2005 DRAFTING REQUEST

Assembly Amendment (AA-AB100)

Received: **06/09/2005**

Received By: **rchampag**

Wanted: **Soon**

Identical to LRB:

For: **Legislative Fiscal Bureau**

By/Representing: **Bauer**

This file may be shown to any legislator: **NO**

Drafter: **rchampag**

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Subject: **State Finance - miscellaneous**

Extra Copies:

Submit via email: **YES**

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Pre Topic:

LFB:.....Bauer -

Topic:

State operations appropriations balances

Instructions:

See Attached.

Drafting History:

Vers.	Drafted	Reviewed	Typed	Proofed	Submitted	Jacketed	Required
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Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873

June 1, 2005 Joint Committee on Finance Paper #113

Lapse or Transfer of State Operations Appropriation Balances to the General Fund (DOA -- Transfers to the Department)

[LFB 2005-07 Budget Summary: Page 36, #2]

CURRENT LAW

No provision.

GOVERNOR

Direct the Secretary of DOA to lapse or transfer to the general fund an amount equal to $35,500,000 during the 2005-07 fiscal biennium ($5,000,000 in 2005-06 and $30,500,000 in 2006-07) from the unencumbered balances of executive branch agencies' state operations appropriations. Specify that sum sufficient appropriations and federally funded appropriations would be exempt from such lapses or transfers.

Further, direct the Secretary of DOA lapse or transfer to the general fund an amount equal to $55,000,000 during the 2007-08 fiscal year and an amount equal to $55,000,000 during the 2008-09 fiscal year from the unencumbered balances of these same types of executive branch agency state operations appropriations, other than sum sufficient and federally funded appropriations..

Specify that the Secretary of DOA may not lapse or transfer moneys to the general fund from any appropriation if the lapse or transfer would violate a condition imposed by the federal government or would violate the federal or state constitution. Further, no lapse or transfer would be authorized from any legislative and judicial branch appropriation.

DISCUSSION POINTS

1. The $35.5 million that the Secretary of DOA would be required to lapse or transfer to the general fund during the 2005-07 biennium is expected to accrue from saving generated from the consolidation of state human resources and payroll functions, the restructuring of procurement contracts and changes to purchasing and procurement functions, efficiencies achieved as a result of better space management planning and lease consolidations, and the reconfiguration of IT server, network and security systems.

2. Funds associated with these functions are currently budgeted under state agencies' operating budgets. The Secretary of DOA could effect the required lapses or transfers as savings related to these functions as they are identified under each agency during the course of the next fiscal biennium. The bill creates a similar requirement in the 2007-09 biennium, directing the Secretary to lapse $55.0 million annually from executive agencies' state operations appropriations in connection with achieving additional efficiencies in these same functional areas.

3. According to DOA, the lapse or transfer amounts in 2005-07 would be generated from savings that result from: (a) changes in procurement practices and procurement staffing consolidations ($5,000,000 in 2005-06 and $22,082,800 in 2006-07); (b) state facilities space management improvements ($4,200,000 in 2006-07); (c) information technology server, network and security consolidation ($3,720,000 in 2006-07); and (d) human resources and payroll consolidations ($571,800 in 2006-07).

4. Specific lapse or transfer amounts have yet to be determined either by agency or by appropriation. Consequently, agency appropriations are not reduced under the bill. Rather, the Secretary of DOA would determine the amount to be lapsed or transferred from each agency's affected appropriations in 2005-06 and in 2006-07. Further, the funding amounts lapsed or transferred during this biennium would remain in each affected agency's base budget for the 2007-09 biennium, at which time the Secretary of DOA would be required to lapse $55 million annually during that biennium.

