. The discretionary component of the CCDBG includes an increase of \$2,602,500 in FFY 2000 in a new federal earmark for quality expansion. The request proposes using these funds to create the two, new indirect child care programs described below.

Child Care Scholarships and Bonuses. A scholarship and training program for child care providers would be created and funded with \$2,500,000 in 2000-01. This would be an expansion of the infant and toddler program discussed above and would provide scholarships and bonuses to child care staff to attend specified training. This is similar to the child care careers program recommended by the Governor as part of his 1999-01 budget recommendations, which was later eliminated by the Legislature in order to fully fund the child care subsidy program.

Training Local Administration Staff. The request would provide \$102,500 in 2000-01 to train the county, tribal and W-2 staff who administer the child care subsidy program. The training is intended to improve the quality of customer service and administrative efficiency.

Expenditures made as part of other existing indirect child care programs qualify as an eligible activity for the federal funds earmarked for quality expansion. Since the reestimate of the subsidy program's costs in 2000-01 exceeds the amount provided under this request, the Committee may wish to not approve the creation of two new indirect programs. Instead, the \$2,602,500 in earmarked funds could be used to free-up an equal amount of non-earmarked CCDBG dollars to be used to reduce the subsidy program's deficit.

SUMMARY

The Governor requests additional federal expenditure authority of \$48,096,600 (\$9,701,800 in 1999-00 and \$38,394,800 in 2000-01) for DWD in order to increase funding for the direct child care subsidy program and indirect program and to create a mechanism to pass through federal matching funds to local governments. The following table shows the amount of additional funding that would be provided to these programs and a comparison to the amounts budgeted under Act 9. [The amounts for 2000-01 reflect the updated federal matching rate.]

TABLE 7

Child Care Funding Under Request

	<u>Total Child Care Funding Under Request</u>			<u>Change to Act 9 Funding</u>		
	<u>1999-00</u>	<u>2000-01</u>	<u>Biennium</u>	<u>1999-00</u>	<u>2000-01</u>	<u>Biennium</u>
Direct Subsidies	\$168,060,000	\$188,967,000	\$357,027,000	\$8,500,000	\$7,917,000	\$16,417,000
Indirect Programs	13,014,100	15,879,700	28,893,800	1,201,800	4,512,100	5,713,900
Local Pass-Through	<u>0</u>	<u>25,965,700</u>	<u>25,965,700</u>	<u>0</u>	<u>25,965,700</u>	<u>25,965,700</u>
Total	\$181,074,100	\$230,812,400	\$411,886,500	\$9,701,800	\$38,394,800	\$48,096,600

Even with the increased subsidy funding proposed under the request, it appears that there could be a deficit in 2000-01. This could be offset by modifying the proposed local pass-through program, not approving the creation of the new indirect child care programs or by drawing on other TANF monies that are available. In addition, the Committee may wish to place the federal matching funds that would be set aside for the subsidy program in 2000-01 (\$7,917,000 under the request) in the Committee's appropriation rather than in unallotted reserve in DWD's appropriation.

ALTERNATIVES

1. Approve the Governor's request for additional federal expenditure authority in DWD of \$9,701,800 in 1999-00 and \$38,394,800 in 2000-01 to fund increased direct child care subsidies, a local pass-through program and additional indirect child care programs. Expenditure authority for appropriation 20.445(3)(mc) would be increased by \$1,201,800 in 1999-00 and \$30,477,800 in 2000-01 and 20.445(3)(md) would be increased by \$8,500,000 in 1999-00 and \$7,917,000 in 2000-01.

2. Modify the proposed local pass-through program by directing the Department to distribute to eligible local governments an amount of CCDBG matching funds equal to the amount of certified local matching expenditures to a maximum of \$17,996,200 over the 1999-01 biennium. Specify that the difference between the amount passed through and the amount of federal dollars generated by the local expenditures would be applied to the state's child care subsidy program. Compared to the Governor's request, reduce expenditure authority for 20.445(3)(mc) by \$7,969,500 in 2000-01 and increase expenditure authority for 20.445(3)(md) by the same amount.

3. Deny the Governor's request to create a child care scholarship and bonuses program and to provide training for local administrative staff. Instead, allocate the funding requested for these programs to the child care subsidy program. Compared to the request, reduce expenditure authority for 20.445(3)(mc) by \$2,602,500 in 2000-01 and increase expenditure authority for 20.445(3)(md) by the same amount in 2000-01.

4. Modify the request by placing the \$7,917,000 in federal matching funds in the Committee's supplemental appropriation [(s. 20.865(4)(m))] in 2000-01 rather than in unallotted reserve in 20.445(3)(md).

5. If Alternative 2 is selected, place \$7,969,500 in the Committee's supplemental appropriation [s. 20.865(4)(m)] in 2000-01 rather than in 20.445(3)(md).

6. If Alternative 3 is selected, place \$2,602,500 in the Committee's supplemental appropriation [s. 20.865(4)(m)] in 2000-01 rather than in 20.445(3)(md).

7. Direct DWD to promulgate administrative rules regarding how funding under the local pass-through program would be allocated and used before any federal matching funds can be distributed to local governments after June 30, 2001.

8. Deny the request.

Prepared by: Kelsie Doty

ATTACHMENT

Local Pass-Through of Federal CCDBG Funds Proposed County Allocations

	<u>Required</u> <u>Local Match</u>	<u>CCDBG</u> <u>Allocation</u>	<u>% of Total</u> <u>CCDBG</u> <u>Funding</u>		<u>Required</u> <u>Local Match</u>	<u>CCDBG</u> <u>Allocation</u>	<u>% of Total</u> <u>CCDBG</u> <u>Funding</u>
Adams	\$65,165	\$94,032	0.36%	Marathon	\$358,491	\$517,232	1.99%
Ashland	76,341	110,157	0.42	Marinette	143,046	206,403	0.79
Barron	159,162	229,661	0.88	Marquette	45,499	65,653	0.25
Bayfield	68,313	98,579	0.38	Menominee	70,098	101,161	0.39
Brown	592,480	854,751	3.29	Milwaukee	6,218,589	8,973,443	34.56
Buffalo	49,014	70,724	0.27	Monroe	171,464	247,406	0.95
Burnett	54,371	78,455	0.30	Oconto	103,460	149,280	0.57
Calumet	68,777	99,209	0.38	Oneida	97,069	140,059	0.54
Chippewa	195,180	281,626	1.08	Outagamie	339,258	489,393	1.88
Clark	141,014	203,460	0.78	Ozaukee	92,020	132,698	0.51
Columbia	120,619	174,016	0.67	Pepin	26,774	38,634	0.15
Crawford	67,862	97,920	0.38	Pierce	83,848	120,966	0.47
Dane	844,946	1,218,900	4.69	Polk	132,607	191,340	0.74
Dodge	176,200	254,197	0.98	Portage	200,397	289,143	1.11
Door	78,511	113,286	0.44	Price	50,767	73,253	0.28
Douglas	206,349	297,760	1.15	Racine	659,250	951,177	3.66
Dunn	128,321	185,149	0.71	Richland	70,255	101,375	0.39
Eau Claire	330,885	477,437	1.84	Rock	532,104	767,739	2.96
Florence	18,336	26,461	0.10	Rusk	77,782	112,243	0.43
Fond du Lac	224,896	324,456	1.25	St. Croix	125,147	180,533	0.70
Forest	45,750	66,020	0.25	Sauk	153,990	222,168	0.86
Grant	149,348	215,493	0.83	Sawyer	83,428	120,391	0.46
Green	82,164	118,541	0.46	Shawano	129,148	186,343	0.72
Green Lake	57,521	82,993	0.32	Sheboygan	242,415	349,719	1.35
Iowa	67,484	97,364	0.37	Taylor	74,119	106,948	0.41
Iron	18,250	26,335	0.10	Trempealeau	91,245	131,653	0.51
Jackson	71,925	103,785	0.40	Vernon	120,864	174,400	0.67
Jefferson	137,954	199,002	0.77	Vilas	78,428	113,173	0.44
Juneau	89,188	128,691	0.50	Walworth	181,042	261,171	1.01
Kenosha	515,996	744,485	2.87	Washburn	65,679	94,775	0.37
Kewaunee	45,291	65,343	0.25	Washington	176,616	254,737	0.98
La Crosse	333,501	481,189	1.85	Waukesha	488,311	704,293	2.71
Lafayette	51,465	74,258	0.29	Waupaca	133,840	193,100	0.74
Langlade	86,319	124,559	0.48	Waushara	96,232	138,862	0.53
Lincoln	81,055	116,950	0.45	Winnebago	339,531	489,839	1.89
Manitowoc	211,095	304,562	1.17	Wood	<u>232,324</u>	<u>335,204</u>	<u>1.29</u>
					\$17,996,185	\$25,965,713	100.00%

