

1995-96 SESSION  
COMMITTEE HEARING  
RECORDS

Committee Name:

Joint Committee on  
Finance (JC-Fi)

Sample:

Record of Comm. Proceedings ... RCP

- 05hrAC-EdR\_RCP\_pt01a
- 05hrAC-EdR\_RCP\_pt01b
- 05hrAC-EdR\_RCP\_pt02

➤ Appointments ... Appt

➤ \*\*

➤ Clearinghouse Rules ... CRule

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➤ Committee Hearings ... CH

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➤ Committee Reports ... CR

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➤ Executive Sessions ... ES

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➤ Hearing Records ... HR

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➤ Miscellaneous ... Misc

➤ 95hrJC-Fi\_Misc\_pt22

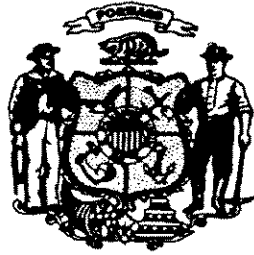
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# State of Wisconsin

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## JOINT COMMITTEE ON FINANCE

April 12, 1994

TO: JOINT COMMITTEE ON FINANCE MEMBERS

FROM: Senator Joe Leean  
Representative Barbara J. Linton  
Co-Chair, Joint Committee on Finance

Attached is a copy of a request from the Department of Administration dated April 8, 1994 pertaining to a request from the Department of Corrections.

Please review this item and notify Senator Leean's office not later than Tuesday April 26, 1994 if you have any concerns about the request or would like the Committee to meet formally to consider it.

Also, please contact us if you need additional information.

JL:BJL:ns

Attachments

## CORRESPONDENCE/MEMORANDUM

STATE OF WISCONSIN  
Department of Administration

Date: Apr. 8, 1994

To: Honorable Joseph Leraan, Co-Chair  
Honorable Barbara J. Linton, Co-Chair

From: James R. Klauser  
Secretary  
Department of Administration

Subject: s. 16.515/16.505(2) Requests

Enclosed are requests which have been approved by this department under the authority granted in s. 16.515 and s. 16.505(2). The explanation for each request is included in the attached materials. Listed below is a summary of each item:

<u>AGENCY</u>	<u>DESCRIPTION</u>	<u>1993-94</u>		<u>1994-95</u>	
		<u>AMOUNT</u>	<u>FTE</u>	<u>AMOUNT</u>	<u>FTE</u>
D.O.C. 20.410(1) (km)	Prison Industries	\$ 896,900		\$ 448,800	3.0

As provided in s. 16.515, this request will be approved on May 2, 1994 unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about this request.

Please contact Roger Grossman at 266-1072, or the analyst who approved the request in the Division of State Executive Budget and Planning, if you have any additional questions.

Attachments:

Date: March 31, 1994

To: James R. Klauser, Secretary  
Department of Administration

From: *Roger Fetterly*  
Roger Fetterly, Budget Analyst  
Division of State Executive Budget and Planning

Subject: S. 16.515 Request from the Department of Corrections

REQUEST

The Department of Corrections (DOC) requests an increase in expenditure authority of \$896,900 PR in FY94 and \$448,800 PR and 3.0 PR FTE positions in FY95 in appropriation 20.410(1)(km), Prison Industries, to cover the cost of compensation, raw material, manufactured parts, supplies and services and capital equipment to meet market demand for orders from Badger State Industries (BSI).

BACKGROUND

BSI is a group of 12 separate industries or centers located in Wisconsin prisons to provide productive work activities, reduce inmate idleness and provide products or services to state and local agencies and non-profit organizations. Over 440 inmates are employed by industries and are paid wages from the income generated by BSI. BSI employs 73 FTE program revenue positions to manage and supervise the business and manufacturing activities of BSI.

1993 Wisconsin Act 16 provided the following budget for BSI:

	<u>FY94</u>	<u>FY95</u>
Permanent salary	\$1,830,800	\$1,846,000
Turnover	-57,900	-58,600
Project position salary	18,700	25,000
Fringe	679,600	687,400
Supplies & services	9,277,200	9,543,000
Permanent property	180,000	180,000
Unallotted reserve	365,200	370,200
One-time financing	11,700	
Variable nonfood	50,000	50,000
Internal services	600	400
Rent	<u>116,100</u>	<u>117,300</u>
Total	\$12,472,000	\$12,760,700

This level of expenditure was supported by a revenue projection of \$12,880,000 PR in FY94 and \$13,884,000 PR in FY95. It should be noted

that approximately 75% of the BSI budget is consumed by supplies and services which provide the raw material and manufactured components for BSI products and services.

Based on a reestimate of the level of BSI business activity, the Governor recommended an appropriation increase of \$1,175,200 PR in FY94 and \$1,362,900 PR and 3.0 PR FTE positions in FY95 in the 1993-95 Budget Adjustment Bill (SB690).

The Legislature amended SB690 by reducing the increase in expenditure authority to \$278,300 PR in FY94 and \$787,400 PR in FY95 and deleting the 3.0 PR FTE positions requested. A suggestion was made at the Joint Committee on Finance that a request under s.16.505/515 with additional justification be submitted if additional expenditure authority is needed.

#### ANALYSIS

The following table identifies the specific expenditure increases DOC is requesting for BSI operations:

	<u>FY94</u>	<u>FY95</u>
Permanent salary		\$60,900
Turnover		-1,200
LTE salary	258,600	100,400
Fringe	19,800	29,800
Supplies & services	516,500	108,900
Permanent property	<u>102,000</u>	<u>150,000</u>
Total	\$896,900	\$448,800
Positions		3.00

DOC is making this request for the following reasons:

- A large amount of materials and manufactured components need to be ordered in FY94 to start manufacturing for at least 7 projects valued at \$3,950,000 which are scheduled for completion in FY95. A similar need exists for projects scheduled for FY96.
- Major capital purchases are needed for furniture manufacturing, printing, textile production and expansion of the distribution center storage facility.
- Due to a 36% increase in sales over the past 2 years, there is a need for 3.0 FTE permanent staff to replace limited term employees in administration and operational services as follows:

Financial Specialist. This permanent position is requested to pick up additional workload in accounts payable and insure that prompt payment requirements are met. Additionally, this position would provide separation of duties in accounting as advised in a Legislative Audit Bureau (LAB) audit.

Financial Specialist. This permanent position is requested for

order entry to meet the workload of over 12,000 orders and invoices yearly. The LAB advised DOC to separate the duties between processing orders and preparing invoices.

