



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #104

Federal Surplus Property Program (DOA -- General Agency Provisions)

[LFB 2015-17 Budget Summary: Page 28, #22]

CURRENT LAW

The state's federal surplus property program for public organizations in the state is administered by the Wisconsin Technical College System Foundation under contract with the Department of Administration (DOA).

GOVERNOR

Eliminate statutory provisions relating to the administration of the federal surplus property program. Delete DOA's appropriations for federal resource acquisition (\$0 PR and 0.0 PR positions annually) and federal resource acquisition support grants (\$0 GPR and 0.0 GPR positions annually).

DISCUSSION POINTS

1. Under the bill, the Department of Military Affairs would continue to operate the 1033 federal military property program, which transfers military property to state and local law enforcement agencies. In addition, the provision would not eliminate the state surplus property program established under statute. [The Committee addressed the 1033 program in executive session on April 17, 2015.]

2. The federal surplus property program was established by the Federal Property and Administrative Services Act of 1949. Under the program, the U.S. General Services Administration (GSA) makes surplus federal property available to the states for use by eligible recipients at a low

cost. Eligible recipients of federal surplus property include any state or local governmental agency as well as non-profit, tax-exempt health or educational institutions. Recipients of federal surplus property must pay the cost of transportation, packaging, crating, handling, and program overhead for each item they receive. The program in Wisconsin currently assesses an additional 5% surcharge. Most recipients of federal surplus property in Wisconsin are educational institutions, counties, and municipalities. Typical purchases include trucks and tractors, forklifts, computer hardware, lab equipment, and industrial materials such as aluminum plates or electrical wire, in addition to a wide variety of other types of products.

3. From 1972 to 1986, DOA operated the program for Wisconsin. The Department managed five regional distribution centers and had 22 budgeted positions for this purpose. However, the program continually operated with cash deficits and a negative overall program position. As a result, under 1985 Act 29 (the 1985-87 biennial budget) the Legislature directed DOA to develop a plan to address the continuing deficits and submit the plan to the Joint Committee on Finance for approval. In acting on the plan submitted by DOA, the Committee at its December, 1985, meeting under s. 13.10 of the statutes directed DOA to close the distribution centers and shift the program to a catalog sales operation.

4. Subsequently, however, DOA indicated that it was pursuing an agreement with the Wisconsin Foundation for Vocational, Technical and Adult Education, Inc. (now the Wisconsin Technical College System Foundation) for the management and operation of the state's federal surplus property catalog sales operation. In December, 1986, DOA entered into an initial cooperation agreement with the Foundation relating to the program. Then, in April, 1987, the parties entered into a contractual agreement for the operation of the program which specified that: (a) the Foundation could terminate the contract for reasons of financial non-viability; (b) the Foundation was to be responsible for the day-to-day operation of the program; and (c) DOA was to be responsible for monitoring the program and determining user eligibility. At the time of the program transfer, the program under DOA had accumulated a negative balance of \$1,870,900. The program deficit from the time of the transfer has since been paid in full by DOA using unexpended GPR from the Department's supervision and management general program operations appropriation. In addition, DOA provided an advance to the Foundation under the original agreement and contract in the amount of \$414,000 for the initial costs to administer the program as a catalog sales operation. The 5% surcharge that the Foundation currently assesses recipients is remitted to DOA to recover the advance made to the Foundation. Revenue received from the 5% surcharge is deposited to DOA's services to nonstate governmental units appropriation. As of February 28, 2015, the remaining balance of the advance was \$124,526.

5. The Department has continued since 1987 to contract with the Foundation for operation of the program. The Foundation, which is a non-profit organization dedicated to advancing vocational, technical, and adult education in Wisconsin, directly assists the 16 technical college districts in acquisition of property and other activities. The Foundation was originally interested in running the program because it already was involved in a corporate property donation program and because the state's vocational, technical, and adult education facilities had been users of the federal surplus property program when it was operated by the state. The original contract expired in 1992, but was renewed for an additional five years (until 1997), and has been renewed

continually since that time. Although the program was intended to be self-sufficient, in most years it has not generated sufficient revenues to meet the costs to the Foundation of operating the program. Although DOA manages eligibility and compliance for the program, it does not attribute any costs of its own to the program.

