



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #636

Information Technology Projects (Safety and Professional Services)

[LFB 2019-21 Budget Summary: Page 374, #3]

CURRENT LAW

The Department of Safety and Professional Services (DSPS) regulates health, business, building, and trades professions. DSPS is funded almost entirely from program revenues (PR), primarily collected from fees for credentials, examinations, building plan reviews, and inspections of construction activity. For state budgetary purposes, program revenues received from the regulation of health and non-building trades professions are tracked separately from the fees collected from the trades professions, credentialing, building inspection, and plan review activities.

DSPS received one-time funding for information technology projects averaging \$732,000 annually in 2013-14 through 2016-17. Funding was provided from both DSPS programs. The Joint Committee on Finance in April, 2018, approved a DSPS request for \$4.4 million in one-time funding during the 2017-19 biennium. All of the 2017-19 funding was provided from the Division of Industry Services operations appropriation, which receives revenues from building plan reviews, inspections, and credentials for buildings and trades professions.

GOVERNOR

Provide \$2,995,000 PR in 2019-20 and \$2,030,000 PR in 2020-21 to support information technology improvement projects in the 2019-21 biennium. Total funding would include: (a) \$2,500,000 in 2019-20 and \$1,500,000 in 2020-21 in one-time funding to replace the trades credentialing system; and (b) \$495,000 in 2019-20 and \$530,000 in 2020-21 in ongoing funding for license and customer portal costs of the system. All of the funding would be provided from the Division of Industry Services operations program revenue appropriation.

DISCUSSION POINTS

One-Time Funding

1. The funding provided under the bill would follow other improvements DSPS began in the 2017-19 biennium. Phase one of three phases of the information technology (IT) modernization project was begun after the Joint Committee on Finance approved \$4.4 million in expenditure authority in April, 2018, under s. 16.515 of the statutes. Phase one was divided into three releases. The first or "pilot" release was completed in October, 2018, and cost \$2.2 million, which has been paid to the vendor who was contracted to perform work under the project. Phase one included development of a replacement for the "regulated objects" system, a 20-year old software application used for commercial building inspection permits, plan reviews, and credentialing by the Division. "Regulated objects" refers to specifically located objects such as buildings, elevators, and boilers subject to the permitting requirements administered by the Division. The new database includes systems for the following programs: (a) municipalities delegated by DSPS to submit applications and renewals for permits for commercial buildings, fire systems, plumbing, private onsite wastewater treatment systems (POWTS), elevators, and boilers; (b) approval of regulated POWTS components, such as individual site designs, sanitary permits, consultation, and miscellaneous review; (c) processing of credentials for manufactured homes, including titling, installers, manufacturers, dealers, salespersons, and communities; and (d) processing of credentials for the following regulated trades: (1) dwelling contractors; (2) soil erosion inspectors; (3) soil testers; (4) uniform dwelling code inspection agencies; (5) building inspectors; (6) electrical inspectors; (7) heating, ventilation and air conditioning inspectors; and (8) plumbing inspectors.

2. DSPS indicates that the remaining \$2.2 million provided in 2018-19 will be used for release two and release three of phase one. Release two includes development of components for the program areas of: (a) amusement rides; (b) anhydrous ammonia systems; (c) fuel; (d) plumbing; (e) plumbing products; (f) pressure vessels and systems; (g) public swimming pools; (h) refrigeration systems; (i) ski lifts and tows; and (j) safety. Release three would include components in the program areas of: (a) buildings and structures; (b) commercial building products; (c) electrical program; (d) elevators; (e) explosives; (f) mines, pits and quarries; and (g) fire dues.

3. In early April, 2019, DSPS indicated it is renegotiating the completion dates for phase one and plans to complete release two in June, 2019 (previously May, 2019) and release three in February, 2020 (previously December, 2019). DSPS has not made any payments from the \$2.2 million provided for 2018-19 to the IT vendor. DSPS plans to expend or encumber all of the \$2.2 million provided in 2018-19, but it is uncertain how much will be expended in 2018-19, and how much will be encumbered for expenditure in 2019-20. DSPS believes that all of the \$2.2 million will be spent by June of 2020 (by the end of 2019-20).

4. DSPS reports that the \$4 million in one-time funding recommended under the bill would support the second of three phases of systems upgrades. The Department indicates that it plans to initiate work on phase two after phase one is completed. The \$4 million would be used to finish replacing trades credentialing functions not completed in phase one, and to create functions in the new system to replace similar tasks performed in the old system, such as issuing a new license or renewing an existing license.

5. The Department indicates the recommended funding amount was determined based on a 2018 "discovery session" under which the vendor currently working on phase one learned about DSPS business practices and applications to estimate the planned scope of work. DSPS indicates the \$4 million cost for phase two was developed by the vendor and the previous administration based on a planned schedule of activities to be delivered. The vendor estimated approximately 26,900 hours of work would be necessary to complete phase two. However, the Department indicates the vendor has not provided further detail about why \$4 million was determined to be the appropriate recommended amount, nor has the vendor provided more detailed itemized estimates of the components included in the recommendation. The Department indicates the estimate includes costs averaging approximately \$148 per hour, but the actual hours and hourly cost may vary, because the \$4 million estimate was based on activities to be completed rather than hours. In comparison, in March, 2018, under the s. 16.515 request for 2017-19 funding, DSPS was estimating that at least \$3.6 million, and up to the entire request of \$4.4 million, would pay for approximately 35,000 hours of contractor time, averaging \$103 to \$125 per hour. Further, DSPS indicates that the specific activities to be performed in each of 2019-20 and 2020-21 have not been determined and would be negotiated with a vendor that will be selected if funding were provided in the budget bill.