DEPARTMENT OF WORKFORCE DEVELOPMENT

Funding for Direct Child Care Subsidies
and Rules for the Local Pass Through Program

Motion:

Move to approve the Governor's request for additional federal expenditure authority in DWD of \$9,701,800 FED in 1999-00 and \$38,394,800 FED in 2000-01 to fund increased direct child care subsidies, a local-pass through program and additional indirect child care programs. In addition, adopt the following modifications to the Governor's proposal:

1. Place \$19,808,200 FED in unallotted reserve within DWD's appropriation under s. 20.445(3)(md) in 2000-01 and specify that this funding could only be used for direct child care subsidies. The sources of this funding are as follows:
 - a. \$7,917,000 in CCDBG funds as provided under the Governor's request;
 - b. \$5,700,000 (\$2,450,000 in 1999-00 and \$3,250,000 in 2000-01) in TANF funds that were placed in unallotted reserve within s. 20.445(3)(md) under the Governor's partial veto of 1999 Act 9;
 - c. \$3,519,000 in TANF funds from the Committee's supplemental appropriation [s. 20.865(4)(m)] for start-up funding for new W-2 agencies; and
 - d. \$2,672,200 from the unappropriated TANF balance.
2. Direct DWD to promulgate administrative rules regarding how funding under the local pass-through program would be allocated and used before any federal matching funds can be distributed to local governments after June 30, 2001.

Note:

This motion would approve the Governor's request with the following modifications:

Child Care Subsidies. Under the motion, a total of \$19,808,200 FED would be placed in unallotted reserve within DWD's appropriation under s. 20.445(3)(md) in 2000-01 with the restriction that the Department use this funding for child care subsidies. This amount includes the \$7,917,000 in CCDBG funds that the Governor's request would place in unallotted reserve. The other funding sources are TANF funds that have not been allocated for specific purposes (\$8,372,200) and TANF funds that were allocated for new W-2 agency start-up costs, but will not be needed for that purpose (\$3,519,000).

Local Pass-Through Program. The motion would also require DWD to promulgate rules related to how funding under the program would be allocated and used before any funds could be distributed to local governments after June 30, 2001.

MO# MOT. 122

1	BURKE	<input checked="" type="radio"/>	N	A
	DECKER	<input checked="" type="radio"/>	N	A
	JAUCH	<input checked="" type="radio"/>	N	A
	MOORE	<input checked="" type="radio"/>	N	A
	SHIBILSKI	<input checked="" type="radio"/>	N	A
	PLACHE	<input checked="" type="radio"/>	N	A
	COWLES	<input checked="" type="radio"/>	N	A
	DARLING	<input checked="" type="radio"/>	N	A
2	GARD	<input checked="" type="radio"/>	N	A
	PORTER	<input checked="" type="radio"/>	N	A
	KAUFERT	<input checked="" type="radio"/>	N	A
	ALBERS	<input checked="" type="radio"/>	N	A
	DUFF	<input checked="" type="radio"/>	N	A
	WARD	<input checked="" type="radio"/>	N	A
	HUBER	<input checked="" type="radio"/>	N	A
	RILEY	<input checked="" type="radio"/>	N	A

AYE 16 NO 0 ABS

DEPARTMENT OF WORKFORCE DEVELOPMENT

Allowable Use of Local Pass-Through Dollars

Motion:

Move to direct DWD to allow local recipients of CCDBG funds distributed under the local pass-through program to use the funds for any purpose allowed under federal law.

Note:

Under the Governor's request, DWD proposes allowing the federal pass-through dollars to be used for:

- a. Programs that provide subsidies, training and consultation to child care programs in order to allow providers to integrate disabled children into child care programs with children without disabilities;
- b. Programs that aid in the prevention and management of illnesses and injuries; and
- c. Collaborative child care services, including the start-up and expansion of certain types of care, quality improvement and implementation.

The motion would specify that the passed-through CCDBG funds could be used for any purpose allowed under federal law. The motion would not impact the distribution formula proposed by the Department. The Code of Federal Regulations (45CFR98.1) specifies that CCDBG funds may be used to increase the availability, affordability, and quality of child care services and allows funds to be used for the following purposes:

- a. Provide low-income families with the financial resources to find and afford quality child care for their children;

- b. Enhance the quality and increase the supply of child care for all families, including those who receive no direct assistance under the child care development fund;
- c. Provide parents with a broad range of options in addressing their child care needs;
- d. Strengthen the role of the family;
- e. Improve the quality of, and coordination among, child care programs and early childhood development programs; and
- f. Increase the availability of early childhood development and before- and after-school care services.

MO# 117

1 BURKE	(Y)	N	A
2 DECKER	(Y)	N	A
JAUCH	(Y)	N	A
MOORE	Y	(N)	A
SHIBILSKI	(Y)	N	A
PLACHE	(Y)	N	A
COWLES	Y	(N)	A
DARLING	Y	(N)	A
GARD	Y	(N)	A
PORTER	Y	(N)	A
KAUFERT	Y	(N)	A
ALBERS <i>Phedra</i>	Y	(N)	A
DUFF	Y	(N)	A
WARD	Y	(N)	A
HUBER	(Y)	N	A
RILEY	(Y)	N	A

AYE 7 NO 9 ABS _____

XI. Department of Workforce Development – Linda Stewart, Secretary

Under the s. 16.54 federal block grant process, the department requests additional federal expenditure authority of \$9,701,800 in fiscal year 1999-2000 and \$38,254,100 in fiscal year 2000-01 in appropriations s. 20.445(3)(mc) and s. 20.445(3)(md) to access additional federal child care development block grant funds.

