



## Legislative Fiscal Bureau

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May 3, 2007

Joint Committee on Finance

Paper #445

### **Fuel and Utilities (DHFS - Institutions)**

#### *Bill Section*

[LFB 2007-09 Budget Summary: Page 339, #10]

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#### **CURRENT LAW**

The Department of Health and Family Services (DHFS) incurs fuel and utility costs to operate the state centers for the developmentally disabled, the state mental health institutes, the Wisconsin Resource Center (WRC), and the Sand Ridge Secure Treatment Center (SRSTC). With respect to the state mental health institutes (Mendota and Winnebago), those costs are assigned to payment sources based on the estimated percentage of their respective populations whose care will be supported by GPR (nearly all forensic patients and other non-billable patients), and by program revenues contributed by counties, medical assistance, and other third-party payers (civil commitments, MA recipients, and certain other patients). For the 2007-09 biennium, the administration estimates those population splits will be 70% GPR/30% PR at Mendota, and 55% GPR/45% PR at Winnebago. In contrast, the entire fuel and utility costs for WRC and SRSTC are assigned to GPR, while the entire fuel and utility costs for the state centers for the developmentally disabled are assigned to PR (primarily medical assistance reimbursement).

#### **GOVERNOR**

Provide \$1,597,300 (\$309,600 GPR and \$1,287,700 PR) in 2007-08 and \$2,012,200 (\$369,500 GPR and \$1,642,700 PR) in 2008-09 to fund projected increases in fuel and utility costs at the centers for the developmentally disabled, the mental health institutes, WRC and SRSTC.

## DISCUSSION POINTS

1. The administration estimated the fuel and utility costs to be funded by PR for the DHFS facilities listed above in the following manner. First, the administration increased the actual PR-funded fuel and utilities costs in 2005-06 by 11.3%, which was the average annual increase during the prior two years, to arrive at its estimate of PR-funded costs in 2006-07. The administration then inflated that 2006-07 estimate by 5.7% per year for 2007-08 and 2008-09 to arrive at the amount of PR funding for DHFS fuel and utilities costs recommended in the bill. As specified in the Department of Administration's (DOA's) 2007-09 biennial budget instructions, the PR-funding for fuel and utilities costs were calculated by DHFS, not DOA.

2. The Governor's bill also includes a recommendation with respect to the GPR-funded portion of the DHFS fuel and utilities costs. To generate its GPR recommendation for fuel and utilities costs, DOA used an average of inflation scalers supplied by the DOA Division of State Facilities Energy Procurement Manager, the consumer price index, and data contained in the Global Insight U.S. Economic Outlook dated December, 2006. DOA's estimates also reflect a weather normalization factor based on annual degree day data from the National Weather Service. The resulting estimates of annual increases in fuel and utilities costs, as used by DOA for purposes of estimating the GPR-funded fuel and utilities costs for DHFS, are lower than the inflation factors DHFS used to arrive at its estimate of PR-funded fuel and utilities costs for 2007-08 and 2008-09.

3. In addition, the actual fuel and utilities costs for these DHFS facilities through the first nine months of 2006-07 are approximately 2.0% higher than they were through the first nine months of 2005-06. This actual year-to-date increase of 2.0% is lower than the 11.3% DHFS used to project the PR-funded fuel and utilities costs for 2006-07. Using 2.0%, rather than 11.3% to estimate 2006-07 fuel and utilities costs, and using the DOA inflation estimates rather than the DHFS inflation estimates for 2007-08 and 2008-09, reduces the estimated amount of PR required to fund the fuel and utilities expenses for these DHFS facilities by \$544,700 in 2007-08 and by \$672,000 in 2008-09. For the reasons discussed above, the Committee could adopt these revised cost estimates for the PR-funded portion of the fuel and utilities costs.

4. Alternatively, the Committee could decide that the DHFS methodology to project PR-funded fuel and utilities costs, as described above, is reasonable, and on that basis, approve the Governor's recommendation with respect to those PR-funded fuel and utilities costs.

5. With respect to the GPR-funded portion of the fuel and utilities costs for MMHI and WMHI, the administration failed to adjust those costs to reflect DOA's inflation projections for the upcoming biennium. If those inflation factors had been applied to the GPR-funded portion of the fuel and utilities costs at MMHI and WMHI, the amount of GPR required to fund those costs would increase by \$110,500 in 2007-08, and by \$186,300 in 2008-09. The Committee could decide to modify the Governor's request by increasing the GPR recommended under the bill by those amounts.

6. The Committee could also decide not to increase GPR funding in the bill for fuel

and utility costs, the consequence of which would be to under-fund the GPR-supported portion of the fuel and utilities costs at MMHI and WMHI in the event actual costs during the biennium match the administration's inflation and use projections. In that event, DHFS could seek additional GPR funding through the s. 13.10 process, or fund the additional GPR-supported fuel and utilities by reallocating PR within the agency's general program operations appropriation, the effect of which may be to have those PR funding sources (generally speaking, the counties and medical assistance) fund a disproportionate share of these facilities' fuel and utility costs.

**ALTERNATIVES TO BILL**

1. Approve the Governor's recommendations.

<b>ALT 1</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$679,100
PR	<u>0</u>	<u>2,930,400</u>
Total	\$0	\$3,609,500

2. Modify the Governor's recommendation by reducing funding in the bill by \$544,700 PR in 2007-08, and by \$672,000 PR in 2008-09.

<b>ALT 2</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$0	\$679,100
PR	<u>- 1,216,700</u>	<u>1,713,700</u>
Total	- \$1,216,700	\$2,392,800

3. Modify the Governor's recommendation by: (a) reducing the amount of PR provided by \$544,700 in 2007-08, and by \$672,000 in 2008-09 (consistent with Alternative 2); and (b) increasing the amount of GPR provided by \$110,500 in 2007-08, and by \$186,300 in 2008-09.

<b>ALT 3</b>	<b>Change to Bill Funding</b>	<b>Change to Base Funding</b>
GPR	\$296,800	\$975,900
PR	<u>- 1,216,700</u>	<u>1,713,700</u>
Total	- \$919,900	\$2,689,600

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