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April 1, 2011

TO: Members
Wisconsin Legislature

FROM: Bob Lang, Director

SUBJECT: Budget Adjustment Legislation

This document summarizes the provisions of January 2011 Special Session SB 12 and AB 13. These are companion bills that adjust the state's 2010-11 budget. Each of the provisions of the bills was included in January 2011 Special Session Senate Bill 11/Assembly Bill 11. However, the general purpose revenue (GPR) increase for medical assistance-related programs in these bills is $24.0 million above that of the previous bills. Those amounts are shown below (in millions).

	SB 11/AB 11	SB 12/AB 13	Increase
MA Benefits	$134.0	$149.0	$15.0
MA Administration Contracts	16.0	21.0	5.0
MA Income Maintenance	2.5	6.5	4.0
Total	$152.5	$176.5	$24.0

Following this introduction is a table of contents, 2010-11 general fund condition statements, and a list of the bills' general fund fiscal effects for 2010-11. One general fund condition statement is shown under SB 12/AB 13 and another is shown which combines SB 12/AB 13 and 2011 Act 10.

The document then summarizes each of the items of SB 12/AB 13 and provides fiscal effects, if any, for 2010-11 and 2011-13.

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Estimated 2010-11 General Fund Condition Statements

	SB 12/AB 13	2011 Act 10 and SB 12/AB 13
Revenues		
Opening Balance, July 1	$25,718,100	$25,718,100
Taxes	12,691,400,000	12,691,400,000
Departmental Revenues		
Tribal Gaming	22,330,300	22,330,300
Other	754,733,300	782,624,700
Total Available	$13,494,181,700	$13,522,073,100
Appropriations		
Gross Appropriations	$14,305,321,700	$14,297,631,300
Compensation Reserves	95,962,700	95,962,700
Biennial Appropriation Adjustment	-242,677,200	-242,677,200
Sum Sufficient Reestimates	-158,637,800	-158,637,800
Less Lapses	-552,112,600	-554,021,200
Net Appropriations	$13,447,856,800	$13,438,257,800
Balances		
Gross Balance	$46,324,900	$83,815,300
Less Required Statutory Balance	-65,000,000	-65,000,000
Net Balance, June 30	-$18,675,100	$18,815,300

2010-11 General Fund Fiscal Effects

SB 12/AB 13

	2010-11
REVENUES	
Reduction in DOA Required Transfers/ Lapses to the General Fund	-$79,000,000
APPROPRIATIONS	
Corrections	$19,537,900
Earned Income Tax Credit	-37,000,000
Medical Assistance (MA) Benefits	149,000,000
Medical Assistance Administration Contracts	21,000,000
Medical Assistance Income Maintenance	6,500,000
Total	$159,037,900
LAPSES OR TRANSFERS	
Debt Restructuring	$165,000,000
Corrections -- Fuel and Utilities	- 2,000,000
Total	$163,000,000
Effect on General Fund Balance	-$75,037,900

BUDGET MANAGEMENT

1. REDUCE 2007 ACT 20 AUTHORITY FOR DOA TO LAPSE OR TRANSFER MONEYS TO THE GENERAL FUND

	2010-11
GPR-Earned	-$79,000,000

Reduce the 2007 Act 20 lapse or transfer requirement by $79 million, which currently requires the Secretary of the Department of Administration (DOA) to lapse or transfer $200 million in the 2009-11 biennium from the unencumbered balances of appropriations of executive branch state agencies, other than sum sufficient and federal appropriations. This required $200 million lapse and transfer amount was included as a revenue to the general fund (GPR-Earned) in 2010-11 in the January 31, 2011, revenue estimate letter by this office, so the effect of this provision would be to reduce estimated revenues to the general fund by $79 million in 2010-11.

For the 2009-11 biennium, 2007 Act 20 and 2009 Acts 2 and 28 established lapse or transfer requirements for the Secretary of DOA totaling $641.8 million. The administration made approximately $300 million of lapses or transfers in 2009-10, leaving $341.8 million remaining to be lapsed or transferred in 2010-11. Staff from DOA indicate that the proposed reduction of $79 million would reduce the cumulative requirements under 2007 Act 20 and 2009 Acts 2 and 28 to reflect the actual amount of lapses and transfers that DOA believes can be made during the remainder of the current fiscal year.