July 11, 2000

13.10 Mtg. - Agenda Item XII
Re: Commerce - PECFA attorney positions

Summary:

Commerce wants \$128,200 for 2 SEG two-year project attorney positions to handle PECFA claims appeals work.

Analysis:

May want to take some time (if reporters are there, especially Walters) to pat yourself and Duff and the Committee on the back for helping ease the alleged PECFA crisis (see first paragraph under "Background" section on page 1). I haven't seen much reporting since early 1999 when this was a huge issue. Now, Commerce needs to aggressively implement the cost saving measures called for in Act 9.

Anyway, the Commerce request appears reasonable (i.e. alt 1). In fact, FB makes a little argument on the top of page 4 for increasing the project position term to 4 years instead of 2 (i.e. alt 2). Either alternative is fine.

Recommendations:

Alternative 1



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

July 12, 2000

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Commerce: Section 13.10 Request for PECFA Attorney Project Staff -- Agenda Item XII

REQUEST

The Department of Commerce requests \$128,200 SEG in 2000-01 with 2.0 SEG two-year project attorney positions from the Petroleum Environmental Cleanup Fund Award (PECFA) program administrative appropriation [s. 20.143 (3)(w)]. The positions would handle appeals of decisions made for PECFA claims paid from revenue obligation bonding proceeds authorized in 1999 Wisconsin Act 9. The positions would begin September 1, 2000 and would end August 31, 2002, with an annualized cost of \$137,200 SEG in 2001-02. Segregated funding would come from the petroleum inspection fund, which receives revenues from the 3¢ per gallon petroleum inspection fee assessed on all petroleum products that enter the state.

BACKGROUND

Act 9 authorized \$270 million in revenue bond obligations for payment of PECFA claims. Bond proceeds were first available on March 15, 2000. On March 1, 2000, shortly before bond proceeds were available, there was a backlog of 3,965 PECFA claims that had been received and not yet paid that totaled \$243.8 million. During the three months March through May, 2000, Commerce used revenue bond proceeds to pay \$219.5 million for 3,759 PECFA claims (\$207.4 million from bond proceeds and \$12.1 million from the PECFA awards appropriation). During the same three months, Commerce received \$26.4 million in new claims. At the end of May, there was a backlog of \$46.9 million in claims waiting to be paid. Most or all claims received by the end of May will be paid by the end of August. Claims are currently being audited within 60 to 90 days after receipt, and by August will be paid within approximately one month after being audited.

Claimants may file an appeal of a Department decision related to a PECFA claim. Examples of issues that are the subject of appeals are the eligibility of specific expenses, potential negligence or the cleanup methodology used to cleanup the site. Prior to February 15, 2000, claimants had to file any appeal within 30 calendar days from the date of the decision that is being appealed. Due to the high volume of claims being paid in a short time period, on February 15, 2000, Commerce published an emergency rule (COMM 47.53) that allows appeals of decisions issued between February 15, 2000 and June 30, 2000, to be filed no later than 90 calendar days from the date of the decision being appealed. Decisions issued after June 30, 2000, would be subject to a 30-day deadline for filing an appeal under the current permanent rule. Most claim payments with bond proceeds will be made by June 30, 2000.

Commerce is currently authorized two PECFA attorney positions. One of the positions is a four-year project position authorized from January 14, 1998 through January 13, 2002.

ANALYSIS

In the 14 months prior to the availability of bond proceeds (January, 1999 through February, 2000), Commerce paid 1,677 claims, averaging 120 payments per month. Of this total, approximately 20% of the claim decisions were appealed, or an average of 24 per month. Commerce estimates that it will pay approximately 3,772 claims with bond proceeds between March and August of 2000, and that approximately 25% (930) of the claims will be appealed. Between April 1, 2000 and June 20, 2000, Commerce received 518 appeals. Commerce projects a 25% rather than 20% appeals rate of payments made from bond proceeds because: (a) there is a higher-than-average percentage of final payments than in the previous 14 months which provides the last opportunity for claimants to appeal cost reimbursement issues at a site (36% of payments between March 1, 2000 and May 31, 2000 were for final claims as compared with 28% of claims paid between January 1, 1999 and February 29, 2000); (b) the extension of the appeal period from 30 to 90 days allows additional time for owners and consultants to review claim information and consider filing an appeal; and (c) payment of \$270 million in claims in a four- to six-month period (instead of a three-year period) may motivate some consultants to review and appeal denied costs that they would otherwise pay under agreements they may have with site owners that guarantee the consultant would cover non-eligible costs.

Each of the two existing PECFA attorneys handles approximately 15 appeals per month. Commerce estimates that the two requested attorneys would handle the same average of 15 appeals per month. However, Commerce notes that it has implemented a procedural change to expedite the appeals process, under which each appeal is referred back to the claim reviewer at the same time the legal staff acknowledges receipt of the appeal. The claim reviewer reconsiders the claim decision based on any new information submitted with the appeal (such as proofs of payment, invoices and documentation of bids or directives from the Department of Natural Resources or Commerce to

perform specific activities at the site). The procedural change allows the existing attorneys to resolve many appeals through a settlement rather than proceed to a more time-consuming hearing.

The Commerce request states that over the two-year term of the project positions, the two new attorneys would handle at least 720 of the projected 930 bonding related appeals. The remaining 210 appeals would be resolved after the two-year period or by increasing the number of appeals handled through the expedited appeal process.

Commerce recently performed a more detailed analysis of the attorney workload between now and September, 2002 (the end date of the requested project positions). The analysis assumed an experienced attorney can complete 100 "work units" per month, consisting of either 100 quick appeals settlements, 10 settlements that involve more substantial work or five appeals hearings. Commerce estimated that 1,048 appeals would be received from claims paid with bond proceeds (an approximately 25% appeals rate, with 518 appeals received as of June 20, 2000) and that 555 appeals (24 per month or 23% appeals rate) would be received from claims paid with the ongoing allotment from the PECFA awards appropriation.

Based on the recent Commerce methodology, the existing two attorneys and the requested two attorneys could accomplish approximately 8,800 work units related to appeals between July 1, 2000 and August 31, 2002. Based on an appeals rate of 25% for claims paid with bond proceeds and 20% for ongoing claims, the estimated workload backlog at that time would take two attorneys approximately 24 months to resolve. An ongoing appeals rate of 20% would equal 21 appeals per month which could be handled by approximately 1.4 experienced attorneys. Approval of one, rather than two attorneys would result in an estimated appeals backlog on September 1, 2002, which would take two attorneys approximately 35 months to resolve. Denial of the request would result in an estimated backlog on September 1, 2002, which would take two attorneys approximately 45 months to resolve. If the appeals rate is 20% for payments with bond proceeds as well as for ongoing claims, the estimated claim backlog on September 1, 2002 would be reduced by seven to eight months. For example, it would take two attorneys 16 months to resolve if the requested two attorneys are provided, 27 months if one position is provided, or 38 months if no new positions are provided.

The workload analysis demonstrates that the requested two attorney positions would likely shorten but not eliminate the appeals backlog. When the requested positions end on August 31, 2002, Commerce would retain one permanent attorney to handle PECFA appeals, but would have a projected appeals backlog of over two years with the time of two attorneys. It is possible that there would be sufficient appeals workload to provide a four-year rather than two-year term for the positions. Alternatively, the extent of the longer-term appeals backlog could be reassessed before the two-year term of the project positions end, for example during the 2001-03 budget deliberations, and could be extended to a four-year term if needed.