6. Currently, the Foundation operates a warehouse facility and storage yard in Waunakee where recipients can inspect and select property. However, the Foundation indicates it will close the warehouse by June 30, 2015, and convert the program to a paper screening format with direct transfer of property to receiving organizations. The Foundation intends to conduct an auction of all remaining property on July 1, 2015, and clear the warehouse location of any unsold items by September 30, 2015. Under the plan, the Foundation would operate the program as a paper screening program until June 30, 2016, to demonstrate the financial viability of operating the program as a paper screening and direct transfer operation. The program and records for the program would then transfer to DOA on July 1, 2016. It should be noted, however, that the elimination of the program under the bill would be effective July 1, 2015, or the general effective date of the bill, whichever is later.

7. Table 1 below shows revenues and expenditures for the program in 2012-13 and 2013-14, as reported in annual independent audits of the program. In 2012-13, expenditures exceeded revenue by \$17,600. In 2013-14, net revenue was -\$181,000.

TABLE 1

**Wisconsin Federal Surplus Property Program
Revenues and Expenditures,
2012-13 and 2013-14**

	<u>2012-13</u>	<u>2013-14</u>
Revenue		
Sales	\$454,700	\$156,700
Department of Administration Fees	22,900	7,000
Auction Income	105,200	263,200
Other Revenue	<u>100</u>	<u>4,500</u>
Total Revenue	\$582,900	\$431,400
Expenditures		
Personnel	\$273,000	\$285,700
Supplies and Services	11,400	15,700
Cost of Property Transfers	130,700	130,500
Communications and Utilities	400	400
Fixed Charges	46,700	46,900
General Expenses	3,300	2,200
Administrative Allocation	<u>135,000</u>	<u>131,000</u>
Total Expenditures	\$600,500	\$612,400
Net Revenue	-\$17,600	-\$181,000

8. State statute requires that the purchase price charged to recipients reflect the cost to provide the property, including transportation, packaging, crating, handling, and program overhead. However, program administrators under both state and Foundation operation have struggled to align revenues with costs. Over time, the negative position of the program on an annual basis has continued. As a result, the program position under Foundation administration was -\$1.7 million as of June 30, 2014.

9. The Department and the Foundation have indicated in the past that one reason for the program's negative financial position is that increasing prices to better recover program costs tends to result in fewer purchases due to reduced demand. In addition, determining a price that is appropriate to the value of an individual item is difficult, given that many factors affect the value of an item and the willingness or ability to pay for a particular organization, including: age, condition, and proper functioning of property; purpose for which the property would be used; alternative purchase or acquisition options for an organization; any customization that would need to be made to the property to put it in use; financial resources of the recipient organization; and compatibility of property with other equipment of recipient. Further, identical items may incur different transportation costs due to differences in distance from the property location to the recipient. Current staff primarily manages logistics rather than evaluating, analyzing, and planning for program cost recovery through market-based pricing. Currently, the Foundation employs staff that performs accounting tasks, administrative program support, and manual labor associated with the physical transfer of property (primarily loading and unloading). It is possible that an addition of staff devoted to budgetary and policy analysis could improve the financial position of the program.

10. In a July, 2000, memorandum to the Co-chairs of the Joint Committee on Finance, the Secretary of DOA requested the release of \$100,000 GPR provided to the Committee's supplemental appropriation for the federal surplus property program in the 1999-2001 budget. The Department was directed by the Legislature to submit a long-term financial plan for release of the funding. The analysis provided by DOA considered the option to end the program. The Department decided against ending the program and emphasized the benefits it brought to recipients of surplus property. In addition, DOA noted that Wisconsin would be the first state to end participation in the program.

11. Current law requires that DOA engage in such activities as the Secretary of DOA deems necessary to maximize the utilization of federal resources by eligible recipients, including state agencies and local units of government. If the Foundation does not renew its contract with DOA and the statutory language is not repealed or otherwise modified, DOA must determine the means by which it, or another organization under contract, could accomplish this purpose. State statute allows, but does not require, DOA to operate warehouses or otherwise provide for the temporary storage of property being transferred. Therefore, under current law, DOA could choose to operate a lower-cost, paper screening program with direct transfer of property to recipients, as the Foundation plans to do from July 1, 2015, to June 30, 2016.