[Bill Section: 3]

BUILDING COMMISSION

1. GPR DEBT RESTRUCTURING

	2010-11	2011-13
GPR-Lapse	$165,000,000	$0
GPR	0	29,570,000
BR	165,000,000	0

Provide $165,000,000 of general obligation refunding bonding for the purpose of restructuring $165,000,000 in outstanding principal on GPR-supported, general obligation debt that would otherwise be paid off in May, 2011. The bill would authorize this bonding by increasing a current refunding authorization from $309,000,000 to $474,000,000 (an increase of $165,000,000) of state public debt that may be issued to refund any unpaid indebtedness relating to tax-supported or self-amortizing facilities. These bonds cannot be issued after June 30, 2011.

Although this bonding could be used to restructure both tax-supported and self-amortizing bonds, the administration indicates that only GPR-supported bonds would be restructured. Based on information from the administration on the potential structure of these refunding bonds, this provision would: (a) increase GPR-Lapses by $165,000,000 in 2010-11 from GPR debt service appropriations to reflect the reduced GPR principal payments to be made from those appropriations in that year; and (b) increase anticipated GPR debt service costs in the 2011-13 biennium by $29,570,000 to reflect the initial principal payment ($15,560,000) associated with the expected ten-year amortization of the $165,000,000 in deferred principal and the initial interest payments ($14,010,000) due on that principal.

[Bill Section: 1]

CHILDREN AND FAMILIES

1. EARNED INCOME TAX CREDIT

	2010-11
GPR	- $37,000,000
FED	37,000,000

Provide $37,000,000 in 2010-11 in temporary assistance for needy families (TANF) block grant funds for the earned income tax credit (EITC), which would be transferred from the Department of Children and Families (DCF) to the EITC supplement appropriation, and reduce GPR funding for the EITC by a corresponding amount.

The EITC is a refundable tax credit that provides assistance to low-income workers. The credit provides a supplement to the wages and self-employment income of lower-income families and is intended to offset the impact of the taxes paid by such families and increase the incentive to work. The federal TANF regulations allow states to utilize TANF funds for the refundable portion of the state EITC. Approximately 77% of the EITC is refundable. The EITC is currently funded with TANF and GPR. The EITC is estimated to cost $132.9 million ($6.7 million FED and $126.2 million GPR) in 2010-11.

On June 8, 2010, the Department of Administration submitted a request to the Joint Committee on Finance under sections 16.515 and 16.505(2) of the Wisconsin statutes to increase the amount of federal TANF funds used to support the EITC by $29.0 million annually during the 2009-11 biennium. TANF funding for the EITC would have increased from $6.7 million to $35.7 million annually.

Of the requested TANF funds, $29,000,000 in 2009-10 and $9,759,300 in 2010-11 was available to be reallocated to the EITC due to underspending in Wisconsin Shares, the state's child care subsidy program. An additional $19,240,700 in 2010-11 was available under the federal American Recovery and Reinvestment Act (ARRA) of 2009. On June 24, 2010, the Committee approved the use of $19,240,700 in ARRA funds for the EITC in 2009-10. The Committee placed the remaining $38,759,300 from underspending in Wisconsin Shares in its federal funds general program supplementation appropriation and required DCF to return to the Committee to request any further expenditure of these funds.

The bill would increase the total amount of TANF funds allocated for the EITC in 2010-11 to $43,664,200 (an increase of $37,000,000) and would transfer $37,000,000 of the funds that had been placed in the Committee's federal funds general program supplemental appropriation to DCF for the EITC. The bill would then transfer these funds from DCF to the EITC supplement appropriation. As a result, although the overall cost of the EITC in 2010-11 is still estimated at $132.9 million, GPR for the EITC would be $89.2 million, rather than $126.2 million.

The most recent estimates of TANF-related programs show an ending TANF balance of $91.1 million at the end of 2010-11. With the allocation of an additional $37.0 million in TANF funds for the EITC, this balance would decrease to $54.1 million. The TANF balance at the end of the 2011-13 biennium would depend on any changes made during the biennial budget.

It should be noted that under 2011 Act 10, the TANF statutory allocation for the EITC was increased to $43,664,200 and the Committee's federal funds general program supplemental appropriation was reduced by $37,000,000. As a result, this bill would decrease the Committee's appropriation by $37,000,000 only if this reduction did not occur pursuant to the Act 10 provision.