While the Commerce workload analysis demonstrates a reasonable approach towards estimating the appeals workload, it is difficult to predict the number of appeals that will be received

by the Department during the next two years, just as it difficult to predict the level of incoming PECFA claims. It is likely that the level of appeals received will decrease significantly in two to four years and that the appeals workload will not last long enough to warrant providing permanent rather than project positions.

If one rather than two project positions is approved, the appeals backlog could be reassessed as part of the 2001-03 biennial budget discussions. However, a lengthy appeals backlog would likely remain for the foreseeable future.

The petroleum inspection fund will have an estimated July 1, 2001 unencumbered balance of \$12.2 million.

ALTERNATIVES

1. Approve the request to provide Commerce with \$128,200 SEG in 2000-01 in the PECFA administration appropriation with 2.0 SEG two-year project attorney positions for review of appeals of PECFA claim decisions.

2. Approve the request to provide Commerce with \$128,200 SEG in 2000-01 but provide the 2.0 SEG project attorney positions with a four-year term.

3. Provide Commerce with \$64,100 SEG in 2000-01 in the PECFA administration appropriation with 1.0 SEG two-year project attorney position for review of appeals of PECFA claim decisions.

4. Deny the request.

MO# A 11 7

IBURKE	(Y)	N	A
ZDECKER	(Y)	N	A
JAUCH	(Y)	N	A
MOORE	Y	N	(A)
SHIBILSKI	(Y)	N	A
PLACHE	(Y)	N	A
COWLES	Y	(N)	A
PANZER	Y	(N)	A
<i>Dorling</i>			
GARD	Y	(N)	A
PORTER	Y	(N)	A
KAUFERT	Y	(N)	A
ALBERS	Y	(N)	A
DUFF	Y	(N)	A
WARD	Y	(N)	A
HUBER	(Y)	(N)	A
RILEY	(Y)	N	A

Prepared by: Kendra Bonderud

AYE 7 NO 8 ABS _____

COMMERCE

PECFA Attorney Project Staff
[Agenda Item XII]

Motion:

Move to provide the Department of Commerce with \$53,900 SEG in 2000-01 in the PECFA administrative appropriation with 1.0 SEG two-year project attorney position for review of appeals of PECFA claim decisions.

Note:

The motion would modify the Department of Commerce request to approve 1.0 project attorney position instead of the requested 2.0 attorneys. The expenditure authority would exclude requested costs for administrative overhead and rent.

MO#			
1	BURKE	Y	N A
	DECKER	Y	N A
	JAUCH	Y	N A
	MOORE	Y	N A
	SHIBILSKI	Y	N A
	PLACHE	Y	N A
	COWLES	Y	N A
	DARLING	Y	N A
2	GARD	Y	N A
	PORTER	Y	N A
	KAUFERT	Y	N A
	ALBERS	Y	N A
	DUFF	Y	N A
	WARD	Y	N A
	HUBER	Y	N A
	RILEY	Y	N A

AYE 14 NO 0 ABS 0

XII. Department of Commerce – Martha Kerner, Executive Assistant

The department requests position authority for 2.0 FTE SEG two-year project attorney positions beginning September 1, 2000, and a supplement of \$128,200 SEG in fiscal year 2000-01 from the Committee's appropriation under s. 20.865(4)(c) to the department's petroleum storage environmental remedial action administration appropriation under s. 20.143(3)(w) to fund an increase in attorney workload related to claimant appeals under the Petroleum Environmental Cleanup Fund (PECFA).

Governor's Recommendation

Modify the request. Provide 2.0 FTE SEG two-year project attorney positions and an expenditure authority of \$107,700 SEG in fiscal year 2000-01.

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION
101 East Wilson Street, Madison, Wisconsin

TOMMY G. THOMPSON
GOVERNOR

GEORGE LIGHTBOURN
SECRETARY



Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842
TTY (608) 267-9629

Date: July 10, 2000

To: Members, Joint Committee on Finance

From: George Lightbourn, Secretary
Department of Administration

A handwritten signature in cursive script, appearing to read 'George Lightbourn'.

Subject: Section 13.10 Request from the Department of Commerce for positions and expenditure authority to administer the Petroleum Environmental Cleanup Fund Act (PECFA) program.

Request

The Department of Commerce requests position authority for 2.0 FTE SEG two-year project attorney positions beginning September 1, 2000, and a supplement of \$128,200 SEG in fiscal year 2000-01 from the Committee's appropriation under s. 20.865(4)(c) to the department's petroleum storage environmental remedial action administration appropriation under s. 20.143(3)(w) to fund an increase in attorney workload related to claimant appeals under the Petroleum Environmental Cleanup Fund (PECFA).

Revenue Sources

The department is authorized to use revenue in the petroleum inspection fund for administration of the PECFA program and reimbursement of PECFA claims. Revenues in the petroleum inspection fund are generated through a three-cent per gallon inspection fee imposed on petroleum products. 1999 Wisconsin Act 9 provided \$2.7 million from the petroleum inspection fund to the appropriation under s. 20.143(3)(w) for the administration of petroleum storage environmental remedial action. The petroleum inspection fund has an estimated ending balance of \$12.0 million at the end of fiscal year 2000-01. Adequate resources are available to fund the request.

Background

In addition to the \$94 million provided annually in the appropriation under s. 20.143(3)(v) for petroleum cleanup reimbursements, the Legislature authorized \$270 million in revenue bonding to reduce the program's claim backlog, which had risen to over \$240 million prior to the use of bonding. To date, the entire \$270 million of revenue bonding had been authorized and \$230 million of revenue bonding had been issued. Over 3,482 payments totaling over \$207 million were

made to claimants from the bond proceeds.

The issuance of revenue bonding has allowed the department to pay off the majority of PECFA claims currently in backlog. This has increased the number of claim payments from an annual average of 1,464 to 4,802 in fiscal year 1999-2000, roughly three times the annual average claims processed. As a result, the department projects that the number of PECFA claim appeals will also increase proportionally, if not more. Commerce estimates that a total of 7,102 claims will be paid by the end of the biennium, resulting in 1,633 appeals based on a 23 percent appeal rate. In order to address this temporary but significant workload increase in the legal area, the department requests authority for 2.0 FTE SEG two-year project attorney positions.

Analysis

Past trend shows an appeal rate of approximately 20 percent for all claims paid from annual allotments. This results in an average of 293 appeals per year or 24 appeals per month for the PECFA program. With the increase in the number of claims payments from bond proceeds, the number of claim appeals is estimated to increase to an average annual rate of 23 percent. The higher expected rate is attributed to the disproportionately high number of final payments being paid from bond proceeds, where prior cost reimbursement issues have been deferred from earlier claims and are now receiving final review. Prior to the bond issuance, the highest number of monthly appeals received by Commerce was 36. Since additional claims were paid from revenue bond proceeds in the past few months, the department has received 143 appeals in April, 137 appeals in May, and 238 appeals in June.