12. Under state statute, to address any program deficit that DOA may incur when operating the program directly, DOA is required to determine the amount by which total expenditures by DOA for the operation of warehouses and distribution centers under the federal

surplus property program have exceeded income received by DOA that is attributable to the operation of the program. Further, statute specifies that DOA must transfer an amount equal to the excess expenditures from the unencumbered balance of DOA's GPR-funded supervision and management general program operations appropriation to rectify the imbalance. The Department indicates that, following this requirement, the deficit that DOA had incurred when the state operated the program directly was paid by DOA in full in 1999-00. Although this section of statute is not currently needed, and refers to the federal surplus property program, it would not be deleted under the bill.

13. An attachment to this paper identifies the entities that received property through the program from January 1, 2012, to December 31, 2014, as well as the amounts each entity expended and the original purchase cost to the federal government. Over this three year period, a total of 99 organizations received property through the program, expending \$819,700 for federal property with an original purchase cost of \$10,757,600. It should be noted that the original cost to the federal government to purchase the property does not represent the market value of the property when it is transferred as surplus property. Two similar items, such as vehicles or computers, with the same original purchase cost could vary in age and condition significantly. Some items that are transferred may not be functional at the time of transfer or may be in need of repair. In addition, transportation costs for identical items that are transferred from different locations may differ. Of the entities listed, one organization, a non-profit nursing home, is listed as having a recipient purchase price of \$0. For certain non-profit organizations, service charges are waived in consideration of the organization's mission and financial resources. Where data was not available for the original federal purchase cost, or the federal government did not assign a value to the original acquisition, the federal purchase cost is listed as \$0.

14. The following tables list recipients of federal surplus property from January 1, 2012, to December 31, 2014, that had: (a) purchases of property with an original federal purchase cost totaling \$50,000 or more (Table 2); and (b) purchases of property with the recipient purchase amount totaling \$5,000 or more (Table 3). The top three program customers for this period, in terms of both the total original federal purchase cost and the total amount expended to purchase the surplus property, were: (a) the University of Wisconsin-Madison Purchasing Department (purchases included microwave spectrum analyzers, digital programmable power supply units, servers, a loader, and desktop computers); (b) Adams County Solid Waste (purchases included truck tractors, a wrecker, a bulldozer, and a forklift); and (c) Madison College Financial Resources (purchases included a loader, automated packaging systems, and forklifts).

TABLE 2

**Wisconsin Federal Surplus Property Purchases
Original Federal Cost Totaling \$50,000 or More
January 1, 2012, to December 31, 2014**

<u>Recipient Name</u>	<u>Original Federal Purchase Cost</u>	<u>Recipient Purchase Total</u>
University of Wisconsin-Madison Purchasing Department	\$5,121,024	\$309,930
Adams County Solid Waste	1,589,412	135,323
Madison College Financial Resources	367,922	83,324
Juneau County Public Works Department	351,613	15,500
Northeast Wisconsin Technical College	313,785	19,542
Western Technical College	288,456	24,350
University of Wisconsin-Parkside	253,575	14,325
La Crosse County Highway Department	210,857	25,000
Great Lakes Aerospace Science and Education Center	200,931	100
Dane County Public Works, Highway and Transportation	184,049	12,789
Kenosha County Sheriff's Department	166,137	11,500
Lawrence University	161,322	10,248
Waumandee, Town of	150,942	8,100
Cushing Rural Fire Corporation	113,192	4,355
Necedah, Village of	110,000	9,500
Birchwood Four Corners Emergency Services District	107,683	730
Wayne, Town of	107,329	4,100
Minnesota SASP	98,101	2,500
Adams County Fire District	86,291	3,650
Dane County Parks	74,522	8,344
Lac Courte Oreilles Fire Department	74,450	6,500
Town of Westfield Fire Department	70,613	6,500
Benedictine Living Community of Spooner	51,620	0

TABLE 3

**Wisconsin Federal Surplus Property Purchases
 Recipient Purchases Totaling \$5,000 or More
 January 1, 2012, to December 31, 2014**