[Bill Sections: 2, 9208(1), 9227(1), and 9241(1)]

CORRECTIONS

1. DEPARTMENT OF CORRECTIONS SHORTFALL - ADULT GENERAL PROGRAM OPERATIONS AND COMMUNITY CORRECTIONS

	2010-11
GPR	$19,537,900
GPR-Lapse	- $2,000,000

Provide $19,537,900 to the Department of Corrections to address a shortfall in the Department's adult general program appropriation [s. 20.410(1)(a)]. In addition, transfer funding from the following Corrections' appropriations to the general program appropriation: (a) energy costs, $5,362,500 GPR; (b) contract bed funding, $2,825,300 GPR; (c) Earned Release Review Commission, $100,200 GPR; (d) serious juvenile offender program, $71,000 GPR, (e) pharmacological treatment for child sex offenders, $10,700 GPR; and (f) juvenile general program operations, $36,600 GPR. (In total, funding in the Department's general program operations budget would increase by $27,944,200 GPR in 2010-11.)

Transfer $2,138,400 from the serious juvenile offender program to the Department's community corrections appropriation [s. 20.410(1)(b)].

According to the Department, the shortfall is associated with insufficient funding to address: (a) the 2% raise provided for represented staff in 2009; (b) fringe benefit expenditures, which are higher than the anticipated supplement amount; (c) non-salary institutional costs, including health care services and inmate supplies; and (d) increased LTE costs related to providing mental health services.

Of the amount transferred from the energy costs appropriation ($5,362,500), $2,000,000 had previously been estimated as a lapse to the general fund. As a result, the GPR lapse estimate is reduced by $2,000,000 in 2010-11.

[Bill Sections: 9211(1)&(2)]

EMPLOYEE TRUST FUNDS

1. REALLOCATION OF GROUP HEALTH AND PHARMACY BENEFIT RESERVES

Notwithstanding any action of the Group Insurance Board, require the Secretary of ETF to allocate, from reserve accounts established for group health insurance and pharmacy benefits for state employees, an amount equal to $28,000,000 to reduce employer costs for providing group health insurance for state employees for the period beginning on July 1, 2011, and ending on December 31, 2011.

Under current law, ETF and the Group Insurance Board (GIB) have the authority to establish reserves to meet the requirements of providing health and pharmacy benefits. The monthly premiums charged for health insurance coverage for state employees include amounts that are allocated to the state's self-insured prescription drug plan to cover the prescription drug benefit costs of the program. In a report to GIB in August, 2010, the consulting actuary showed a net fund balance for the pharmacy reserve of $90.8 million. The reserve for these pharmacy benefits includes accrued, but not received drug rebates and accrued Medicare retiree drug subsidies. DOA officials indicate that the reserve is large enough to support the one-time reallocation provided for under the bill. The bill does not specify how the reallocation of costs are to be made or how the savings will be captured by the state.

[Bill Section: 9115(1)]

HEALTH SERVICES

1. MEDICAL ASSISTANCE -- BENEFITS FUNDING

	2010-11
GPR	$149,000,000
FED	300,397,200
SEG	6,700,000

Increase funding for medical assistance (MA) benefits by $456,097,200 ($149,000,000 GPR, $300,397,200 FED, and $6,700,000 SEG) in 2010-11 to address a projected shortfall in funding for MA benefits during the 2009-11 biennium. The GPR increase ($149,000,000) represents additional state funding that would be provided to support MA benefit costs in the 2009-11 biennium. The SEG increase ($6,700,000) reflects the administration's intention to fully expend the projected uncommitted balance in the MA trust fund as of June 30, 2011. The FED increase ($300,397,200) represents an estimate of the additional federal matching funds the state would be able to claim, based on the increases in GPR and SEG funding that would be authorized in the bill.

The GPR increase in the bill for MA benefits ($149.0 million) is $15.0 million more than the amount that would have been provided under Special Session Assembly Bill 11, as introduced. Since that time, the administration has reestimated the amount of the projected shortfall, using expenditure data through March 23, 2011.

Higher-than-expected enrollment is the primary reason MA benefit costs have exceeded 2009 Act 28 (the 2009-11 budget) funding levels. This is shown in the following table, which compares the enrollment projections used as the basis for the benefits funding provided in Act 28 to actual MA enrollment in 2009-10, and to the Department's most recent enrollment projections for 2010-11, for each major MA eligibility group.