5. Because no actual reduction to an agency's base budget would occur under the bill for the lapses or transfers made during the 2005-07 biennium, the funding would remain available for expenditure by the agency in the 2007-09 biennium. Presumably these amounts retained in the base would be incorporated into the increased lapses required for 2007-09. However, the Secretary of DOA would have complete flexibility in allocating those future lapses and transfers, regardless of where they were taken during the 2005-07 biennium. Further, the lapses and transfers could be apportioned among an agency's appropriations differently during each fiscal year during the four-year period, at the Secretary's discretion.

6. The continuation of base funding amounts in an agency's budget has particular significance for GPR appropriations. General purpose revenue appropriations draw revenue from the general fund. Thus, any ongoing appropriation of GPR funds in an agency's base budget has the effect of reducing the amount of any unobligated general fund balance.

7. By contrast, program revenue and segregated revenue appropriations generally have separate, independent appropriation revenue balances. Revenue to support these appropriations is generated through assessments, charges and other fees. A reduction in expenditure authority for a PR or SEG appropriation does not result in an increase for the general fund, but rather results in more revenue remaining in the unobligated balance of the appropriation account. In order to transfer any PR or SEG revenue balance to the general fund, legislative authorization is required.

8. These considerations bring up two issues that the Committee may wish to address: First, if reductions are applied to a GPR-funded appropriation during the 2005-07 biennium, should the appropriation's base level be decreased for the 2007-09 biennium by the amount of the reduction? Second, how should transfers of PR and SEG balances be managed, particularly if the appropriations are internal service fund accounts, which may include allocations from federal funds?

9. With respect to the first issue, in order to increase the general fund balance for the beginning of the 2007-09 biennial budget, the Committee may wish to direct that any GPR reductions from procurement, space management, IT and human relations-related efficiencies in 2006-07 be removed from the calculation of an agency's 2007-09 base budget. As a result, state agency 2007-09 GPR-funded base budgets would be reduced prior to the beginning of the 2007-09 biennium. In order to identify the appropriations from which funding would be removed, DOA could be directed to submit a report to the Joint Committee on Finance by April 1, 2007, on the specific agencies, appropriations, and amounts affected by funding source. From this report, an amendment to the 2007-09 biennial budget could be drafted reducing specific appropriations and modifying the 2007-09 required lapse totals accordingly.

10. This approach would have the effect of locking up the identified GPR savings achieved in the 2006-07 fiscal year by making corresponding reduction in each fiscal year of the 2007-09 biennium. Since PR and SEG appropriations often establish assessments, charges or other fees based on estimated expenditure levels, base funding for these types of appropriations would remain unchanged in order to allow sufficient revenue to be generated.

11. However, this approach of reducing GPR base funding amounts could decrease the Secretary of DOA's ability to allocate the required $55.0 million of annual savings in the 2007-09 biennium. Opponents of this GPR base funding reduction approach could argue that the consolidation of procurement, space management, IT and human relations-related functions and the rationalization of these processes will be an evolving process and that will require maximum flexibility in order to achieve the types of savings currently being projected. Consequently, no base budget reductions should be applied to the 2007-09 biennium, and the Secretary should be left with broad authority to identify and then lapse or transfer the $55.0 million annually.

12. With respect to the second issue, a March, 2004, review by the Legislative Audit Bureau of the state's administration of federal grant fund (*An Audit: State of Wisconsin, 2002-03,* Audit 04-2) observed that: "As part of efforts to balance recent budgets, funds have been lapsed to the State's General Fund from various programs that are supported, in part, by federal grants.

However, the need to remit the federal share of lapsed amounts to the federal government has not been considered."

13. A January 31, 2005, letter from the federal Department of Health and Human Services (DHHS) to DOA identified a number of transfers of federal funds from internal service accounts made between 1997-98 and 2003-04 related to information technology services, DOA financial services, risk management, fleet services and procurement services to the state's general fund, and made a determination that of the $31,819,700 lapsed or transferred to the general fund from internal service fund accounts during this period, $12,916,900 was attributable to federal funding and should be refunded to the federal government.

