

**1999 DRAFTING REQUEST**

**Assembly Amendment (AA-AB133)**

Received: 05/26/99

Received By: kunkemd

Wanted: Soon

Identical to LRB:

For: Legislative Fiscal Bureau

By/Representing: Worzala

This file may be shown to any legislator: NO

Drafter: kunkemd

May Contact:

Alt. Drafters:

Subject: Occupational Reg. - misc

Extra Copies:

**Pre Topic:**

LFB:.....Worzala -

**Topic:**

Examination fees

**Instructions:**

See Attached

**Drafting History:**

<u>Vers.</u>	<u>Drafted</u>	<u>Reviewed</u>	<u>Typed</u>	<u>Proofed</u>	<u>Submitted</u>	<u>Jacketed</u>	<u>Required</u>
/1	kunkemd 05/26/99	gilfokm 05/26/99	martykr 05/28/99	_____	lrb_docadmin 05/28/99		

FE Sent For:

<END>

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1/?	kunkemd	1-5-26-99 Kmg	Km 5/27	JZ S 4/28			

FE Sent For:

<END>

60419

**Worzala, David**

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**From:** Worzala, David  
**Sent:** Wednesday, May 26, 1999 10:45 AM  
**To:** Kunkel, Mark  
**Subject:** RE: Reg. and Licensing?

They already did them and I have been remiss in getting you information on what needs to be done. The following actions were taken:

1. On paper 821, the Committee made the exam fee subject to the GPR skim of 10% as is done in R&L renewal fees. Therefore the appropriation language will need to be changed to reflect this.
2. On paper 825, the Committee corrected the initial credential fee to be 44 not 47. DOA mistakenly put the wrong number into the budget bill.
3. No motions passed.

That is all that happened. So I will fax you the issue papers referenced above and you can go to it. Thanks for the reminder. DW

-----Original Message-----

**From:** Kunkel, Mark  
**Sent:** Wednesday, May 26, 1999 10:39 AM  
**To:** Worzala, David  
**Subject:** Reg. and Licensing?

Dave,

When is Jt. Finance scheduled to do DQRL budget matters?

Just curious,

---

Mark Kunkel  
Legislative Attorney  
State of Wisconsin  
Legislative Reference Bureau

mark.kunkel@legis.state.wi.us  
(608) 266-0131

**Legislative Fiscal Bureau**

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

May 11, 1999

Joint Committee on Finance

Paper #821

**Examination Fees -- Vendor Payments (R&L)**

[LFB 1999-01 Budget Summary: Page 522, #2]

**CURRENT LAW**

The Department of Regulation and Licensing (R&L) is responsible for ensuring that applicants for credentials pass any exams required by statute before obtaining a credential. The Department is authorized to charge a fee for administering the exam as long as the charges do not exceed the Department's best estimate of the cost of preparing, administering and grading the examination or obtaining and administering an approved examination from a testing service.

A credential applicant will either take an R&L administered exam or an exam given by a contract vendor who has been contracted by R&L to administer the exam. In both cases, R&L's Office of Examinations staff must have approved the content of the exam. However, the payment of exam costs is currently accounted for differently depending on who actually administers the exam. In the case of exams where R&L is responsible for administering the exam, the applicant pays the required exam fee to R&L directly. In the case of exams administered by a vendor, the applicant fees are collected directly by the vendor and retained by the vendor, except for the portion of the fee that is assessed to reflect R&L's contract administration costs which must be remitted by the vendor to R&L. The base year estimate of exam fees collected by R&L is \$596,600 and the estimated amount collected by vendors is \$1,421,700.

**GOVERNOR**

Provide \$1,421,700 PR annually to implement a change in the way outside test contractors receive payment for conducting credential applicant examinations. The State Controller's Office has found that the fees paid directly to vendors by applicants and currently retained by the vendor are state fees, and therefore, should be collected by R&L and deposited in the state treasury and that the expenditure of these revenues must then be made pursuant to a

specific appropriation of these revenues. In the case of R&L, this means that R&L should collect all the exam fees and then pay the contract vendors based on invoices detailing the services provided. To implement this requirement, the Governor recommends increasing the expenditure authority of the examinations appropriation to pay the vendors for their contracted costs to develop, conduct and grade examinations. Estimated additional expenditures are estimated to be equal to the additional fee collections from test applicants.

## DISCUSSION POINTS

1. The Department of Regulation and Licensing is responsible for credentialing and regulating 101 different professions, occupations, or types of business establishments in the state. The Department provides administrative and legal services, assistance in rulemaking, examinations and uniform enforcement procedures for both board-credentialed and directly-credentialed professions.

2. As a part of issuing credentials, it is estimated by R&L that over 41,800 examinations will be taken by credential applicants during the 1999-01 biennium. Exams are either administered by R&L or through an exam vendor. In general, the exams administered by R&L are those that have a small number of applicants or where the test is one developed by R&L. The tests administered by vendors are generally national exams or are ones for which there are larger numbers of applicants. Of the estimated 41,800 exams to be taken next biennium, roughly 28,600 or slightly more than two-thirds of the exams, will be administered by vendors and the remaining 13,200 will be administered through the Department.