Program assistant. This permanent position is requested to meet workload increases in personnel administration, mail processing, reception, typing bid documents, and backup assistance in purchasing, accounts receivable and sales.

- These functions fulfill a continuing need and should be permanent positions rather than limited term employees which turn over every 6 months or less and adversely affect the productivity and efficiency of BSI.
- Additionally, BSI does not have an LTE line in its budget. In order to meet customer demand, funds have been reallocated from other budget lines to fund 7 LTE positions directly involved in manufacturing or delivery of services. This request addresses that need.

Since July 1, 1988, BSI experienced the following revenues, expenditures and profit margins on a cash accounting basis:

	<u>Revenue</u>	<u>% Change</u>	<u>Expenditures</u>	<u>% Change</u>	<u>Profit</u>	<u>margin</u>
FY89	\$8,515,374		\$8,364,851		\$150,523	2%
FY90	9,028,075	6%	8,329,551	0%	698,524	8%
FY91	10,674,913	18%	8,958,585	8%	1,716,328	16%
FY92	10,184,839	-5%	9,878,850	10%	305,989	3%
FY93	11,893,750	18%	12,501,145	27%	-517,395	-4%
Annual average		9%		11%		6%
Projections:						
FY94	14,000,000	17%	13,729,180	10%	270,820	2%
FY95	\$14,300,000	2%	\$14,123,600	3%	\$176,400	1%

The projections in the above table include the revenues and expenditures in this request. It is apparent that BSI has been operating successfully for the last 5 years with average annual increases of 9% and 11% annually in revenues and expenditures, respectively, and average profit margins of 6% annually. The average profit margin would be much higher if the \$2.8 million of accounts receivable held on June 30, 1993 were included on an accrual accounting basis.

The revenue projection for FY95 appears to be very conservative based on historical trends. If the expenditure request is approved, a higher profit margin should be expected, which would reduce BSI's debt to the general fund.

BSI will be adversely affected if the expenditure request is not approved. An agency that needs approximately 75% of its budget for working capital to purchase materials for its manufacturing and

service industries would be forced to curtail its operations without the capital and raw material to operate. It is likely that inmate and staff jobs would be reduced, inmate idleness would increase and unemployment compensation would be paid to laid-off staff, at least temporarily. Customer orders would be delayed for major building projects, and BSI profits and repayments to the general fund would be curtailed.

Summary of current financial condition of appropriation 20.410(1)(km)

<u>Revenue:</u>	<u>FY94</u>	<u>FY95</u>
Revenue Year-to-date 2/28/94	8,184,500	0
Revenue projected to June 30	<u>5,815,500</u>	<u>14,300,000</u>
Total revenue	14,000,000	14,300,000
<u>Less Expenditures:</u>		
Debt service	126,100	126,700
Expenditures year-to-date 2/28/94	7,892,500	0
Expenditures projected to June 30 (Act 16 & SB690)	4,939,780	13,548,100
This s.16.505/515 supplemental request	<u>896,900</u>	<u>448,800</u>
Total expenditures	13,855,280	14,123,600
Annual operating surplus for deficit reduction	\$144,720	\$176,400

Summary

BSI operates in a competitive marketplace. If it is to survive and perform its dual purpose of providing realistic work opportunities and wages for inmates and provide products and services to its customers without a state supported subsidy, BSI should be allowed sufficient operating resources to achieve those purposes within the limits of its ability to produce income. Projections show that funds to support this request for increased expenditure authority and the additional 3 positions will be available from the income generated by BSI.

Recommendation

Approve as requested.

Tommy G. Thompson  
Governor

Michael J. Sullivan  
Secretary



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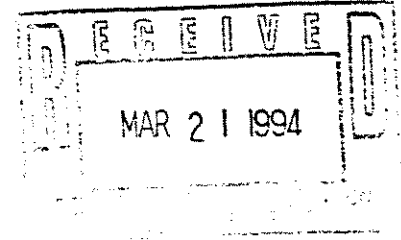
## State of Wisconsin Department of Corrections

March 15, 1994

### MEMORANDUM

TO: James R. Klauser, Secretary  
Department of Administration

FROM: Michael J. Sullivan, Secretary  
Department of Corrections



RE: S.16.515/16.505(2) Request for Appropriation 20.410(1)(km) Prison Industries

The Department of Corrections requests an increase in expenditure authority of \$896,900 in FY 94 and \$448,800 in FY 95 to pay for raw materials, supplies and services, salaries and capital equipment to meet the needs of current and anticipated orders. Additionally, three PRO positions are requested in FY 95 to meet workload increases.

#### Background

1993 Wisconsin Act 16 provided expenditure authority for Prison Industries in the amount of \$12,472,000 in FY 94 and \$12,760,700 in FY 95. The budget was based on projected revenues of \$12,880,000 in FY 94 and \$13,884,000 in FY 95.

The Governor's Budget Adjustment Bill (SB749/AB1180) requested increased expenditure authority of \$1,175,200 in FY 94 and \$1,362,900 in FY 95 for total expenditure authority of \$13,647,200 in FY 94 and \$14,123,600 in FY 95. This request was based on projected cash revenues of \$14,000,000 in FY 94 and \$14,300,000 in FY 95. The increased expenditure authority was requested to pay for three additional PRO positions, LTE salaries, fringe benefits, raw materials and manufactured components, supplies and services and capital equipment.

The Legislature amended the Governor's budget, increasing expenditure authority by \$278,300 in FY 94 and \$787,400 in FY 95, providing a total expenditure authority of \$12,750,300 in FY 94 and \$13,548,100 in FY 95. The increased expenditure authority was based on cash revenue projections of \$13.2 million in FY 94 and \$14.1 million in FY 95. The Legislature denied the request for additional PRO positions and provided reduced funding for supplies and services in FY 94 and LTE salaries, supplies and services and capital equipment in FY 95.



An expenditure carryover of \$81,980 for capital equipment purchases increased the available expenditure authority in FY 94. All expenditure and revenue projections in this document account for the encumbrance carryover in FY 94. Resultant expenditure authority is \$12,832,280 in FY 94 and \$13,548,100 for FY 95.

Prison Industries revenues must cover expenditures in both s. 20.410(1)(km), Prison Industries and s. 20.410(1)(ko), identified in this document as debt service. Expenditure authority for debt service is \$126,100 in FY 94 and \$126,700 in FY 95. The debt service expenditure authority is not affected by this request.