14. According to the letter:

> "When the Federal government contributed to the ISFs [internal service funds, appropriations which generally charge fees to other state agencies for services that are provided] by funding its allocable share of allowable costs of the services provided by these ISFs in the performance of Federal programs, the cost principles and other programmatic authorities required the State to use the funding for the authorized programmatic purpose. However, instead of retaining these funds in the ISF for its use, the State transferred those funds to the State's General Fund. The principle reason for these transfers was identified by the Wisconsin Legislative Audit Bureau in their audit reports issued for FY 2002 and FY 2003.
>
> The use of these funds for that purpose [transfer to the general fund] was not a necessary expense of the ISF from which the transfers were made. By using those funds, which include Federal funds, to address 'continuing General Fund budget shortfalls', the funds no longer benefited the contributing programs and no longer fulfilled the terms of the original authorizing legislation. In order to fulfill this obligation, the State is required to show that the federal funds awarded for the ISF charges to Federal programs were either maintained by the ISF or used to pay claims and other expenses of the ISF."

15. In addition to the identified repayment amount, the federal government also calculated accrued interest of $1,953,400. On March 1, 2005. DOA appealed the federal agency's findings related to "the total amount subject to federal participation (FFP), the methodology used by the U.S. Department of Health and Human Services (HHS) Division of Cost Allocation to determine the refund amount of $14,870,251, and the interest penalties."

16. The Department indicated that based on its review and a revised method of calculating the allocation of costs, DOA was "prepared to refund a total $14,149,354.23, and the interest penalties." In order to avoid the possible imposition of future interest penalties, however, pending a determination of the state's appeal, DOA submitted a check for $12,916,886 to DHSS on March 1, 2005.

17. The necessary funds to pay the federal reimbursement were provided from the unobligated revenue balances in the affected PR appropriations under DOA.

18. DOA has now revised its method of calculating the allocation of costs in its internal service appropriation accounts. Any funding lapsed to the general fund from such an appropriation account will now result in a proportional repayment to the federal government, based on the calculated federal share of funding in the appropriation. For example, if a directed lapse to the general fund was $1,000,000 and 35% of the revenue in the appropriation was attributable to federal sources, DOA would make the required lapse of $1,000,000 to the general fund but would also reimburse the federal government $350,000 from that same appropriation account.

19. To address the issue of federal funds lapsing to the general fund, the bill specifies that no lapse or transfer may come from any appropriation if the lapse or transfer would violate a condition imposed by the federal government on the expenditure of the moneys or if the lapse or transfer would violate the federal or state constitution.

20. To the extent that DOA's federal cost allocation formula is acceptable to the federal government, any lapse to the general fund from an appropriation that charges fees or assessments to other state agencies (where some of those fees and assessments are paid from federal monies), may result in a proportional reimbursement to the federal government. These amounts would be in addition to the required lapse.

21. Such a situation may tend to make the required lapses for the 2005-07 biennium ($35.5 million) and the 2007-09 biennium ($110.0 million) more difficult to implement, particularly where the state must also make any parallel reimbursement payments to the federal government above the amount of the required lapse or transfer.

22. This additional complexity could make it more difficult for DOA to generate the specified lapses or transfers in the 2005-07 or 2007-09 biennium, which in turn could affect the general fund balance. To monitor DOA's progress toward accomplishing the stated lapse, the Committee could require the Department to report to the Committee by September 1, 2006, on: (a) the results of lapses in 2005-06 by agency, fund and appropriation; (b) the amount of any reimbursements to the federal government by agency and appropriation in 2005-06; and (c) the projected lapses by agency, fund and appropriation in 2006-07.

23. Finally, the Committee could choose to delete the Governor's directed lapse and transfer recommendations. This action would result in a $35.5 million reduction to the general fund balance in the 2005-07 biennium (-$5,000,000 GPR-REV in 2005-06 and -$30,500,000 GPR-REV in 2006-07).