3. While R&L's Office of Examinations approves the content of all exams, currently how the fee payment for an exam is accounted for differs depending on who administers the exam. In the case of exams where R&L pays the costs of proctoring and administering the exam, the applicant pays R&L directly. In the case of exams administered by a vendor, the exam fees are collected and retained by the contractor, except for a portion of the fee to reflect R&L's contract administration costs which must be remitted by the vendor to R&L.

4. Under current law, R&L examination costs, excluding the fee amounts paid directly to vendors and retained by them, are paid through a separate examinations appropriation. This appropriation is funded by exam fee revenues collected by R&L. The examination appropriations is used to fund expenditures by the Office of Examinations, including the costs of preparing and grading examinations. These costs also include R&L's activities to administer the exams directly, for example, the cost of hiring proctors and graders. Finally, these costs also include the expenses of contract administration in obtaining outside vendors to administer exams. There are seven positions in the Office of Examinations and the adjusted base level for the appropriation is \$643,700 PR.

5. Examination fees are established biennially by an examination fee study. In general, R&L's examination costs are estimated and any available revenues are identified and subtracted

from these costs to arrive at the total amount of fee revenue estimated to be needed in the next biennium. R&L also assumes retention of a 30% revenue balance reserve in the appropriation to ensure that R&L has sufficient funds to develop exams for new professions and to purchase exams. The resulting revenue needed in the next biennium is then distributed among the projected number of examinees to arrive at the exam fees for state administered exams.

6. In the case of R&L administered exams, the fee consists of exam development, written exam administration and oral or practical exam costs. An average cost for each of these activities is determined, assigned to each applicable professional examination and added together to get the fee charged to the applicant. For example, in the fee study for the 1999-01 biennium, if R&L administered a written exam that they had developed, the fee would be \$14 for the administration of the exam and \$21 for development of the test or a total exam fee of \$35.

7. The fee calculation method is different for vendor administered exams. The fees charged applicants for examinations provided by outside vendors consists of a vendor fee established by contract plus an add-on for R&L contract administration and any exam development costs. The vendor fee is determined through a competitive bidding process. However, if R&L develops the test, R&L uses the same exam development estimate for both the vendor and R&L administered exam development component of the exam fee. For example, if the bid price of a vendor exam was \$100, R&L would add contract administration costs of \$12 (from 1999-01 exam fee study) for a total exam fee of \$112. In addition, if R&L developed the test, an additional \$21 would be added for total exam fee of \$133.

8. Under current law, a vendor collects all the fees directly and then remits the administrative and any test development fee to R&L. There are currently 11 contracts with vendors that provide examinations for which the exam applicants pay the vendor directly.

9. The Governor's recommendation is to provide additional expenditure authority of \$1,421,700 PR annually, and an equivalent amount of estimated additional fees revenue, to bring the testing fees currently collected on behalf of the Department but paid directly to test providers to instead be fees collected by R&L and deposited in the examinations appropriation. The rationale for changing the accounting treatment of these exam fees is that these are state mandated exams and the fees collected are state monies to be deposited in the treasury. Then, to expend any revenues from the treasury, the Constitution requires that appropriation authority must be provided. In recent years, the State Controller's Office has attempted to bring these types of off-budget activities into the state budget. The Governor has recommended in this budget similar treatment for Office of the Commissioner of Insurance for fees for exams given by outside vendors.

10. However, the Governor's recommendation raises concerns in the two areas: (a) the level of estimated revenues and expenditures for exam fees for vendor-administered exams; and (b) whether this appropriation should continue to be exempt from the 10% general fund transfer requirement that applies to all other revenue received by the Department. Each of these issues is reviewed further in the following discussion points.

### Estimated Additional Revenues and Expenditures

11. The Department indicates that the revenue and expenditure estimates included in the Governor's recommendation were derived by increasing 1997-98 vendor revenues by 10%. In 1997-98, R&L reported vendor revenues of \$1,292,400 and the Governor's recommendation increases this amount by \$129,300 to \$1,421,700 annually.

12. It is unclear what the exact basis was for the ten percent increase assumption. This is partially because vendor receipts data has only been collected by R&L for two years and therefore, there is limited data on which to develop a reliable trend. However, if that two-year data were used, the increase from 1996-97 to 1997-98 was 12%.

13. An alternative method of estimating the amount that vendors will have to be paid in 1999-01 would be to instead use the estimated number of credential applicants that will take a vendor administered test in the next biennium and multiply that number by the estimated vendor exam fee amounts to arrive at the estimated total vendor share of total exam fees. This is similar to the methodology used by R&L to determine the examination fee that is charged for the exams administered by R&L. This methodology would result in estimated increased revenues of \$1,682,000 PR each year. A corresponding expenditure increase would then be indicated.

