



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #303

Juvenile Correctional Services Appropriation Deficit (Corrections -- Juvenile Corrections)

[LFB 2009-11 Budget Summary: Page 228, #8]

CURRENT LAW

Under current law, statutory provisions provide that "program revenues" consist of revenues paid to the general fund, which are credited to an appropriation to finance a specified program or state agency. For any program revenue appropriation which is limited to the amounts in the appropriation schedule, no expenditures may be made exceeding the amounts in the schedule.

The juvenile correctional services program revenue appropriation [s. 20.410(3)(hm)] funds the operation of juvenile correctional facilities and certain aftercare services provided to juveniles following release from the facilities. The state's three juvenile correctional facilities include: for adjudicated males, the Ethan Allen School and the Lincoln Hills School, and for adjudicated females, and the Southern Oaks Girls School. Base funding for the appropriation is \$52,870,700 PR annually.

The program revenue credited to this appropriation derives from daily rates charged for facility care that are paid by counties or the state for certain serious juvenile offenders. If moneys generated by the daily rate exceed actual institutional costs in a fiscal year by 2% or more, the amounts in excess of 2% must be remitted to the counties during the subsequent fiscal year, in amounts proportionate to the total number of days of juvenile placements at the facilities for each county and for the state.

The juvenile correctional services appropriation is estimated to have a deficit of \$3.1 million by the end of the 2008-09 fiscal year.

GOVERNOR

Provide that all available program revenue balances in the juvenile residential aftercare and corrective sanctions appropriations be transferred to the juvenile correctional services appropriation on June 30, 2009. The intent of the provision would be to lower the amount of the juvenile correctional services appropriation deficit.

DISCUSSION POINTS

1. Under the Department of Corrections, the program revenue appropriation for juvenile correctional services receives revenue from payments by counties and the state based on statutory daily rates established in each biennial budget process. Daily rates are calculated on the basis of budgeted costs for facility care and the projected average daily population (ADP) of juveniles placed in the facilities in each fiscal year. As a result, the revenue generated in a given fiscal year is determined by the established daily rate and the actual number of juveniles placed in the facilities.

2. Since the 2000-01 fiscal year, expenditures in the appropriation have generally exceeded revenue, resulting in year-end deficits. The table below identifies the amount of the deficit by year.

	<u>Ending Cash Balance</u>
2000-01	-\$2,761,255
2001-02	-2,061,428
2002-03	-3,138,824
2003-04	671,263
2004-05	-1,391,307
2005-06	-3,631,580
2006-07	-9,965,545
2007-08	-5,788,653

3. The recurring deficits are the result of insufficient revenue to support costs, generally as a result of unanticipated declines in juvenile populations. For example, under the 2003-05 biennial budget act, the ADP for juvenile correctional facilities was estimated to be 800 annually, while the actual ADP for 2003-04 totaled 693 juveniles.

4. One way the Department has attempted to address the deficit is by reducing operating expenditures. Over the past several biennia, the Department has closed juvenile housing units, avoided filling position vacancies, and eliminated long-term vacant positions and associated funding. The 2003-05 budget eliminated \$7,182,400 PR and 46.04 PR positions. The 2005-07 budget deleted \$17,929,800 PR and 169.24 PR positions. Under the 2007-09 budget, \$3,117,400 PR and 14.92 PR positions were deleted.

5. Reducing costs for the facilities is difficult, however, because a large proportion of total expenditures are attributable to fixed operational costs, such as necessary minimum staffing requirements and ongoing infrastructure costs. These types of fixed costs do not vary substantially due to a moderate increase or decrease in juvenile populations.

6. As with AB 75, both the 2005-07 and 2007-09 budgets included the provision to transfer available PR balances from the juvenile residential aftercare and corrective sanctions appropriations. However, the Legislature also assumed that the PR transfers would be insufficient to wholly address the deficit, thus, the Legislature adopted the creation of a statutory mechanism to address the existing deficit as well as provide a permanent procedure to manage any future deficits.

7. The statutory mechanism would require that the Department, on or before March 15th of each odd-numbered year, estimate unexpended revenues, less encumbrances, that would remain in the juvenile correctional services appropriation as of June 30th and provide this estimate to DOA and to the Joint Committee on Finance. If the estimated balance was projected to be negative (as determined by the Committee), that deficit amount was to be included in the cost basis for calculating the juvenile correctional facilities daily rates for the subsequent biennium. Under the mechanism, 50% of the deficit amount would be added to the cost basis for the calculation of daily rates for the first year of the subsequent biennium and 50% of the deficit amount would be added to the cost basis for the calculation of daily rates for the second year of the subsequent biennium.