In an effort to manage the temporary but significant increase in workload, Commerce recently implemented a new management strategy. The strategy divides workload between the two attorneys according to the complexity of the appeal. The assistant legal counsel conducting the initial triage has responsibility over a small number of complex appeals and the second attorney has responsibility over a larger number of narrow issue appeals with a high potential for quick resolutions. This allows a significant number of appeals that otherwise may be mired by complex appeals to be resolved quickly. Although the increase in appeals during these past few months was expected and the new management strategy has allowed the two attorneys to address the increased workload temporarily, it is understandable that the strategy cannot be sustained long-term without creating a substantial claim appeal backlog.

Commerce estimates that a total of 5,759 claims will be paid from the \$270 million in bond proceeds and the fiscal year 1999-2000 allotment and 1,343 claims will be paid from the fiscal 2000-01 allotment. Using the 23 percent appeal rate, an estimated 1,325 appeals will result from the 5,759 claim payments and 309 appeals will result from the 1,343 claim payments.

Of the 1,325 appeals, 407 (31%) appeals are expected to be complex, 382 (28%) appeals are expected to be semi-complex, and 535 (40%) appeals are expected to be simple. Commerce further estimates that each experienced attorney will be able to

handle 60 complex appeals, 120 semi-complex appeals, or 1200 simple appeals per year. Based on this estimate, a total of 6.78 FTE positions are needed to handle complex appeals, 3.18 FTE positions are needed to handle semi-complex appeals, and 0.45 FTE position is needed to handle simple appeals generated from claims paid from bond proceeds and fiscal year 1999-2000 allotment.

Of the 309 appeals resulting from fiscal year 2000-01 allotment, 31 (10%) appeals are expected to be complex, 124 (40%) appeals are expected to be semi-complex, and 154 (50%) appeals are expected to be simple. Respectively, a total of 0.52 FTE position attorney is needed to handle complex appeals, 1.03 FTE positions are needed to handle semi-complex appeals, and 0.13 FTE position is needed to handle simple appeals.

In order to handle all appeals generated through the biennium, a total of 12.09 FTE positions worth of work effort is needed. This equals 6.05 FTE positions per year over the biennium or 4.03 FTE positions per year starting fiscal year 1999-2000 through fiscal year 2001-02. Since the department only had 2.0 FTE positions to handle appeals in fiscal year 1999-2000, the remaining incomplete ongoing workload generated in fiscal 1999-2000 will have to be absorbed by the 4.0 FTE positions in fiscal year 2000-01 and 2001-02 if the 2.0 FTE SEG two-year project attorney positions are authorized.

At this time, it is unclear how many of the appeals will actually fall under the complex appeal category and how many will fall under the quick resolution appeal category. If a substantial number of appeals is complex, the current request for additional resources is justified. However, if a significant number of appeals fall into the category of quick resolution, a smaller amount of additional resources may be sufficient. It should also be noted that according to Commerce, the percentage of appeals that can be resolved immediately is quite high. These types of appeals are often tied to claims being resubmitted with additional documentation missing from prior submittals. As discussed in Commerce's request, 50 percent of these appeals were dismissed within one month and 78 percent of these appeals were resolved in 90 days or less. Furthermore, Commerce cites that a recent procedural change to refer a claimant's appeal back to the claim reviewer for immediate reconsideration has been implemented to expedite the appeal process. This change has sped up the appeal process significantly and has resulted in greater efficiencies.

Although these recent procedural changes will reduce workload and increase program efficiency, it is clear that additional resources are needed immediately to address the significant increase in the number of appeals due to the use of bonding to pay claims in backlog. Furthermore, since each appeal has a series of disallowed costs that continues to accrue interests, it is prudent for the program to move claims through the appeal process in a timely manner so as to keep interest cost reimbursements under control. In the past, the department has paid 40 percent to 60 percent of the annual appeal amount. Most of the appeal costs reimbursed were due to claimants' initial failure to provide proper documentation.

Requested funding for the two attorneys in fiscal year 2000-01 and fiscal year 2001-02 will be allocated in the following manner:

	<u>FY01</u>	<u>FY02</u>
Salary	64,900	77,900
Fringe Benefits	23,500	28,200
Supplies and Services	25,800	31,100
One-time Financing	14,000	0
<i>Total</i>	<i>128,200</i>	<i>137,100</i>
Permanent FTE Positions	2.0	2.0

The two attorneys will be hired at minimum in broadband schedule 09, range 75, and at a fringe rate of 36.2 percent. Supplies and services include \$9,000 for administration overhead costs and \$6,500 rent, travel, telephone, office supplies, legal database services, insurance and licenses for IT applications. One-time financing will be used to purchase furniture and computer equipment. While some of the items in supplies and services are justifiable, the amount included for administration overhead and rent is excessive. The addition of 2.0 FTE project positions should not significantly increase the marginal cost of rent, require the department to obtain additional space, or increase the annual administration cost of the department by \$18,000. In the past few fiscal years, roughly \$300,000 to \$400,000 of unexpended expenditure authority has lapsed from appropriation s. 20.143(3)(w) to the petroleum inspection fund. Since these are project positions and adequate resources are available, the department should absorb these costs within its base. The requested increase in expenditure authority for fiscal year 2000-01 is recommended to be \$107,700 SEG [see table below].

	<u>Request</u>	<u>Recommended</u>	<u>Difference</u>
Salary	64,900	64,900	0
Fringe Benefits	23,500	23,500	0
Supplies and Services	25,800	5,300	19,400
One-time Financing	14,000	14,000	0
<i>Total</i>	<i>128,200</i>	<i>107,700</i>	<i>19,400</i>
Permanent FTE Positions	2.0	2.0	0

Recommendation

Modify the request. Provide 2.0 FTE SEG two-year project attorney positions and an expenditure authority of \$107,700 SEG in fiscal year 2000-01.

June 21, 2000

The Honorable Brian B. Burke
Co-Chair, Joint Committee on Finance
Room 316 South State Capitol
Madison, WI 53702

The Honorable John Gard
Co-Chair, Joint Committee on Finance
Room 315 North State Capitol
Madison, WI 53702

Dear Co-Chairs:

The Department of Commerce requests an increase of \$128,200 to fund two additional project attorney positions beginning September 1, 2000. Annualized costs of the request are \$137,200 for FY02. The request is for funding from the s. 20.143 (3) (w) appropriation (Petroleum Storage Environmental Remedial Action; Administration). These positions are needed to address a significant increase in the number of appeals being filed with the Petroleum Environmental Cleanup Fund (PECFA) program as a result of the large number of claims paid from bonding proceeds. These payments are in addition to regular payments made from the \$94 million annual appropriation.

Although the Department of Commerce has developed and implemented strategies to accelerate the PECFA appeal process, it believes that the only way to address the increase in bonding appeals is with increased legal staffing. Currently, two attorneys are handling the appeals generated by regular PECFA payments. It is projected that the 3,772 payments made from the bonding proceeds will generate 930 additional appeals. If these additional appeals can not be addressed in a timely manner, there will be a substantial negative impact on program participants.

More detail supporting this request is enclosed. Should you have questions about this request, please contact Bill Morrissey at 266-7605.

Martha Kerner, the Department's Executive Assistant, will represent the agency at your quarterly meeting.