Actual expenditures for FY 94 through February 28, 1994 have been \$7,892,500. As shown on Attachment #1, actual plus planned spending for the remainder of the current fiscal year (excluding debt service) will result in total expenditures of \$13,729,180. Projected FY 95 expenditures are \$13,996,900 (excluding debt service). The FY 95 expenditure projection is a very conservative estimate which reflects less than a 3% increase over FY 94. The expenditure projections will exceed the expenditure authority authorized by the Legislature in the Budget Adjustment Bill by \$896,900 in FY 94 and \$448,800 in FY 95.

Included in the expenditure projections for the remainder of the fiscal year are materials and manufactured components purchased from secondary suppliers which are necessary to complete a number of the large building projects listed on Attachment #2. Total materials and supplies for just these projects are approximately \$2.3 million. Many of these materials must be purchased in FY 94 to meet scheduled installation or delivery dates. Of the \$13,729,180 projected expenditures, \$2 million is needed for these projects. The remaining \$300,000 needed to complete these projects reflects raw materials that are either in inventory or will be purchased in FY 95.

As of June 30, 1989 the accumulated cash deficit for Prison Industries was \$6,290,905. As of June 30, 1993 the accumulated cash deficit was \$4,087,459. With total revenues of \$41,871,577 during those four fiscal years and total expenditures of \$39,668,131, this represents a total profit and deficit reduction of \$2,203,446.

Through February 28, 1994, cash received from sales was \$8,184,500 measured against expenditures of \$7,892,500 through that same date. At that point, Industries had a positive cash flow of \$292,000 for this fiscal year.

Cash received from March 1, 1994 through March 9, 1994 was \$653,400 bringing total cash received for FY 94 to \$8,837,900. Cash receipts, however, are only part of the revenue figure. Accounts receivable due to Industries and open orders (orders received but not billed) are an important element in measuring total revenues. As of March 9, 1994, accounts receivable were \$1.8 million and open orders amounted to \$2.5 million. Total cash revenues, accounts receivable and open orders total \$13.1 million. The total cash revenues received by June 30, 1994 are projected to be \$14 million, while the accounts receivables are projected to be \$1.2 million. This results in total revenues received and due for FY 94 of \$15.2 million.

Program Need/Impact

Working capital is essential for the successful operation of a business. To meet the projected revenue figures and to meet the timelines of the previously identified major projects, it is necessary to receive approval of the requested expenditure authority. Failure to approve the request may increase inmate idleness and impact on the efficiency of Badger State Industries' operation. Reduced efficiency of the operation could lower the profit margin and jeopardize our ability to reduce the outstanding debt to the general fund.

Summary of Appropriation s. 20.410.(l)(km) and Institutional Operations and Charges and s. 20.410.(l)(ko), Debt Service:

The following is a fund condition statement for appropriation s. 20.410.(l)(km), including the additional expenditures in this request. Sufficient program revenue is available to fund the requested increase in expenditures. However, current expenditure authority needs to be increased to accommodate this request.

<u>Revenue:</u>	<u>FY 94</u>	<u>FY 95</u>
Revenue Year-To-Date 2/28/94	\$8,184,500	\$14,300,000
Revenue Projected to June 30	\$5,815,500	\$14,300,000
Total Revenue	\$14,000,000	\$14,300,000
<u>Less Expenditures:</u>		
Debt Service	\$126,100	\$126,700
Expenditures Year-To-Date 2/28/94	\$7,892,500	\$0
Expenditures Projected to June 30	\$5,836,680	\$13,996,900
Total Expenditures	\$13,855,280	\$14,123,600
Program Revenue Balance Available for Deficit Reduction, June 30	\$144,720	\$176,400
Beginning Cash Balance	-\$4,087,459	-\$3,816,639
Projected Cash Balance	-\$3,942,739	-\$3,640,239

Expenditure Authority:

Act 16	\$12,472,000	\$12,760,700
Budget Adjustment Bill	\$278,300	\$787,400
Encumbrance from prior year	\$81,980	
Total Expenditure Authority-20.410(l)(km)	\$12,832,280	\$13,548,100
Total Expenditure Authority-20.410(l)(ko)	\$126,100	\$126,700
Total Expenditure Authority	\$12,958,380	\$13,674,800
Total Expenditures	\$13,855,280	\$14,123,600
Total Expenditure Authority	\$12,958,380	\$13,674,800
Additional Expenditure Authority Requested	\$896,900	\$448,800

Summary

DOC is requesting an increase in expenditure authority for appropriation 20.410(1)(km) in the amount of \$896,900 in 1993-94 and \$448,800 and 3.00 PRO FTE in 1994-95. The specific expenditure items and dollar amounts requested are:

	<u>1993-94</u>	<u>1994-95</u>
Permanent Salary	\$	\$ 60,900
Turnover		(1,200)
LTE Salaries	258,600	100,400
Fringe	19,800	29,800
Sup. & Serv.	516,500	108,900
Permanent Property	<u>102,000</u>	<u>150,000</u>
Total Costs	\$896,900	\$448,800
Classified Positions		3.00

The three positions requested are to replace three long-term limited term positions in administrative and operational services. One Financial Specialist is needed to maintain the bill paying process and to comply with prompt payment requirements. From FY 92 to FY 94 sales will have increased from \$10.5 million to \$14.3 million, a 36% increase. Industries has realized a like increase in ordering of materials and services, which require the payment of bills. Currently, 7,000 vouchers are being processed annually. One permanent position is assigned to this function which not only cannot meet the workload, but also cannot provide the required separation of duties required by a recent audit by the Legislative Audit Bureau.

The second Financial Specialist also replaces a long-term LTE in Order Entry. As business has increased so have the number of orders. One permanent staff member is allocated to process and verify over 6,000 orders. Completed orders must then be invoiced. This results in 12,000 transactions each year. A recent audit by the Legislative Audit Bureau required a separation of duties between processing orders and preparing invoices.

An additional program assistant is needed in operations because of increased activities such as receiving phone calls, processing mail, recording checks received, assisting in personnel activities, typing bid documents and assisting with temporary workload increases in purchasing, accounts receivable and sales.

Although the 3.00 FTE are needed to meet immediate workload needs, the timing of this request necessitates that the 3.00 FTE be requested in FY 95.