8. Further, the proposed mechanism provided that the Department's share of the daily rate revenues attributable to eliminating the deficit would be reserved solely to liquidate the deficit. Any revenue reserved for this purpose that exceeded the amount of the deficit on June 30th of the odd-numbered year of the subsequent biennium, would then be reimbursed to the counties and the state by the following September 30th in a manner proportionate to the total number of days of juvenile placements at the facilities for each county and the state.

9. The above provision was developed in recognition of the fact that projecting any year-end deficit when establishing daily rates during the budget process could be difficult and could overstate the actual deficit. An overstatement of the deficit would result in higher daily rates than necessary. Under the proposed mechanism, if this type of situation occurred, any revenue reserves for the deficit that exceeded the actual amount of the deficit would be reimbursed proportionately to the counties and state.

10. The Governor deleted the adopted provision in both budgets through a partial veto. In his 2007-09 budget veto message, the Governor indicated the veto was necessary because the provision limited "the Department of Corrections' flexibility to effectively manage juvenile corrections programs over time. As I stated when I vetoed these provisions in the 2005-07 biennial budget, these provisions would place an undue burden on counties by requiring the department to charge counties to recover deficits in the appropriation." Arguably, however, the Governor's original budget recommendations to increase daily rates could be viewed similarly - charging counties to recover increased costs.

11. Under s. 16.513(3) of the statutes, if there are insufficient monies projected by an agency to cover anticipated expenditures under a PR appropriation, the agency must submit a plan to the Department of Administration (DOA) proposing how to address the insufficiency. If the plan is forwarded to the Joint Committee on Finance, and the Co-Chairs do not notify the DOA Secretary that a meeting has been scheduled to review the proposed plan within 14 days, any portion of the plan not requiring legislative or committee action may be implemented. On June 4, 2008, DOA forwarded Corrections' plan under s. 16.513(3) to the Committee. Although the Committee approved the plan, in its approval letter, the Committee requested that DOA and Corrections provide "a detailed plan with a timeline to eliminate the appropriation's deficit."

12. On January 8, 2009, Corrections submitted a letter to the Committee indicating that it was working with DOA to determine options for eliminating the deficit, but "it is still too early to determine which option will be chosen for submission in the Governor's 2009-11 Biennial Budget request, we can not determine when the entire deficit will be eliminated." The letter also indicated that the deficit had significantly declined in 2007-08, as a result of several factors, including funding transfers from other PR appropriations, higher than projected juvenile populations, and lower costs for fuel and utilities and supplies and services.

13. As indicated previously, AB 75 would provide that all available program revenue balances in the juvenile residential aftercare and corrective sanctions appropriations be transferred to the juvenile correctional services appropriation on June 30, 2009. In the January 8, 2009, letter, the Department estimated that the projected deficit at the end of 2009-10 would be approximately \$1,967,000. As it has in the prior two budgets, the Committee may wish to approve this recommendation to address the deficit.

14. Further, the Committee may wish to adopt the statutory mechanism described above to address future deficits. Since PR appropriations are required by law not to operate with a deficit, the Committee may wish to also require Corrections and DOA to propose an alternative mechanism to address future deficits.

ALTERNATIVES

1. Approve the Governor's recommendation to provide that all available program revenue balances in the juvenile residential aftercare and corrective sanctions appropriations be transferred to the juvenile correctional services appropriation on June 30, 2009.

2. In addition to Alternative 1, create a statutory mechanism to authorize the Departments of Administration and Corrections, prior to the end of each odd-numbered year, to: (a) estimate the unexpended revenues, less encumbrances, that will remain in the juvenile correctional services appropriation on June 30th of that year; and (b) if the estimated balance is projected to be negative, include the amount of the estimated deficit in the cost basis for the calculation of the proposed secured correctional facilities daily rates for the subsequent biennium. Require that 50% of the deficit amount be added to the cost basis for the calculation of daily rates for the first year of

the subsequent biennium and 50% of the deficit amount be added to the cost basis for the calculation of daily rates for the second year of the subsequent biennium. Require that the share of the daily rate revenue that is proportionate to the share of the increased cost basis associated with the estimated deficit be reserved for the purpose of retiring the deficit. Provide that any revenue reserved for this purpose that exceeds the amount of the deficit on June 30th, of the odd-numbered year of the subsequent biennium, be reimbursed to the counties and the state, on before September 30, of that calendar year, in a manner proportionate to the total number of days of juvenile placements at the facilities for each county and the state.

3. In addition to Alternative 1, require the Departments of Administration and Corrections to report to the Joint Committee on Finance by September 30, 2009, an alternative statutory mechanism that would address future deficits in the appropriation.

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