Sincerely,



Brenda J. Blanchard
Secretary

Department of Commerce
Environmental and Regulatory Services Division

Supplemental Funding Request
Under s. 13.10

June 21, 2000

REQUEST

The Department of Commerce requests 2.0 FTE two-year project attorney positions and an increase of \$128,200 for salaries, fringe benefits, supplies and one-time costs beginning September 1, 2000. The annualized cost for these positions is \$137,200. Funding for this request is to be provided from appropriation s. 20.143 (3) (w) (Petroleum Storage Environmental Remedial Action; Administration) for costs associated with the administration and resolution of appeals under the Petroleum Environmental Cleanup Fund (PECFA) program.

The provision for PECFA bonding was initiated during biennial budget deliberations and well after the Department submitted its 1999-01 biennial budget request. As a result, it was not possible to address the attorney workload changes that are associated with the bonding payments which were authorized in 1999 Act 9. The increase in PECFA payments has generated a significantly higher appeal workload for the Department, and it is neither practical nor responsive to the public to wait until passage of the 2001-03 biennial budget for additional staffing to address the additional appeals.

FUNDING SOURCE

Funding for this request will come from the segregated Petroleum Inspection Fund (Fund 272). Petroleum Inspection Fund revenues are generated by a three-cent per gallon inspection fee imposed in Chapter 168 on all petroleum products inspected.

FY00 annual revenue is projected to be \$109,000,000. Carry-in from FY99 was \$10,491,200 making a total of \$119,537,200 available for FY00. FY00 expenditures are projected to be \$109,400,000. Therefore \$10,137,200 should be available for carry-in for FY01. New FY01 revenue is projected to be \$111,690,900 for a total available of \$121,828,100. Current Chapter 20 budget authority for all agencies with appropriations from Fund 272 for FY01 is \$109,812,000. This will leave a year-end balance for FY01 of \$12,016,100. The increased amount available for carry-forward is proportionate to the projected increase in revenue.

NOTE: This funding scenario is exclusive of all bond proceeds.

BACKGROUND

1999 Wisconsin Act 9 made several changes to the Petroleum Environmental Cleanup Fund Administration (PECFA) program to reduce the claim backlog and maintain program solvency. To reduce the backlog, the Legislature approved 2.0 two-year project claim review positions and authorized \$270 million in revenue bonding.

Prior to the bonding being approved, the backlog of claims reviewed but not paid had reached \$209 million. With an annual appropriation of \$94 million, PECFA would not have been able to complete the payment of these claims until March 2002. Bonding allowed the Department to accelerate payment of these claims. Bond proceeds were first available to the Department on March 15, 2000. The first issue was for \$170 million. In mid-May an additional \$60 million was made available. Through May 2000, the Department has made 3,482 payments totaling \$207,434,297.

The backlog of claims to be paid was reduced to approximately \$21 million and a balance is available from the two bond sales, which will pay off the remaining backlog. The Department plans to pay in excess of \$17 million from these funds in July and the balance, in August. In addition, the entire annual appropriation of \$94,131,700 will be spent for claims and bond-related debt services in FY00.

PROPOSAL

The Department requests additional attorney positions to handle the increase in the number of PECFA appeals filed as a result of the increased number of claims being paid from bonding revenue. Historically, approximately 122 payments have been made monthly. This volume of claims has generated from 14 to 30 appeals per month. The appeal rate (appeals per claims paid) ranges from 12% to 26%, with an annual average of 20%. It is estimated that the additional claims paid from bonding proceeds will generate 930 appeals. This is approximately 25% of the projected 3,772 payments to be made from bond proceeds.

There are a number of reasons why a higher percentage for appeals is projected for the bond payments. First, there are a disproportionately high number of final payments among the 3,772 claims paid. Final claims include issues that have been deferred from earlier claims on the site and present the last chance for a review of cost reimbursement issues. Second, the time allowed for a claimant to enter an appeal was extended from 30 days to 90 days. Because of the volume of claims being paid in a very short period of time, owners and consultants were provided additional time to review the available documents and file an appeal. This results in more appeals but the extension of the filing period is an issue of fairness to consultants and owners who were frequently overwhelmed with the number of decisions that were being issued. Finally, additional appeals are being filed because of the dollar volume of claims being paid. Numerous consulting firms provide a "guarantee" to their site owners that they will cover non-eligible costs. The number of claims paid has concentrated the impact of this guarantee on consultants and costs are being appealed that would otherwise be covered by the consulting firm.

The department received 143 new appeals in April, 137 in May and, as of June 20th, 238 more. The highest previous monthly total was only 36 appeals. While this increase was predicted based upon the bonding funds, it is already a substantial burden just to get the appeals acknowledged and referred. The assistant legal counsel (one of two attorneys dedicated to PECFA appeals) is doing initial triage on the appeals before assigning them. Narrow issue appeals are being assigned to the second PECFA attorney so that that position can do a high volume practice and not get bogged down in complex appeals requiring a lot of intense legal work. In April, the assistant legal counsel kept 27 of the more complex appeals and assigned 116 of the narrower appeals to the second attorney whose volume of quick resolution is extremely high. Although current strategies are efficient, it is not realistic to assume that the two existing positions can manage the increased caseloads in the long-term.

The percentage of appeals that can be resolved immediately is quite high. These consist generally of appeals that are submitted with additional documentation not originally included with the claim. Examples of additional documentation include checks or other proof of payment, invoices substantiating what was purchased, bids providing better detail of what services were to be included, and Department of Natural Resources letters documenting the need to perform Volatile Organic Compound testing after the site investigation. These documents, which are needed by the claim reviewers to establish eligibility, are frequently not made available until a site is in the appeal process.

The appeal resolutions for April provide an indication of the success that the Department has in resolving appeals with less complex issues. In April, 90% of the appeal resolutions were by settlement. 50% of the settlements were able to be fully processed (drafted, mailed, signed, returned by mail, sent to the hearing office with a form order, and signed by an administrative law judge) and dismissed in 30 days or less. 78% were resolved in 90 days or less.

Other efforts by the Department to facilitate the appeal process have also been successful in bringing cases to resolution. A recent procedural change was made that has helped expedite the appeal process. Under the new procedure, each appeal is referred back to the claim reviewer at the same time the claimant acknowledgement letter is processed. This is usually within a week of appeal receipt. Previously the legal staff held the appeal until the attorney had time to review it. This step added little to the process and frequently resulted in several weeks of delay. The claim reviewer now immediately reconsiders the prior decision based on any new information in the appeal and makes an immediate recommendation whether the non-eligible costs are now reimbursable. This change significantly speeded up the appeal process.

The two existing attorneys have used work efficiencies and procedural changes to help manage the appeals associated with the regular payments from the \$94 million annual appropriation. New positions are needed, however, to address the influx of appeals associated with payments from bonding proceeds. Each existing attorney handles an average of 15 appeals per month. Two new project positions will be expected to be able to handle the same relative volume. Two new project positions handling 15 appeals per month for two years will address an estimated 720 of the projected 930 bonding related appeals. The 210 gap between the projected 930 appeals received and the 720 appeals associated with the new attorneys will be resolved either after the two year project period or through the impact of recent procedural changes.