Prison Industries does not have a budget for limited term employees. In the past, LTE funds have been transferred out of permanent salaries created by delayed hiring and out of supplies and services by reducing raw material purchases. This is no longer a viable option as all of the remaining funding for raw materials and manufactured component parts is needed to meet current or anticipated orders. \$20,300 of the FY 94 LTE salary request will be used to staff the 3.00 PRO FTE positions that are not requested until FY 95. The remaining FY 94 and FY 95 LTE salary dollars reflect one<sup>1</sup> position that is working with the metal furniture industry at the Waupun Correctional Institution, one<sup>2</sup> position working as a truck driver used for deliveries, one<sup>3</sup> position that is working with the laundry and textiles industry at Green Bay Correctional Institution, two<sup>5</sup> positions that work as installers for systems furniture, one<sup>6</sup> position that is working as a cad operator in design and one<sup>7</sup> position that is working with the rec industry at Sanger Powers Correctional Center.

In the current fiscal year, Industries has a budget of \$180,000 for permanent property. This amount is insufficient to replace worn-out equipment, replace trucks or purchase new equipment to improve operations. Replacing one press or one laundry washer can cost more than \$50,000 alone. For the past several years funds have been transferred from other accounts to fund critical capital needs. Additionally, FY 94 includes an encumbrance carryover of \$81,980 for capital equipment purchases. The additional permanent property requested for FY 94 will be used to purchase the following items:

Metal Furniture Shear	\$ 12,000
Metal Furniture Tooling	2,000
Metal Furniture Punch Press	55,000
TCI Screen Stretcher	3,000
Wood Furniture Sander	<u>30,000</u>
Total	\$102,000

Most of the requested items are replacing obsolete, or technologically outdated pieces of equipment which require constant repair. In some cases replacement parts are no longer available. The Budget Adjustment Bill increased Industries' permanent property budget to \$250,000 in FY 95. Additional capital included on this request will be used for the following:

- Complete Green Bay Textiles Remodeling	\$ 15,000
- Expand Industries Distribution Center (Currently paying \$30,000 per year to lease storage)	\$135,000
Total	\$150,000

The supplies and services increase in FY 94 will be used to purchase aluminum for signs and license plates, sheeting for plates and validation stickers and part of the raw materials for systems furniture for the new Agriculture Building due to open in the fall of 1994 and systems furniture for the Public Service Commission Building which is scheduled to be installed on August 1, 1994.

**ACTUAL AND PROJECTED  
EXPENDITURES  
FOR FY 94 AND FY 95**

CATEGORY	ACTUAL EXPENDITURES THRU 2/28/94	PROJECTED EXPENDITURES 3/1/94 THRU 6/30/94	PROJECTED EXPENDITURES FOR FY 94	PROJECTED EXPENDITURES FOR FY 95
1. PERMANENT/PROJECT SALARIES	\$1,166,577	\$709,623	\$1,876,200	\$1,872,100
2. LTE SALARIES	\$175,831	\$90,969	\$266,800	\$133,900
3. FRINGE BENEFITS	\$427,830	\$272,890	\$700,720	\$719,700
4. TOTAL SALARIES/BENEFITS	\$1,770,238	\$1,073,482	\$2,843,720	\$2,725,700
5. INMATE WAGES	\$445,951	\$193,449	\$639,400	\$700,000
6. RENT AND UTILITIES	\$384,966	\$270,034	\$655,000	\$680,000
7. PERMANENT PROPERTY	\$183,633	\$192,047	\$375,680	\$400,000
8. RAW MATERIALS	\$4,449,874	\$3,431,126	\$7,881,000	\$8,203,200
9. OTHER SUPPLIES/SERVICES	\$657,801	\$676,579	\$1,334,380	\$1,288,000
10. TOTAL NON - SALARY	\$6,122,225	\$4,763,235	\$10,885,460	\$11,271,200
11. TOTAL APP. 134 EXPEND.	\$7,892,463	\$5,836,717	\$13,729,180	\$13,996,900
12. SPENDING AUTHORITY (WIS. ACT 16)			\$12,472,000	\$12,760,700
13. SPENDING AUTHORITY (PER SB 749)			\$12,750,300	\$13,548,100
14. EXPENDITURE CARRYOVER FY 94			\$81,980	
15. TOTAL FY 94 APPRO. 134 EXPENDITURE AUTHORITY			\$12,832,280	\$13,548,100
16. DIFFERENCE BETWEEN EXPEND. AUTHORITY AND EXPEND. PROJ.			\$896,900	\$448,800
17. DEBT SERVICE - APPR. 129			\$126,100	\$126,700
18. TOTAL EXPENDITURES			\$13,855,280	\$14,123,500

## MAJOR INDUSTRY PROJECTS IN CONSTRUCTION DURING 1994

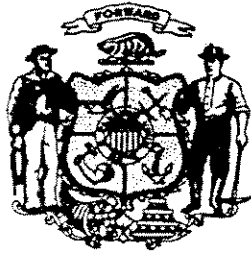
CUSTOMER PRODUCT	MATERIALS ORDERED	MANUFACTURE BEGINS	INSTALLATION /DELIVERY	ESTIMATED DOLLARS	STATUS
UW--Systems Bldg. Systems Furniture	03/07/94	04/11/94	06/01/94	\$630,000	Purchase Order Received
Agriculture Bldg. Systems Furniture	05/01/94	06/01/94	09/01/94	\$1,000,000	In Planning
Hill Farms DOT 6th Floor Systems Furniture	04/01/94	05/01/94	07/01/94	\$500,000	Purchase Order Received
Dodge Correctional 500 Beds 350 Desk Units Wardrobes	03/15/94	04/01/94	09/01/94	\$500,000	Purchase Order Due by 3/15/94
Public Service Commission Systems Furniture	04/15/94	05/15/94	08/01/94	\$400,000	Design Begins 3/15/94
State Office Eau Claire Systems Furniture	05/01/94	06/01/94	09/01/94	\$800,000	In Design
Dane County Jail 480 Beds 200 Lockers Signs	03/04/94	04/01/94	06/01/94 to 08/01/94	\$120,000	Purchase Order for Signs Received on 03/02/94; Remainin by 03/10/94
			TOTAL	<u>\$3,950,000</u>	

\* About \$2.3 million are materials cost

# State of Wisconsin

SENATE CHAIR  
JOE LEEAN

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ASSEMBLY CHAIR  
BARBARA J. LINTON

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Phone: 266-7690

## JOINT COMMITTEE ON FINANCE

March 28, 1994

Mr. John Tries, Chair  
Gaming Commission  
150 E. Gilman Street, Suite 1000  
Madison, WI 53708

Dear Commissioner Tries:

On March 9, 1994, a report required under s. 565.02(7) relating to lottery sales and prize payouts was provided by the Gaming Commission to the Joint Committee on Finance for approval.