Average Monthly Enrollment
by Major MA Eligibility Group

Group	Fiscal Year	Act 28 Projection	2009-10 Actual and Current 2010-11 Estimate Enrollment	Difference Number	Difference Percentage
Elderly, Blind and Disabled	2009-10	188,500	198,900	10,400	5.5%
	2010-11	187,300	205,800	18,500	9.9
BadgerCare Plus	2009-10	638,100	705,600	67,500	10.6
	2010-11	648,400	745,800	97,400	15.0
BadgerCare Plus Core Plan	2009-10	24,900	56,000	31,100	124.9
	2010-11	39,500	49,200	9,700	24.6
Other	2009-10	77,600	83,800	6,200	8.0
	2010-11	78,500	95,100	16,600	21.1
Total MA	2009-10	929,100	1,044,300	115,200	12.4%
	2010-11	953,700	1,095,900	142,200	14.9%

As indicated, total average monthly enrollment for MA programs exceeded Act 28 projections by 12.4% in 2009-10, and is expected to exceed Act 28 projections by 14.9% in 2010-11. (The table excludes individuals enrolled in SeniorCare.) By contrast, the projected GPR shortfall of $149.0 million for 2009-11 MA benefit expenditures represents 6.0% of the GPR budgeted for that purpose in Act 28. The principal reason the projected GPR deficit, as stated in percentage terms (6.0%), is smaller than the greater-than-expected enrollment increases

(12.4% in 2009-10 and 14.9% in 2010-11) is the additional federal funds the state received during the 2009-11 biennium, compared to what was anticipated in Act 28. Those additional federal dollars came from three sources.

First, in February, 2010, the U.S. Department of Health and Human Services (DHHS) announced that the enhanced federal medical assistance percentages (FMAPs) available to states under the American Recovery and Reinvestment Act of 2009 (ARRA) would apply to states' clawback payments to the federal government. States make those clawback payments to reimburse the federal government for a portion of the savings they realize on prescription drugs costs for dual eligible enrollees following the creation of Medicare Part D. The DHHS decision to apply ARRA's enhanced FMAPs to those clawback liabilities benefited Wisconsin's MA program by approximately $77 million during the 2009-11 biennium. Second, on August 10, 2010, the President signed P.L. 111-226 into law, which partially extended the ARRA-enhanced FMAPs states receive for their MA programs through June 30, 2011. Under ARRA, those enhanced FMAPs had originally been set to expire on December 31, 2010. At the time P.L. 111-226 was enacted, DHS estimated that it would generate approximately $194 million in additional federal MA matching funds for Wisconsin. Third, in December, 2010, the state received a $23.1 million "bonus payment" from the federal government under the Children's Health Insurance Program Reauthorization Act of 2009 for simplifying MA enrollment and renewal processes.

In addition, the bill would repeal an Act 28 provision that does the following: (a) prevents the unencumbered balance in the GPR-funded MA benefits appropriation from reverting to the general fund at the end of the 2009-11 biennium; and (b) authorizes DHS, in the 2009-11 biennium, to expend the amount equal to this unencumbered balance, in addition to the amounts budgeted in the GPR-funded MA benefits appropriation for state fiscal years 2009-10 and 2010-11.

SeniorCare. Not reflected in the bill is the administration's current estimate that SeniorCare will end the 2009-11 biennium with a GPR surplus of approximately $20.4 million. These funds are anticipated to lapse to the general fund at the end of the 2010-11 fiscal year. This anticipated lapse is reflected in the 2010-11 general fund condition statement.

[Bill Sections: 4 and 9221(1),(4)&(5)]

2. MEDICAL ASSISTANCE -- ADMINISTRATION CONTRACTS

	2010-11
GPR	$21,000,000
FED	21,000,000

Provide $21,000,000 GPR to fund a projected shortfall for MA administrative contract expenses in the 2009-11 biennium. As most MA administrative costs are supported 50% with federal matching funds, it is estimated that the GPR increase in the bill would result in a corresponding increase in federal funds to support administrative contracts.

The GPR increase in the bill ($21.0 million) is $5.0 million more than the amount that would have been provided under Special Session Assembly Bill 11, as introduced. Since that time, the administration has reestimated the shortfall, increasing the projected need for supplemental funding.

DHS is responsible for a variety of administrative duties in connection with the state's Medicaid, BadgerCare Plus, and FoodShare programs. Those responsibilities include eligibility determinations, program integrity, rate-setting, enrollee services, and federal reporting requirements. DHS contracts with other entities to help perform some of those duties. The largest such contracts are with HP Enterprise Services, which acts as the state's fiscal agent, its enrollment broker, and which helps administer the Enrollment Services Center (ESC). DHS also has major contracts with Deloitte and the Department of Administration's Division of Enterprise Technology relating to the client assistance for reemployment and economic support (CARES) system, a mainframe system that assists state and county staff in making eligibility determinations and maintaining case information for several state assistance programs. In addition to these major contracts, DHS contracts for a range of consulting, actuarial, and other administrative services.