<u>Recipient Name</u>	<u>Original Federal Purchase Cost</u>	<u>Recipient Purchase Total</u>
University of Wisconsin-Madison Purchasing Department	\$5,121,024	\$309,930
Adams County Solid Waste	1,589,412	135,323
Madison College Financial Resources	367,922	83,324
La Crosse County Highway Department	210,857	25,000
Western Technical College	288,456	24,350
Northeast Wisconsin Technical College	313,785	19,542
Juneau County Public Works Department	351,613	15,500
University of Wisconsin-Parkside	253,575	14,325
Dane County Public Works, Highway and Transportation	184,049	12,789
Kenosha County Sheriff's Department	166,137	11,500
Lawrence University	161,322	10,248
Necedah, Village of	110,000	9,500
Dane County Parks	74,522	8,344
Waumandee, Town of	150,942	8,100
Mauston, City of	44,776	7,500
Shelby, Town of	21,225	6,900
Cadott School District	2,570	6,675
Town of Westfield Fire Department	70,613	6,500
Lac Courte Oreilles Fire Department	74,450	6,500
Habitat for Humanity of Dane County	25,964	5,980
Village of Fontana Public Works	26,000	5,400
Jefferson County Highway Department	21,847	5,321
Hartford School District	27,915	5,215
Fox Valley Technical College	9,440	5,120
Iowa County	15,400	5,000

15. Under federal law, for eligible organizations within any state that wish to receive federal surplus property, the transfer must be facilitated by a state-designated agency, which must be formally designated under state law. The state agency designated in state statute in Wisconsin is DOA. The Department is permitted under statute to enter into a contract for the operation of the program. If the authorizing statutory language for the program in Wisconsin is eliminated, as it is under the bill, the language that designates DOA as responsible for the operation of the program would also be deleted, and would need to be legislatively enacted again if the state wished to operate, or contract with an organization to operate, a federal surplus property program in the future. In addition, eligible recipient organizations would no longer be able to apply for or receive federal

surplus property if a state agency were not designated in statute.

16. The effective date of the provision to eliminate the program is July 1, 2015, or the effective date of the bill, whichever is later. Under the bill, the authority to operate the program would therefore be eliminated on July 1, 2015. Given that the Foundation plans to phase out the program by extending a paper only, direct transfer program through June 30, 2016, if the Committee wishes to facilitate this gradual phase-out, it could delay the effective date of the provision to July 1, 2016. Under this alternative, eligible recipients could acquire specific property directly through the program until June 30, 2016, and the program would be formally eliminated under statute effective July 1, 2016. The administration has indicated that a delayed effective date would not present a challenge to the elimination of the program as recommended. [Alternative 2]

17. Under the budget, the federal surplus property program is repealed. However, a reference to the program under state statute, relating to excess expenditures for the program, remains. As noted previously, DOA no longer administers the program directly, and the program deficit incurred by the state was paid off in full in 1999-00. As a result, the statutory language does not currently apply. Further, if the program is eliminated under statute, the section relating to program deficits would no longer be needed. Therefore, in addition to Alternative 1 or 2, the Committee could choose to repeal this section of statute. [Alternative 3]

18. Alternatively, if the Committee wishes to allow for the discontinuation of the program, but also wishes to allow the program to be administered in the future, under a new plan, it could choose to delete the provision and instead modify statutory language to allow DOA to operate the program, rather than to require it to operate the program. Under this alternative, the Foundation could continue its plan to phase out its administration of the program and DOA could proceed to end the program until it wished to operate it again. If the administration wished to pursue a renewed program in the future, it would have the authority under state statute to do so. [Alternative 4]

19. On the other hand, it could be argued, as DOA did in its July, 2000, memorandum to the Committee, that although the program has struggled to be self-sufficient it should be continued due to the benefits provided to recipients of federal surplus property. In addition, it is possible that additional efforts could succeed in recovering program costs. For example, changes could be made to lower variable costs or to generate additional revenue through program service charges. Providing a position that would be responsible for analyzing budgetary and policy issues for the program could potentially improve the annual financial position of the program. Therefore, the Committee could delete the provision and instead create an annual PR appropriation under DOA for administration of the federal surplus property program beginning in 2016-17, including a budget and policy analyst position, funded from service fees charged to program customers. The Committee could further require that service charges be set to fully recover the cost of transportation, packaging, crating, handling, and program overhead. If the Committee wishes to provide funding and staff for a program that would include a warehouse where customers could inspect property in person, it could provide \$519,300 PR and 5.0 PR positions in 2016-17 for the following, based on the average hourly rate for each position type across state agencies in January, 2015, and average costs to the Foundation for transportation of property, repair of property, and rental space: (a) 1.0 accountant (\$82,800 for salary and fringe benefits); (b) 1.0 budget and policy