This is to inform you that the Committee will schedule a meeting to review the proposed prize payouts.

Sincerely,

Handwritten signature of Joe Leean in cursive.

JOE LEEAN  
Senate Chair

Handwritten signature of Barbara J. Linton in cursive.

BARBARA J. LINTON  
Assembly Chair

JL/BJL/ns

cc: Members, Joint Committee on Finance





## Legislative Fiscal Bureau

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

March 22, 1994

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Gaming Commission Lottery Prize Payout Evaluation and Report

Under s. 565.02(7) the Gaming Commission is required to submit to the Committee, no later than March 1, of each year, a report that includes an estimate for that fiscal year and for the subsequent fiscal year of the gross revenues from the sale of lottery tickets, the total amount paid as prizes and the prize payout ratio for each type of lottery game offered, and an evaluation of the effect of prize payout ratios of lottery games on lottery sales, lottery operating costs and on maximizing the revenue available for the lottery property tax credit.

The Committee Cochairpersons received a letter on March 1, 1994, submitted by the Gaming Commission. However, this report did not conform to the statutory requirement to evaluate the effect of prize payout ratios of lottery games on lottery sales, lottery operating costs and on maximizing the revenue available for the lottery property tax credit. The Commission subsequently submitted a report dated March 8, 1994, (received on March 9, 1994) to replace the one submitted on March 1, 1994.

The Commission's report indicates that the proposed payout plan for 1994-95 would increase payout ratios as follows: (a) for instant scratch games, from 61.26% currently to 63.0%; and (b) for pull-tab games, from 60.38% currently to 62.5%. The payout ratio for on-line games would remain at 51.54%. Further, the Commission report concludes that higher payout ratios would increase sales sufficiently to result in an increased lottery property tax credit. The report indicates that if payouts are not increased, 1994-95 sales will total \$485 million, while the proposed increase in instant ticket payouts would result in a 5% overall sales increase to \$510 million.

If the Cochairpersons of the Committee notify the Gaming Commission by March 29, 1994, (14 working days after the Committee received the report) that the Committee has scheduled a meeting for the purpose of reviewing the Commission's proposed prize payouts, the Commission may proceed with its plans for the prize payouts for the subsequent fiscal year only upon

approval of the plans by the Committee. If the Cochairpersons do not notify the Commission that the Committee has scheduled a meeting, the Commission's plans for the subsequent fiscal year are considered approved by the Committee.

I hope this information is helpful. If you have questions regarding this matter, please contact me or Art Zimmerman of my staff.

BL/AZ/dls/sas

# WISCONSIN GAMING COMMISSION

AZ

Tommy G. Thompson, Governor  
John M. Tries, Chairman  
Terence M. Dunleavy, Commissioner  
Lennie A. Weber, Commissioner



**Capitol Office:**  
150 East Gilman Street, Suite 1000  
P.O. Box 8979  
Madison, Wisconsin 53708-8979  
(608) 264-6607  
FAX (608) 267-4879

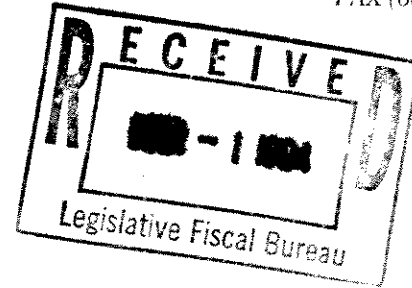
Capitol Office

March 1, 1994

**West Office:**  
1802 West Beltline Highway  
P.O. Box 8941  
Madison, Wisconsin 53708-8941  
(608) 266-7777  
FAX (608) 264-6644

Honorable Joseph Leean  
Co-Chair, Joint Finance Committee  
Senator, 14th Senate District  
Room 115 South, State Capitol  
Madison, Wisconsin 53708

Honorable Barbara J. Linton  
Co-Chair, Joint Finance Committee  
Representative, 74th Assembly District  
Room 127 South, State Capitol  
Madison, Wisconsin 53708



Dear Senator Leean and Representative Linton:

Pursuant to State Lottery Statute 565.02 (7) I am pleased to submit to Joint Finance Committee the following FY 94 est. gross revenue report, total prize payout and prize payout structure for each type of lottery game offered. The projected figures for FY 95 are also included.

GAME TYPE	<u>FISCAL YEAR 94</u>	<u>PROJECTED FISCAL YEAR 95</u>
INSTANT		
PULL TABS:		
SALES GOAL -	\$17,000,000	\$17,000,000
3 OF GAMES	5 games	6 games
PAY OUT RATIO	60.38%	60.38%
PRIZE PAYOUT	\$10,868,400 est.	\$10,868,400 est.
SCRATCH:		
SALES GOAL -	\$310,905,000	\$324,405,000
# OF GAMES	17 games	15 games
PAY OUT RATIO	61.26% est.	63.25% est.
PRIZE PAYOUT	\$190,460,403 est.	\$205,186,162 est.

Senator Joe Llean  
Representative Barbara Linton  
March 1, 1994  
Page 2

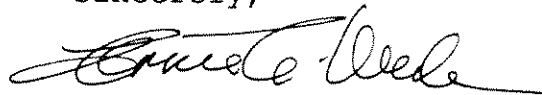
GAME TYPE	<u>FISCAL YEAR 94</u>	<u>PROJECTED FISCAL YEAR 95</u>
ON-LINE GAMES		
SALES GOAL	\$182,095,000 est.	\$182,095,000 est.
# OF GAMES	5 games	5 games
PAY OUT RATIO		
-POWERBALL	50%	50%
-WVO MEGABUCKS	53.5%	53.5%
-SUPERCASH	53.5%	53.5%
-DAILY PICK 3	50%	50%
-MONEY GAME 4	50%	50%
AVERAGE	51.6%	51.6%
PRIZE PAYOUT	\$93,961,020 est.	\$93,961,020 est.
TOTAL:		
GROSS REVENUE -	\$510,000,000 (1)	\$523,500,000 (1)
PRIZE PAYOUT -	\$295,289,823 est. (57.89%)	\$310,015,582 est. (59.21%)

(1) Fiscal Bureau 2/7/94 reestimated fund condition includes the following changes:

(a) Total 1993-94 ticket sales are now estimated at \$510 million, or approximately 3% higher than 1992-93 sales. Following estimated expenditures and appropriations for tax relief, the 1993-94 gross closing balance is estimated to be \$6.5 million.