ALTERNATIVES

The Department examined the possibility of using existing positions to handle the increases in the legal phase of the bonding process. This did not appear to be a viable option. The PECFA program is extremely visible and all stages of the program are important. Areas considered included:

1. Claims Processing: The 19.30 FTE in this section are needed to process the claims that are being submitted. In fact, 1999 Act 9 authorized two additional claims processing positions to provide resources to handle increases in the claim load.
2. Site Review: The 14.5 FTE in this section are needed to perform the Department's statutory responsibilities associated with site review and closure. 1999 Act 9 authorized three additional hydrogeologist positions to deal with more complex sites. The Joint Committee on Finance also recently approved twelve more positions, funded via an interagency agreement with the Department of Natural Resources, for site review. This commitment of resources demonstrates the interest in remediation closure decisions. Diversion of staff from this purpose would dilute the focus that the program is trying to put on achieving site closure.
3. Legal Staff: The 2.0 FTE attorneys working on appeals are needed to handle existing appeals generated by regular payments from the annual appropriation. The increase occurring from the bonding appeals would create a massive and unacceptable delay in the appeal process. The delay would dramatically impact owners and lenders and increase interest costs to the fund.

CONCLUSION

Additional attorneys are needed to handle the projected 930 additional appeals associated with payments made from bonding proceeds. The Department has considered a number of alternatives and adding staff is the most effective solution from the standpoint of customer service and cost control.

13.10 Meeting
Wednesday, July 12, 2000
Agenda Item XIII

Issue:

WHEDA – Additional Small Business Loan Guarantee Authority

Comments:

WHEDA is requesting additional loan guarantee authority of \$4,370,000 in order to increase the total outstanding principal amount of loans that it may guarantee by funds from the WDRF for the small business loan guarantee program from \$9,900,000 to \$14,270,000.

In 1997, when the SBG program was created, total guarantee authority in the amount of \$27.75 million was proposed. However, the WDRF did not have sufficient reserves at the time, so the limit was reduced to \$9.9 million. The program has been successful assisting small businesses in procuring loans for development and no business has ever defaulted on a loan.

By denying the request, nearly \$1 million in excess reserve would be transferred to the general fund, but the number of businesses that could receive guarantees under the program would decrease. The Department's request seems reasonable and should be approved.

Staff Recommendation:

Alternative 1.

Prepared by: Julie



Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

July 12, 2000

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Wisconsin Housing and Economic Development Authority: Additional Small Business Loan Guarantee Authority -- Agenda Item XIII

REQUEST

The Wisconsin Housing and Economic Development Authority (WHEDA) requests additional loan guarantee authority of \$4,370,000, to increase the total outstanding principal amount of loans that it may guarantee by funds from the Wisconsin Development Reserve Fund (WDRF) for the small business development loan guarantee (SBG) program from \$9,900,000 to \$14,270,000.

WDRF BACKGROUND

WHEDA issues guarantees on economic development loans made by private lenders. The Authority uses funds in its Wisconsin development reserve fund to back these guarantees. The WDRF was created by 1991 Wisconsin Act 39 through the consolidation into a single fund of several existing guarantee funds. This consolidated WDRF now backs guaranteed loans made by private lenders under separate programs, reserving funds to repay lenders for any losses from defaulted loans made under any of these guaranteed programs. The WDRF is used to guarantee loans for various programs, including SBG, the credit relief outreach program (CROP), the farm asset reinvestment loan guarantee program (FARM), agribusiness loans and a loan for the Taliesin Preservation Commission. The WDRF also funds the administrative costs of the loan guarantee programs and pays interest subsidies for the CROP program. The WDRF generally must contain at least one dollar in its cash balance for every \$4.50 in total outstanding guarantees.

Under the CROP program, WHEDA generally guarantees one-year agricultural production loans to Wisconsin farmers for such purchases as seed, fertilizer, fuel, pesticides and feed. The FARM program provides loan guarantees for farmers to finance the acquisition of agricultural assets such as machinery, livestock, facilities and land. The agribusiness program provides loan guarantees for projects that result in the development of new or more viable methods for processing or marketing raw agricultural commodities.

While the Legislature from time to time appropriates money to the WDRF, the WDRF itself is a separate fund internal to WHEDA that is not considered a part of the state's budget. However, the statutes pledge the state's moral obligation to appropriate any funds necessary to meet obligations of the WDRF. Further, WHEDA is required to transfer annually (on June 30) to the state's general fund any balance in the WDRF which remains after deducting amounts sufficient to pay outstanding claims and to fund authorized guarantees under each of the loan guarantee programs backed by the fund. No money has been available for transfer to the general fund since this statutory requirement was enacted.

SMALL BUSINESS LOAN GUARANTEE BACKGROUND

1997 Act 27 repealed the Contract Loan, Tourism, Agricultural Chemical, Target Area, Nonpoint Source Pollution Abatement, Clean Air and Stratospheric Ozone Protection loan guarantee programs and consolidated much of the loan guarantee authority for those repealed programs under a single new program called the small business loan guarantee program. As of June 30, 2000, the WDRF is liable for \$8.7 million, or approximately 80% of the outstanding loans made under the program. Since the inception of the SBG program, WHEDA has guaranteed 98 loans for \$14.3 million.

All of the following eligibility criteria are required for the SBG program: (a) the loan proceeds are used for direct or related expenses associated with the expansion or acquisition of a business, including the purchase or improvement of land, buildings, machinery, equipment or inventory; (b) loan proceeds are not used for refinancing existing debt, entertainment expenses, expenses related to the production of an agricultural commodity or expenses related to a community based residential facility; (c) the loan term may not extend beyond 15 years after the date on which the lender disburses the loan unless WHEDA agrees to an extension of the loan term (the average loan term has been 9 years); (d) the total principal amount of guaranteed loans to any one borrower may not exceed \$750,000; (e) the lender obtains a security interest in the physical plant, equipment, machinery or other assets; (f) the lender believes it is reasonably likely that the borrower will be able to repay the loan in full with interest; (g) the lender agrees to the guarantee percentage established for the loan by WHEDA; and (h) WHEDA believes the loan will have a positive impact in terms of job creation or retention.

Further, to be eligible for a loan guarantee, the borrower must be unable to obtain adequate financing on reasonable terms and be: (a) the elected governing body of a federally recognized American Indian tribe or band in this state; or (b) a business owner who is actively engaged in the

business (primarily an instate business or those committed to locating in the state), employs 50 or fewer employees and is not delinquent in the payment of child support.

Under the combined SBG program, individual loans may be guaranteed for up to 80% of the principal or \$200,000, whichever is less. WHEDA must establish the portion of the principal of an eligible loan to be guaranteed in an agreement with the participating lender. The Authority is allowed to establish a single guarantee rate for loans that do not exceed \$250,000 and a separate guarantee rate for loans that exceed \$250,000, or WHEDA can establish a different guarantee rate for eligible loans on an individual basis. Most loans are guaranteed at 80%.

ANALYSIS

Each of the individual loan guarantee programs backed by the WDRF has a statutory maximum guarantee authority. The total outstanding guaranteed principal amount of all loans guaranteed under the small business development loan guarantee program may not exceed \$9.9 million. Thus, approximately \$12.4 million in loans can be guaranteed at an 80% rate. The statutes provide that WHEDA may request the Joint Committee on Finance to authorize an increase or decrease in the guarantee authority for any program. WHEDA is required to include in its request a projection, for the end of the fiscal year, of the balance in the fund if the request is approved and the balance if the request is not approved. The Authority must then receive the approval of the Joint Committee on Finance under s. 13.10 of the statutes before any change in total guarantee authority becomes effective. Table 1 portrays the statutory maximum WDRF guarantee amount of loans, along with the total outstanding guarantees as of June 30, 2000.