### General Fund Reimbursement

14. If the Committee approves the change to have R&L collect all of the exam fees and deposit these fees in the examinations appropriation, the Committee may want to consider whether it is appropriate to require 10% of the gross receipts of this appropriation to be credited to the general fund as reimbursement for indirect costs of services that are provided to the Board. Currently, the portion of R&L examination activity that is included in the examinations appropriation is not subject to the 10% general fund transfer position. However, in the case of the R&L's general operations appropriation, this 10% transfer requirement is required. Based on the revised estimated revenues of \$1,682,000 PR for vendor exams and estimated existing base revenues of \$669,200 for R&L administered exams, if the general fund reimbursement requirement were applied to these projected total exam appropriation revenues (a total of \$2,351,200 annually), an estimated \$235,100 GPR-earned would be generated annually.

15. Requiring a portion of the examination fee to be deposited to the general fund is to reimburse for R&L's share of general state costs, such as unbilled services provided by DOA. In addition to R&L, OCI and PSC are subject to a similar 10% transfer requirement. In the case of R&L, the initial credential fee and the renewal fees currently collected by R&L are subject to this requirement but exam fees are not. Finally, in the case of OCI, where this same treatment of vendor fees has already been approved by the Committee, the 10% transfer provision will be applied to these fees.

16. The argument against requiring that 10% of examination fees to be deposited in the general fund is that current R&L exam fees are exempt from this requirement. If the general fund

requirement were applied, the amount of current exam fees would have to be increased to provide the same net amount of revenue to meet R&L's projected expenditure needs.

**ALTERNATIVES TO BASE**

1. Approve the Governor's recommendation to change the way R&L pays outside test contractors and increase PR expenditures \$1,421,700 annually and PR revenue by the same amount.

<u>Alternative 1</u>	<u>PR</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$2,843,400 \$0
1999-01 FUNDING (Change to Base) [Change to Bill]	\$2,843,400 \$0

2. Modify the Governor's recommendation by estimating expenditures and revenues of \$1,681,900 PR annually to reflect a revenue estimate based upon the 1999-01 exam fee study.

<u>Alternative 2</u>	<u>PR</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$3,363,800 \$520,400
1999-01 FUNDING (Change to Base) [Change to Bill]	\$3,363,800 \$520,400

3. Modify the Governor's recommendation by providing estimated expenditures and revenues of \$1,681,900 PR annually to reflect an estimate based upon the 1999-01 exam fee study. In addition, require that 10% of the total exam fee revenues in 1999-01 be deposited to the general fund. Increase estimated fee revenues by \$235,100 annually and estimated GPR-Earned by \$235,100 annually.

<u>Alternative 3</u>	<u>GPR</u>	<u>PR</u>	<u>TOTAL</u>
1999-01 REVENUE (Change to Base) [Change to Bill]	\$470,200 \$470,200	\$3,834,000 \$990,600	\$4,304,200 \$1,460,800
1999-01 FUNDING (Change to Base) [Change to Bill]	\$0 \$0	\$3,363,800 \$520,400	\$3,363,800 \$520,400

4. Maintain current law.

*chosen alternative*



<u>Alternative 4</u>	<u>PR</u>
1999-01 REVENUE (Change to Base)	\$0
(Change to Bill)	- \$2,843,400
1999-01 FUNDING (Change to Base)	\$0
(Change to Bill)	- \$2,843,400

Prepared by: David Worzala



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRBb0419/1

MDK:k:....

King

SOON

LFB:.....Worzala – Examination fees

FOR 1999-01 BUDGET — NOT READY FOR INTRODUCTION

**LFB AMENDMENT**

**TO 1999 ASSEMBLY BILL 133 AND 1999 SENATE BILL 45**

1 At the locations indicated, amend the bill as follows:

2 ✓ 1. Page 384, line 17: after that line insert:

3 “SECTION 226m. 20.165 (1) (i) of the statutes is amended to read:

4 20.165 (1) (i) *Examinations; general program operations.* ~~All~~ Ninety percent  
5 of all moneys received under s. 440.05 (1) (b) for the purposes of preparing,  
6 administering and grading examinations. Notwithstanding s. 20.001 (3) (c), any  
7 unencumbered balance in this appropriation account, excluding any amount  
8 specified by the secretary of administration that is reserved for the payment of future  
9 employe compensation or fringe benefit costs, at the end of each fiscal year which

1 exceeds 30% of the estimated amount shown in the schedule under s. 20.005 for that  
2 fiscal year shall be transferred to the appropriation account under par. (g).”

**History:** 1971 c. 125; 1973 c. 90, 156, 333; 1975 c. 39; 1977 c. 29, 400, 418; 1979 c. 34; 1979 c. 175 s. 53; 1979 c. 221 s. 2202 (45); 1981 c. 20; 1983 a. 27; 1985 a. 29; 1989 a. 31, 307; 1991 a. 167, 269, 315; 1993 a. 16, 102, 490; 1995 a. 27, 461; 1997 a. 27.

3 (END)



State of Wisconsin  
1999 - 2000 LEGISLATURE

LRBb0419/1  
MDK:kmg:km

LFB:.....Worzala - Examination fees

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12

(END)