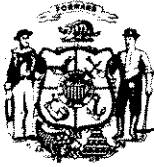
(b) Total 1994-95 sales are estimated to be \$523.5 million. This is the same figure used for the 1993-95 biennial budget, however, the relative proportion of sales estimated for instant and on-line games have been adjusted to reflect 1993-94 sales trends.

Sincerely,



Lennie A. Weber  
Commissioner

# WISCONSIN GAMING COMMISSION



Tommy G. Thompson, Governor

John M. Tries, Chairman

Terence M. Dunleavy, Commissioner

Lennie A. Weber, Commissioner

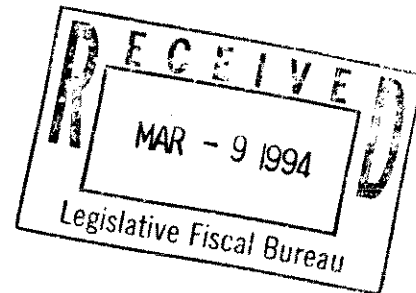
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West Office

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FAX (608) 264-6644

March 8, 1994

Honorable Joseph Leean  
Co-Chair, Joint Finance Committee  
Senator, 14th Senate District  
Room 115 South, State Capitol  
Madison, Wisconsin 53708



Honorable Barbara J. Linton  
Co-Chair, Joint Finance Committee  
Representative, 74th Assembly District  
Room 127 South, State Capitol  
Madison, Wisconsin 53708

Dear Senator Leean and Representative Linton:

Pursuant to State Lottery Statute 565.02 (7), I am submitting the following evaluation of the effect of prize payout ratios of lottery games on lottery sales, lottery operating costs and on maximizing the revenue available for the lottery property tax credit. This report replaces the one submitted on March 1, 1994.

Prize payouts for on-line games are fixed to the established odds of the particular games.<sup>1</sup> The instant scratch and pull-tab games on the other hand, are the only lottery products where the overall prize payout can be adjusted.<sup>2</sup> As such, the decision to increase or reduce the overall Lottery prize payout ratio will directly effect the payout ratios and sales attributable to the several instant scratch and pull-tab games.

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<sup>1</sup>The following represents the five existing on-line games and their respective prize payout ratios: *Powerball*, 50%; *Wisconsin's Very Own Megabucks*, 53.5%; *Supercash*, 53.5%; *Daily Pick 3*, 50%; *Money Game 4*, 50%.

<sup>2</sup>Of the 17 scratch games that will be active during Fiscal Year 1994, the prize payout will vary in range from 58.00% (*Ace in the Hole*) to 70.03% (*Holiday Bonus*), with the median prize payout being 61.26%.

Senator Joe Llean  
Representative Barbara Linton  
March 8, 1993  
Page 2

It appears that by lowering the overall prize payout, there is a corresponding decrease in instant product sales. The Lottery Division has reduced the prize payout for instant games (scratch and pull tab combined) from 61.49% payout in Fiscal Year 1993 to 61.22% in Fiscal Year 1994. Instant Scratch game sales for Fiscal Year 1993 totaled \$296,060,000 (\$1.16 per capita), in comparison to current Fiscal Year 1994 estimates of \$246,128,000 (\$.97 per capita) which resulted in a 16.78% decrease from Fiscal Year 1993's actual sales. This data allows one to conclude that the decrease in instant scratch game prize payout has had and will have a negative effect on Fiscal Year 1994 instant scratch game sales.

Massachusetts and Minnesota are two states whose sales and operation performance has been analyzed in the past - Massachusetts as the recognized leader in the lottery industry, and Minnesota as our most competitive contiguous state. Massachusetts has improved its per capita sales to over \$4.00. This per capita increase is attributed to the increase of overall prize payout to 67-70% on \$1.00 games and 70-72% on instant specialty tickets of \$2.00 and \$5.00. Minnesota has experienced similar success as a result of an increase in prize payout. They increased their instant prize payout from 60% in the first half of Fiscal Year 1994 because of poor instant scratch game sales. Prize payout was raised in Minnesota to a minimum of 62-64% on \$1.00 games and 65-70% on instant specialty tickets of \$2.00 and \$5.00. A tracking study performed during the first eight weeks of sales for two instant games in Minnesota<sup>3</sup>, shows that the game with the highest prize payout has exceeded the lower payout game in sales volume. In addition, while the actual prize dollars were greater in the higher prize payout game, the profit returned to the state (38%) was also greater.

One of the accepted assertions within the lottery industry is that when lotteries increase instant prize payout percentages, sales increase and more state revenue is generated. This is supported by the fact that those U.S. lotteries with the highest per capita instant sales and state profits generated are the ones with the highest payout percentages. Most states pay out 55% or more. Those that pay out less than 50% are generally the ones with the lowest per capita sales.

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<sup>3</sup>"Minnesota Wildside" carries a 66% prize payout. Sales during the first eight weeks totaled \$8,003,191, which encompasses prizes of \$5,282,106. This resulted in a profit to the state of \$1,312,524. "Hibernation Hoopla" carries a 70% prize payout and achieved sales of \$14,653,181 during the first eight weeks. The prizes in Hibernation Hoopla totaled \$10,257,227, which resulted in a profit to the state of \$1,816,993.

Senator Joe Leraan  
Representative Barbara Linton  
March 8, 1994  
Page 3

Increasing the overall prize payouts on Instant Scratch Games will proportionately increase the operating costs of the Lottery in two areas. First, the distribution costs of the lottery for ticket delivery will increase because ticket sales will increase. The delivery contract is based on a cost per pound. Albeit a minimal increase, more tickets will mean increased poundage and increased delivery costs. Increased delivery costs will increase the warehouse supplies budget needed to package the tickets for delivery.

Second, an overall increase in prize payouts will require more tickets to be printed in order to meet the increase in projected sales objectives. Consequently, more tickets will have to be ordered from our ticket printing vendor. The ticket printing budget is not a sum-sufficient appropriation. Additional ticket printing costs would be required to meet increased sales demand. Increasing prize payouts and the corresponding increase in sales volume would have minimal impact on the current staffing requirements needed to process and package the additional tickets.