analyst (\$82,300 for salary and fringe benefits); (c) 1.0 operations program associate (\$47,700 for salary and fringe benefits); (d) 2.0 laborers (\$36,400 per position for salaries and fringe benefits); and (e) supplies and services to operate the program, including a warehouse (\$130,600 for transportation and repairs, \$11,400 per position for general supplies and services costs, and \$46,100 for rental space). [Alternative 5a] However, it could be argued that the program should be operated at a lower administrative cost overall by converting the program into a paper screening, direct transfer only program. If the Committee wishes to provide funding and position authority for a lower-cost program, it could create a PR appropriation for the program, outlined above, and provide \$377,600 PR and 3.0 PR positions in 2016-17 for the following: (a) 1.0 accountant (\$82,800 for salary and fringe benefits); (b) 1.0 budget and policy analyst (\$82,300 for salary and fringe benefits); (c) 1.0 operations program associate (\$47,700 for salary and fringe benefits); and (d) supplies and services to operate a paper screening and direct transfer program (\$130,600 for transportation and repairs and \$11,400 per position for general supplies and services costs). [Alternative 5b]

20. Finally, it could be argued that DOA should remain the state agency designated in statute to administer the program, and should do so within its existing resources. Therefore, if the Committee wishes for DOA to continue the operation of the program, it could delete the provision. Under this alternative, because the Foundation has indicated that it would no longer administer the program, DOA would need to develop a plan for program operation and determine what budgetary and staff resources would be needed to administer the program. [Alternative 6]

ALTERNATIVES

1. Approve the Governor's recommendation to eliminate statutory provisions relating to the federal surplus property program and delete DOA's appropriations for federal resource acquisition (\$0 PR and 0.0 PR positions annually) and federal resource acquisition support grants (\$0 GPR and 0.0 GPR positions annually).

2. Modify the provision to specify that the effective date of the provision is July 1, 2016, to allow for the Foundation's plan to phase out the program through a paper only, direct transfer program until that date.

3. In addition to Alternative 1 or 2, repeal as obsolete any statutory language regarding the transfer of funds between appropriations that is intended to correct deficits resulting from excess expenditures by DOA for the federal surplus property program.

4. Delete the provision. Instead, modify current law to allow, rather than require, DOA to administer a federal surplus property program or enter into a contract with an organization to administer a federal surplus property program.

5. Delete the provision. Instead, create an annual PR appropriation for the program, funded from service fees charged to program customers. Specify that service charges must be set to fully recover the cost of transportation, packaging, crating, handling, and program overhead. In addition, provide to the appropriation:

a. \$519,300 PR and 5.0 PR positions in 2016-17 for program costs, including costs for a warehouse; or

ALT 5a	Change to Bill	
	Funding	Positions
PR	\$519,300	5.00

b. \$377,600 PR and 3.0 PR positions in 2016-17 for a paper screening, direct transfer program.