ALTERNATIVES

1. Approve the Governor's recommendation to require that the Secretary of DOA lapse or transfer to the general fund from the unencumbered balances of executive branch agencies' state

operations appropriations (other than from sum sufficient and FED appropriations) an amount equal to $35,500,000 during the 2005-07 fiscal biennium ($5,000,000 in 2005-06 and $30,500,000 in 2006-07). Further, direct that the Secretary of DOA lapse or transfer to the general fund from the unencumbered balances of state operations appropriations (other than sum sufficient and FED appropriations) an amount equal to $55,000,000 during the 2007-08 fiscal year and an amount equal to $55,000,000 during the 2008-09 fiscal year.

2. *In addition to Alternative 1,* direct DOA to report to the Committee by September 1, 2006, on the results of lapses in 2005-06 by agency, fund and appropriation, and the projected lapses by agency, fund and appropriation in 2006-07.

3. *In addition to Alternative 1,* direct DOA to submit a report to the Joint Committee on Finance by April 1, 2007, regarding: (a) the results of lapses in 2005-06 by agency, fund and appropriation; (b) the amount of any reimbursements to the federal government by agency and appropriation in 2005-06; and (c) the projected lapses by agency, fund and appropriation in 2006-07.

4. Delete the recommendation.

Alternative 4	**GPR-REV**
2005-07 REVENUE (Change to Bill)	- $35,500,000

Prepared by: Jere Bauer

State of Wisconsin
2005 – 2006 LEGISLATURE

LRBb0313/1
RAC:...:...

LFB:.....Bauer – State operations appropriations balances

FOR 2005–07 BUDGET -- NOT READY FOR INTRODUCTION

ASSEMBLY AMENDMENT ,

TO 2005 ASSEMBLY BILL 100

At the locations indicated, amend the bill as follows:

1. Page 1100, line 14: after that line insert:

"(am) 1. No later than September 1, 2006, the secretary of administration shall submit a report to the joint committee on finance categorizing the lapses and transfers that occurred under paragraph (a) during the 2005–06 fiscal biennium by state agency, fund, and appropriation account, and the projected lapses and transfers for the 2006–07 fiscal biennium by state agency, fund, and appropriation account.

2. No later than April 1, 2007, the secretary of administration shall submit a report to the joint committee on finance categorizing the lapses and transfers that occurred under paragraph (a) during the 2005–06 fiscal biennium by state agency, fund, and appropriation account; specifying the amount of all reimbursements paid by the state to the federal government during the 2005–06 fiscal biennium by state

agency, fund, and appropriation account; and categorizing the projected lapses and transfers for the 2006–07 fiscal biennium by state agency, fund, and appropriation account.".

(END)

6 year

State of Wisconsin
2005 – 2006 LEGISLATURE

LRBb0313/1
RAC:cjs:rs

LFB:.....Bauer – State operations appropriations balances

FOR 2005–07 BUDGET -- NOT READY FOR INTRODUCTION

ASSEMBLY AMENDMENT ,

TO 2005 ASSEMBLY BILL 100

At the locations indicated, amend the bill as follows:

1. Page 1100, line 14: after that line insert:

"(aq) 1. No later than September 1, 2006, the secretary of administration shall submit a report to the joint committee on finance categorizing the lapses and transfers that occurred under paragraph (a) during the 2005–06 fiscal year by state agency, fund, and appropriation account, and the projected lapses and transfers for the 2006–07 fiscal year by state agency, fund, and appropriation account.

2. No later than April 1, 2007, the secretary of administration shall submit a report to the joint committee on finance categorizing the lapses and transfers that occurred under paragraph (a) during the 2005–06 fiscal year by state agency, fund, and appropriation account; specifying the amount of all reimbursements paid by the state to the federal government during the 2005–06 fiscal year by state agency, fund,

and appropriation account; and categorizing the projected lapses and transfers for the 2006–07 fiscal year by state agency, fund, and appropriation account.".

(END)