In summary, it can be asserted that if the Lottery were to pay a greater percentage of its sales in prizes, the state of Wisconsin would receive more in proceeds. This conclusion is based on findings in other U.S. lotteries regardless of the population, geographical location, demographic make-up, or product mix. There is a direct relationship between the prize payout and sales. Increasing the payout for the Lottery Division's instant games should increase the Lottery's sales and thereby maximize revenue to the state.

Attached are Fiscal Year 1994 estimated gross revenue, total prize payout and prize payout structure for each type of lottery game offered. The projected figures for Fiscal Year 1995 are also included.

Sincerely,



Lennie A. Weber, Commissioner

LAW/jms

## LOTTERY SALES AND PRIZE PAYOUT INFORMATION

<u>GAME TYPE</u>	<u>ESTIMATED FISCAL YEAR 94</u>	<u>FY95 WITH PRESENT PAYOUT</u>	<u>PROPOSED FY95 WITH PAYOUT INCREASE</u>
<b>PULL TABS:</b>			
EST. SALES	\$11,786,000 *	\$12,000,000	\$15,000,000
PAY OUT RATIO	60.38%	60.38%	62.5%
EST. PRIZE PAYOUT	\$7,116,387	\$7,245,600	\$9,375,000
<b>SCRATCH:</b>			
EST. SALES	\$246,128,000 *	\$291,000,000	\$313,000,000
EST. PAY OUT RATIO	61.26%	61.26%	63.0%
EST. PRIZE PAYOUT	\$150,778,013	\$178,266,600	\$197,190,000
<b>ON-LINE GAMES:</b>			
EST. SALES	\$226,781,000 *	182,000,000	\$182,000,000
PAY OUT RATIO			
-POWERBALL	50%		
-WVO MEGABUCKS	53.5%		
-SUPERCASH	53.5%		
-DAILY PICK 3	50%		
-MONEY GAME 4	50%		
WEIGHTED AVERAGE	51.54%	51.54%	51.54%
EST. PRIZE PAYOUT	\$116,882,927	\$93,802,800	\$93,802,800
<b>TOTAL:</b>			
EST. SALES	\$484,695,000 *	\$485,000,000	\$510,000,000
EST. PRIZE PAYOUT	\$274,777,327	\$279,315,000	\$300,367,800

\* Estimated Sales for FY94 are based on year to date weekly averages multiplied by 52 weeks.



We have used the payout ratio from the approved Features and Procedures of all games in determining the percent of prizes paid.

Estimates for instant games are based on prize structures of games ordered in FY94 using total prizes in games to total tickets ordered. Instant scratch games are introduced so that they constantly overlap each other. There can be a significant time lapse between the sale of the ticket to a retailer and the Lottery paying a prize to a player. Therefore, the actual percent of prizes paid to sales would not reflect the true ratio of the payout of any particular game.

Estimates for on-line games are based on the approved payouts of each game. Actual prizes paid out on any on-line game vary according to the number of unclaimed prizes waiting to be paid during the claim period. Actual prizes paid for each drawing also vary according to the frequency of play on the winning numbers.



**State of Wisconsin ● DEPARTMENT OF REVENUE**

125 SOUTH WEBSTER STREET ● P.O. BOX 8933 ● MADISON, WISCONSIN 53708-8933 ● 608-266-6466 ● FAX 608-266-5718

*Tommy G. Thompson*  
Governor

*Mark D. Bugher*  
Secretary of Revenue

March 24, 1994

The Honorable Joseph Leean, Co-Chair  
The Honorable Barbara Linton, Co-Chair  
Joint Committee on Finance  
Rm. 127 South, State Capitol  
Madison, WI 53702

Dear Senator Leean and Representative Linton:

I am writing to brief you on the results of the Department of Revenue's Lottery Credit audit and oversight program in Fiscal Year (FY) 1992-93 and our results to date (through March 9, 1994) for FY 1993-94.

**FY 1992-93:** Audit and related activities generated \$501,051 as of June 30, 1993. This includes \$194,846 recovered from individuals and \$306,205 in overpayments refunded to the state by municipalities and counties. Of the total \$194,846 recovered from individuals, \$147,694 was for 1991 credits and \$47,152 was for 1992 credits.

Funds recovered from municipal and county governments reflect adjustments to correct clerical and estimating errors. Given the massive volume of data exchanged by state and local governments to operate this program, adjustments of this kind are unavoidable. As I have indicated in the past, we are very pleased with the highly professional working relationship we have achieved with our local government counterparts.

**FY 1993-94:** Audit and related activities generated \$295,814 through March 9, 1994. This includes \$224,440 recovered from individuals and \$71,375 in overpayments refunded to the state by municipalities and counties. Of the total \$224,440 recovered from individuals, \$50,562 was for 1991 credits, \$163,891 was for 1992 credits and \$9,987 was for 1993 credits.

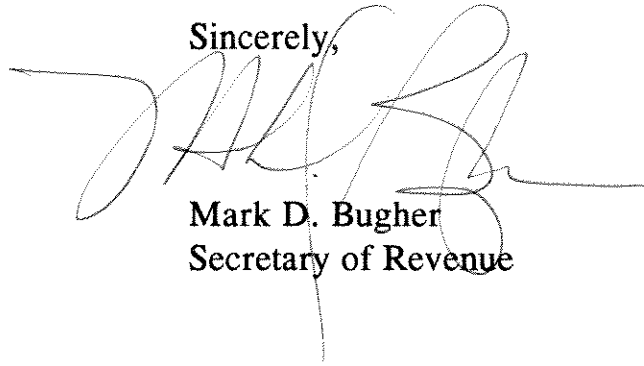
March 24, 1994

Page Two

The attached table summarizes this collection activity.

Our goal remains to do all we can to get lottery credits to those who qualify and to minimize potential abuses of the program.