Act 28 budgeted $79,849,100 ($31,451,700 GPR and $48,397,400 FED) in 2009-10 and $78,229,900 ($32,175,900 GPR and $46,054,000 FED) in 2010-11 to support MA administrative contract costs. In addition, several sources of program revenue (PR), including the $60 annual enrollment fees paid by BadgerCare Plus Core Plan participants, are expected to contribute approximately $5.2 million and $5.4 million toward these costs in 2009-10 and 2010-11, respectively.

The ESC is the single largest source of the projected cost overruns for MA administrative contracts. The ESC is located in Madison and was established by DHS to perform certain income maintenance activities for the BadgerCare Plus Core Plan. Two factors contributed to the ESC cost overruns during the biennium. The first was the large number of enrollment applications that accompanied the Core Plan's statewide expansion in July, 2009. Act 28 had assumed that the Core Plan's average monthly enrollment would be 24,900 in 2009-10. The program's actual average monthly enrollment that year of 56,000 was more than twice the budgeted assumption. In addition, this greater-then-expected demand for Core Plan services prompted DHS to establish a waitlist which by December, 2010, had grown to approximately 80,000 individuals. DHS added staff to the ESC to process these Core Plan applications, and the resulting personnel costs contributed to the projected cost overruns.

The second factor was the Department's decision to have ESC perform certain income maintenance activities for childless adults throughout the state who applied for FoodShare benefits. Prior to that time, those activities were performed by county income maintenance workers. While the Department's decision reduced the demands on county income maintenance agencies (particularly at a time of sharply rising FoodShare caseloads), it required DHS to further increase ESC staffing levels.

Most of the ESC's costs are personnel-related. According to DHS, the ESC is currently staffed by 333 HP employees and 73 public employees. As of December, 2010, those personnel were responsible for approximately 115,100 active cases, including the following: (a) 47,000 MA-only cases; (b) 26,300 combined MA/FoodShare cases; and (c) 41,800 FoodShare-only cases.

ESC costs exceeded Act 28 funding levels by $3.2 million GPR in 2009-10, and are projected to exceed budgeted levels by an additional $14.25 million GPR in 2010-11. Several other items also contributed to the projected GPR shortfall in the administrative contracts appropriation during the 2009-11 biennium, including systems-related costs stemming from the Department's ForwardHealth rate reform project. Act 28 did not provide any funding for those rate reform costs, which totaled approximately $1.3 million GPR in 2009-10 and $2.7 million GPR in 2010-11.

DHS addressed part of the 2009-11 GPR shortfall in the administrative contracts appropriation by expending approximately $10.8 million of the revenues credited to the segregated MA trust fund. The fiscal effect of using those MA trust fund revenues to fund administrative contracts costs instead of MA benefits costs was to increase the projected 2009-11 GPR shortfall for MA benefits by $10.8 million. That GPR shortfall is addressed in the item entitled "Medical Assistance -- Benefits Funding." The remaining 2009-11 GPR shortfall in the MA administrative contracts appropriation of $21.0 million is addressed in this item.

[Bill Section: 9221(2)]

3. MEDICAL ASSISTANCE -- INCOME MAINTENANCE

	2010-11
GPR	$6,500,000
FED	6,500,000

Increase funding by $6,500,000 GPR to fund the projected deficit in the DHS income maintenance appropriation in 2010-11. Because these expenditures are typically supported 50% with federal matching funds, it is estimated that the GPR increase in the bill would result in a corresponding increase in federal funds.

The GPR increase in the bill for income maintenance contracts ($6.5 million) is $4.5 million more than the amount that would have been provided under Special Session Assembly Bill 11, as introduced. Since that time, the administration has reestimated the shortfall, increasing the projected need for supplemental funding.

Act 28 provided $31,451,700 GPR in each year of the 2009-11 biennium to support the state share of costs funded by the income maintenance appropriation. Those costs include state support for county income maintenance agencies, the Wisconsin funeral and cemetery aids program, and the FoodShare for qualified aliens program. Funding in the income maintenance appropriation is also used to support the state's share of the costs to operate Milwaukee Enrollment Services (MilES), which is responsible for income maintenance activities in Milwaukee County. DHS has indicated that cost overruns in the funeral and cemetery aids program, the FoodShare for qualified aliens program, and for MilES all contributed to the projected GPR shortfall of $6,500,000.

[Bill Section: 9221(3)]