TABLE 1

WDRF Guarantees

	Maximum Guaranteed <u>Amount of Loans</u>	Total Outstanding <u>Guarantees</u>
CROP/FARM	\$27,000,000	\$15,389,400
Small Business	9,900,000	8,689,700
Taliesin*	954,900	954,900
Agribusiness	<u>5,000,000</u>	<u>1,468,900</u>
Total	\$42,854,900	\$26,502,900

*No new guarantees are authorized under this program.

As of June 30, 2000, the WDRF is liable for \$8.7 million in outstanding SBGs. In addition, WHEDA has five more applications for \$672,000 waiting to be underwritten. Thus, if the request was denied and the five pending applications approved, the program would be limited to \$538,000 in new loan guarantees. WHEDA estimates that payoffs and paydowns from previously guaranteed loans would return another \$550,000 to the fund for new guarantees. However, not increasing the

total outstanding guaranteed principal amount would curtail the SBG program, since WHEDA projects loan volumes of \$1.35 million per quarter if the request is approved. Further, WHEDA officials believe lenders may not use the SBG program once it reached the statutory limit, even if funds from paydowns later became available.

WHEDA is required to transfer annually (on June 30) to the state's general fund any balance in the WDRF which remains after deducting amounts sufficient to pay outstanding claims and to fund authorized guarantees under each of the loan guarantee programs backed by the fund. For the first time, excess reserves are available for transfer. As shown in Table 2, WHEDA estimates that under current law, \$771,100 would be available for transfer to the general fund on June 30, 2000, and projects that an additional \$200,100 would be available for transfer on June 30, 2001. However, if the additional SBG loan guarantee authority through this request is raised by \$4,370,000 (\$971,200 x 4.5 required leverage), it is estimated that no monies would be returned to the general fund in 2000 or 2001. Regardless of the Committee's actions, adequate reserves in the WDRF are available for the CROP, FARM, Agribusiness and Taliesin loan guarantee programs.

TABLE 2

Projected WDRF Balance and Transfers

	Current Law		Requested	
	June 30, 2000	June 30, 2001	June 30, 2000	June 30, 2001
WDRF Balance	\$11,965,352	\$11,088,105	\$11,965,352	\$11,859,206
Claims and Guarantees	<u>-11,194,251</u>	<u>-10,888,030</u>	<u>-12,165,363</u>	<u>-11,859,141</u>
Transfer to General Fund*	\$771,101	\$200,075	-\$200,011	\$65

*No monies are transferred if the amount is less than zero.

Excess revenues in the WDRF are available mainly due to the 1999 Act 9 directed transfer of monies from the WHEDA housing rehabilitation loan program administration fund to the WDRF to cover a large default by the Taliesin Preservation Commission. In December, 1999, \$5,845,215 was transferred to the WDRF and used to pay off the guarantee on the defaulted portion of the Taliesin loan. With WDRF funds no longer required to leverage most of the Taliesin guarantee (since it has been paid off by transferred monies), remaining funds are available for other program guarantees, with the excess designated for transfer to the general fund. The interest on the remaining \$954,900 in the Taliesin loan has been forgiven and the Commission has been making escalating principal payments that are scheduled to continue through 2016. Further, Act 9 required WHEDA to annually transfer on October 1 (beginning in October, 2000) all funds in the housing rehabilitation loan program administrative fund that are no longer required for the housing rehabilitation loan program to the general fund. WHEDA officials preliminarily estimate that \$1.5 million may be available for transfer in October.

Table 3 reports quarterly approved and closed small business loan guarantees. WHEDA has guaranteed \$9.4 million of \$14.3 million in loans since the program's inception. Due to payoffs and paydowns by businesses, \$8.7 million of this is outstanding. WHEDA anticipates that SBG volume will increase by \$1,350,000 quarterly, with \$550,000 revolved back into guarantees by the end of the first quarter in 2001 from payoffs and paydowns. At this rate, the volume of outstanding small business guarantees would increase to \$13.5 million by June 30, 2001.

TABLE 3

Small Business Loan Guarantees by Quarter

			<u>Annual Total</u>	<u>Avg./Quarter</u>
1997	Fourth Quarter	\$561,290	\$561,290	\$561,290
1998	First Quarter	904,200		
	Second Quarter	784,820		
	Third Quarter	462,837		
	Fourth Quarter	452,230	2,604,087	651,022
1999	First Quarter	1,012,117		
	Second Quarter	850,652		
	Third Quarter	167,838		
	Fourth Quarter	1,185,373	3,215,980	803,995
2000	First Quarter	1,627,680		
	Second Quarter	1,368,195	<u>2,995,875</u>	1,497,938
Total	All Quarters		\$9,377,232	\$852,476

The \$14.27 million cap under the request would be expected to be reached in the fall of 2001. WHEDA officials indicate they will seek additional loan guarantee authority for the SBG program in the 2001-03 budget bill. When the SBG program was created in 1997, \$27.75 million was the originally proposed total guarantee authority. However, since the WDRF did not have sufficient reserves at the time, the limit was scaled back to \$9.9 million to reflect available leverage reserves. In the 1999-01 budget bill, a proposal to raise the limit by \$11.25 million to \$21.15 million using tribal gaming revenues was not adopted.

The SBG program has assisted small businesses in procuring loans for development. While the program is only 2½ years old, no participating business has defaulted on a loan. Denying the request would provide nearly \$1 million to the general fund over the next year, but would also decrease the number of businesses that receive guarantees under the program. Delaying any increase in loan guarantee authority until the 2001-03 budget would disrupt the SBG program, as the program is projected to reach its current \$9.9 million limit by October, 2000.

ALTERNATIVES

1. Approve the WHEDA request for additional loan guarantee authority of \$4,370,000, to increase the total outstanding principal amount of loans that WHEDA may guarantee by funds from the WDRF for the small business development loan guarantee program from \$9,900,000 to \$14,270,000.

2. Deny the request (\$771,100 in 2000 and an estimated \$200,100 in 2001 would be transferred to the general fund).

Prepared by: David Schug

MO# Alt 1

BURKE	<input checked="" type="radio"/>	N	A
DECKER	<input checked="" type="radio"/>	N	A
JAUCH	<input checked="" type="radio"/>	N	A
1 MOORE	<input checked="" type="radio"/>	N	A
SHIBILSKI	<input checked="" type="radio"/>	N	A
PLACHE	<input checked="" type="radio"/>	N	A
COWLES	<input checked="" type="radio"/>	N	A
DARLING	<input checked="" type="radio"/>	N	A
GARD	<input checked="" type="radio"/>	N	A
PORTER	<input checked="" type="radio"/>	N	A
KAUFERT	<input checked="" type="radio"/>	N	A
ALBERS	<input checked="" type="radio"/>	N	A
DUFF	<input type="radio"/>	<input checked="" type="radio"/>	A
2 WARD	<input checked="" type="radio"/>	N	A
HUBER	<input checked="" type="radio"/>	N	A
RILEY	<input checked="" type="radio"/>	N	A

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