Sincerely,

A handwritten signature in black ink, appearing to read 'Mark D. Bugher', is written over the typed name and title. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Mark D. Bugher  
Secretary of Revenue

MDB:tcs  
attachment



*STATE OF WISCONSIN*

*Department of Revenue*

Division of State and Local Finance  
Bureau of Local Financial Assistance  
Lottery Credit Program

*Lottery Credit Collections*

	Collected from July 1, 1992 to June 30, 1993	Collected from July 1, 1993 to March 9, 1994
1991 Claims Recovered	\$147,694.01	\$50,561.72
1992 Claims Recovered	47,151.51	163,891.24
1993 Claims Recovered	N/A	9,986.64
Total Recovered From Individuals	\$194,845.52	\$224,439.60
Total Recovered From Municipalities & Counties	<u>306,205.15</u>	<u>71,374.73</u>
Total Recovered	<u>\$501,050.67</u>	<u>\$295,814.33</u>



## Legislative Fiscal Bureau

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

March 22, 1994

TO: Members  
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Gaming Commission Lottery Prize Payout Evaluation and Report

Under s. 565.02(7) the Gaming Commission is required to submit to the Committee, no later than March 1, of each year, a report that includes an estimate for that fiscal year and for the subsequent fiscal year of the gross revenues from the sale of lottery tickets, the total amount paid as prizes and the prize payout ratio for each type of lottery game offered, and an evaluation of the effect of prize payout ratios of lottery games on lottery sales, lottery operating costs and on maximizing the revenue available for the lottery property tax credit.

The Committee Cochairpersons received a letter on March 1, 1994, submitted by the Gaming Commission. However, this report did not conform to the statutory requirement to evaluate the effect of prize payout ratios of lottery games on lottery sales, lottery operating costs and on maximizing the revenue available for the lottery property tax credit. The Commission subsequently submitted a report dated March 8, 1994, (received on March 9, 1994) to replace the one submitted on March 1, 1994.

The Commission's report indicates that the proposed payout plan for 1994-95 would increase payout ratios as follows: (a) for instant scratch games, from 61.26% currently to 63.0%; and (b) for pull-tab games, from 60.38% currently to 62.5%. The payout ratio for on-line games would remain at 51.54%. Further, the Commission report concludes that higher payout ratios would increase sales sufficiently to result in an increased lottery property tax credit. The report indicates that if payouts are not increased, 1994-95 sales will total \$485 million, while the proposed increase in instant ticket payouts would result in a 5% overall sales increase to \$510 million.

If the Cochairpersons of the Committee notify the Gaming Commission by March 29, 1994, (14 working days after the Committee received the report) that the Committee has scheduled a meeting for the purpose of reviewing the Commission's proposed prize payouts, the Commission may proceed with its plans for the prize payouts for the subsequent fiscal year only upon

approval of the plans by the Committee. If the Cochairpersons do not notify the Commission that the Committee has scheduled a meeting, the Commission's plans for the subsequent fiscal year are considered approved by the Committee.

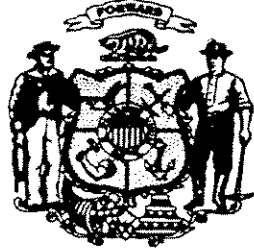
I hope this information is helpful. If you have questions regarding this matter, please contact me or Art Zimmerman of my staff.

BL/AZ/dls/sas

# State of Wisconsin

SENATE CHAIR  
JOE LEEAN

Room 119 South, State Capitol  
P.O. Box 7882  
Madison, WI 53707-7882  
Phone: 266-0751



ASSEMBLY CHAIR  
BARBARA J. LINTON

Room 127 South, State Capitol  
P.O. Box 8952  
Madison, WI 53708-8952  
Phone: 266-7690

## JOINT COMMITTEE ON FINANCE

March 10, 1994

Secretary James R. Klauser  
Department of Administration  
101 East Wilson, 10th Floor  
Madison, WI 53702

Dear Secretary Klauser:

On February 18, 1994, a request under ss. 16.505/16.515 of the Wisconsin Statutes relating to the Department of Health and Social Services (H&SS) for additional funding for the state centers for the developmentally disabled and the state mental health institutes, as approved by your Department, was forwarded to the Joint Committee on Finance.

Your recommendation would increase funding for these facilities by \$864,500 PR in 1993-94 and \$1,171,300 PR in 1994-95 for the following purposes: (a) therapy services billed at Northern Wisconsin Center (NWC) and Southern Wisconsin Center (SWC) for the Developmentally Disabled, \$631,600 PR in 1993-94 and \$901,800 PR in 1994-95; (b) laboratory services billed at SWC, \$48,500 PR in 1993-94 and \$85,100 PR in 1994-95; and (c) orthotics laboratory services and devices at Central Wisconsin Center for the Developmentally Disabled, \$184,400 PR in both 1993-94 and 1994-95.

In addition, your Department recommended decreasing funding for the mental health institutes and the state centers for the developmentally disabled by \$229,200 PR in 1993-94 and \$371,500 PR in 1994-95 to reflect lower populations at these facilities than projected during the 1993-95 biennial budget deliberations.

Consequently, the net increase in funding recommended by your Department for the operation of the centers for the developmentally disabled and the mental health institutes is \$635,300 PR in 1993-94 and \$799,800 PR in 1994-95.

As part of its deliberations on the budget adjustment bill, the Committee recommended decreasing funding for the mental health facilities by \$100,000 PR in 1993-94 and \$300,000

Secretary James R. Klauser

March 10, 1994

Page 2


PR in 1994-95 to reduce the cash deficit in the mental health institutes appropriation. This reduction was made to reflect cost savings due to lower populations at the mental health institutes and to ensure that a portion of the total funding reductions H&SS indicated could be made to reduce the deficit occurs.

Based on the Committee's actions in the budget adjustment bill, the funding decrease recommended by your Department relating to the operation of the mental health institutes (\$201,700 PR in 1993-94 and \$327,500 PR in 1994-95) is not approved. The funding reduction recommended for the state centers for the developmentally disabled (\$27,500 PR in 1993-94 and \$44,000 PR in 1994-95) is approved.

With this modification, the Committee is approving a total funding increase for the operation of the Department's care and treatment facilities of \$837,000 PR in 1993-94 and \$1,127,300 PR in 1994-95. Unless we are notified by March 31, 1994, that you object to this modification, we will assume that the request is approved with the change described in this letter.

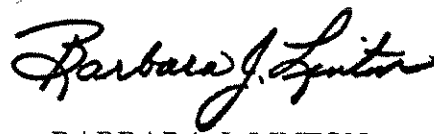
An objection has been raised regarding the request to provide additional funding and staff for the Weidner Center for Performing Arts at the University of Wisconsin-Green Bay. Consequently, a meeting will be scheduled regarding this request.

The requests approved by your Department relating to the Department of Justice and the Board on Aging and Long Term Care are approved.



JOE-LEEAN  
Senate Chair

Sincerely,



BARBARA J. LINTON  
Assembly Chair

JL/BJL/ns