ALT 5b	Change to Bill	
	Funding	Positions
PR	\$377,600	3.00

6. Delete the provision.

Prepared by: Rachel Janke
Attachment

ATTACHMENT

**Wisconsin Federal Surplus Property Recipients
January 1, 2012, to December 31, 2014**

<u>Recipient Name</u>	<u>Original Federal Purchase Cost</u>	<u>Recipient Purchase Total</u>
Adams County Fire District	\$86,291	\$3,650
Adams County Solid Waste	1,589,412	135,323
Albany School District	750	150
Argyle, Village of	500	575
Bayfield County Emergency Management	36	6
Benedictine Living Community of Spooner	51,620	0
Birchwood Four Corners Emergency Services District	107,683	730
Blackhawk Technical College	22,372	1,300
Brigham, Town of	15,450	2,425
Brule, Town of	1,194	445
Cable, Town of	2,000	1,750
Cadott School District	2,570	6,675
Camp American Legion, Department of Wisconsin	9,900	300
Clinton Public Works, Village of	15,579	905
Cushing Rural Fire Corporation	113,192	4,355
Dane County Parks	74,522	8,344
Dane County Public Works, Highway and Transportation	184,049	12,789
Dane County Regional Airport	50	50
Dane County Sheriff's Office	2,227	250
Dane, County of	62	10
Darlington, City of	300	225
Delavan, Town of	181	150
Department of Natural Resources - Bureau of Law Enforcement	1,526	675
Department of Natural Resources Central Office	17,370	3,500
Department of Natural Resources - Bureau of Wisconsin State Parks & Recreation	0	105
Door County	120	10
Douglas County Emergency Management	0	60
Dunn County Sheriff's Department	203	25
Fontana Police Department	306	305
Fort Atkinson School District	105	36
Fox Valley Technical College	9,440	5,120
Gateway Technical College	3,092	100
Genoa City Police Department	5,724	180
Genoa City, Village of	584	275
Grand Rapids, Town of	494	100

<u>Recipient Name</u>	<u>Original Federal Purchase Cost</u>	<u>Recipient Purchase Total</u>
Great Lakes Aerospace Science and Education Center	\$200,931	\$100
Great Lakes Indian Fish and Wildlife Commission	4,750	1,215
Habitat for Humanity of Dane County	25,964	5,980
Hartford School District	27,915	5,215
Horicon, City of	14	20
Iowa County	15,400	5,000
Jefferson County Highway Department	21,847	5,321
Juneau County Public Works Department	351,613	15,500
Juneau County Sheriff's Office	11,103	950
Juneau, City of	179	25
Kenosha County Sheriff's Department	166,137	11,500
La Crosse County Highway Department	210,857	25,000
Lac Courte Oreilles Fire Department	74,450	6,500
Lac du Flambeau Tribal Police Department	23,694	3,185
Lakewood, Town of	5,749	885
Lawrence University	161,322	10,248
Madison College Financial Resources	367,922	83,324
Manitowoc County Public Works	14	1
Marquette Co Sheriff's Department	283	50
Mauston, City of	44,776	7,500
Mazomanie, Town of	2,137	225
Merrillan, Village of	13,669	3,450
Milwaukee Police Department	1,399	25
Minnesota SASP	98,101	2,500
Necedah, Village of	110,000	9,500
New London Police Department	3,336	205
Nicolet Area Technical College	7,500	3,200
North Central States Regional Council of Carpenter	181	225
North Lakeland School District	1,723	386
Northeast Wisconsin Technical College	313,785	19,542
Oconto County	21,313	3,000
Plain, Village of	0	5
Prairie du Chien Area School District	3,441	700
Quincy, Town of	740	496
Racine County Sheriff's Office	203	25
Shelby, Town of	21,225	6,900
Sun Prairie Area School District	5,204	730
Town of Belmont	4,566	275
Town of Westfield Fire Department	70,613	6,500
Townsend, Town of	412	125

<u>Recipient Name</u>	<u>Original Federal Purchase Cost</u>	<u>Recipient Purchase Total</u>
University of Wisconsin Extension	9,486	1,800
University of Wisconsin-Madison Purchasing Department	5,121,024	309,930
University of Wisconsin-Parkside	253,575	14,325
UW-Fox Valley	0	900
University of Wisconsin-Milwaukee Libraries	0	450
Vernon County Highway Department	200	200
Vilas County Economic Development Corporation	6,000	3,000
Village of Fontana Public Works	26,000	5,400
Village of Fontana-on-Geneva Lake	3,380	180
Village of Lomira	19,574	2,200
Viroqua Police Department	300	75
Waukesha County Technical College	19	3
Waumandee, Town of	150,942	8,100
Waunakee Community School District	1,483	5
Waunakee, Village of	0	50
Wayne, Town of	107,329	4,100
Western Technical College	288,456	24,350
Westfield School District	15,521	4,000
Westport, Town of	21,414	3,750
Wisconsin Emergency Management	126	5
Wisconsin State Capitol Police	200	200
Wisconsin State Fair Park Board	22	5
Winter, Town of	1,660	245
Wisconsin Dells, City of	<u>17,500</u>	<u>35</u>
Total	\$10,757,583	\$819,738