6. While DSPS currently intends to begin phase two no sooner than when phase one is completed in February, 2020, the Department anticipates it will complete phase two during the 2019-21 biennium, and will need the full amount of the requested funding in the 17 months between February, 2020, and June, 2021. DSPS indicates that if it does not complete the project during 2020-21, it will encumber any unexpended funds at the end of 2020-21 for expenditure in 2021-22 when the vendor completes project components and submits invoices for payment. The vendor submits invoices when agreed-upon project components are completed, and DSPS pays the vendor after it receives the invoices. DSPS has not decided whether the contract will require payment for discrete deliverable items, as was done for phase one, or use a time-and-materials approach.

7. The potential completion of phase one in February, 2020, would be at least seven months into 2019-20. It could be considered appropriate to provide DSPS with five months of the recommended one-time funding for 2019-20 (\$1,041,700 instead of \$2,500,000), and modify the 2020-21 funding to provide \$2,083,300 instead of \$1,500,000 (including seven months, or \$1,458,300 originally recommended for 2019-20, and \$625,000 for the first five months of funding originally recommended for 2020-21. This would delay provision of recommended funding by seven months, to begin when phase one is completed in February, 2020, and might more closely align the amount of funding to be provided with the fiscal years in which the work would be done [Alternative A2].

8. DSPS anticipates it will not begin the project until February, 2020, and will spend funds after invoices are received. Another option for funding the project would be to approve the requested first year of funding, to provide \$2,500,000 in 2019-20, and not provide the recommended \$1,500,000 in 2020-21 [Alternative A3]. This would allow the Department to begin the project in 2019-20 as planned, and spend the provided funds during the biennium. If the Department would make enough progress on the project during the 2019-21 biennium to need funds exceeding the \$2.5 million, it could request additional funds under s. 16.515 of the statutes.

9. DSPS indicates that if no one-time funding, or a lesser amount than the requested \$4

million, would be provided, the Department would either not be able to move forward with the information technology modernization project, or would not be able to complete the updates for some of the trades programs. The Department indicates that if it does not receive the full funding amount and has to maintain the current system as well as the updated system, there would be an unknown amount of increased and duplicative costs. DSPS also indicates that some of the older technology will no longer be supported in 2020, and the Department does not consider partial modernization to be an option. Finally, DSPS has not considered what lesser amount of funding than the full \$4 million might allow completion of the project.

Ongoing Funding

10. DSPS states that the recommended amounts of ongoing funding were developed by DSPS, the Department of Administration (DOA) and the vendor in 2018, and are intended to reflect estimates available when DSPS submitted its budget request in September, 2018. The funding amounts would pay for licenses for the system itself, as well as for licenses of authorized users, including DSPS staff and external parties. DSPS indicates the recommended amounts are estimates and could fluctuate based on rates negotiated through state contracts.

11. The Department indicates that it does not have detail about the types and amounts of each component included in the \$495,000 recommended in 2019-20 and \$530,000 recommended in 2020-21. When DSPS submitted its March, 2018, request under s. 16.515 for funding in the 2017-19 biennium, it anticipated that licensing costs would be approximately \$380,000 in 2017-18 and \$429,000 in 2018-19, with the larger cost in the second year being due to the need for additional licenses. In early 2017, DSPS had anticipated licensing costs of \$600,000 annually. In 2018, the Department also indicated it spends over \$200,000 annually to maintain the current system being replaced. DSPS reports this includes server costs but the current system does not require any licensing costs. DSPS plans to reallocate that cost to maintenance of the new system after the new system begins operation.

12. If the Committee wishes to provide the full amount of ongoing funded requested without having additional details about the costs of components included in the amounts, the Committee could approve the Governor's recommendation [Alternative B1]. DSPS indicates that if the ongoing funding would be provided as one-time funding instead of ongoing, DSPS would likely have to request this funding again in subsequent biennial budget requests. The Department indicates this could have "a chilling effect on the overall and strategic IT modernization strategies." However, because DSPS does not have additional detail about the components of the ongoing funding, it could be considered appropriate to provide the funding as one-time instead of ongoing, and defer a decision until 2021-23 budget deliberations about the necessary amount of ongoing funding [Alternative B2].

13. If the Committee chooses to delay the provision of one-time funding by seven months, based on the current timeline [Alternative A2], it could also consider delaying the provision of ongoing funding by seven months, and provide \$206,300 in 2019-20 and \$509,600 in 2020-21 as either ongoing funding [Alternative B3] or one-time funding [Alternative B4]. The Legislature could reevaluate the project and timeline during 2021-23 budget deliberations.

14. The proposed funding would be provided from the program revenue appropriation that

**DSPS Division of Industry Services, Regulation of Building Trades Professions,
Program Revenues and Expenditures, 2017-18 through 2020-21**

	2017-18 <u>Actual</u>	2018-19 <u>Estimated</u>	2019-20 <u>Bill</u>	2020-21 <u>Bill</u>
Opening Balance, July 1	\$12,813,100	\$18,038,100	\$16,334,100	\$15,823,400
Revenue				
Building plan reviews and inspections	\$6,928,200	\$6,810,600	\$6,928,200	\$6,810,600
Plumbing licenses	435,800	459,300	435,800	459,300
Plumbing plan reviews	2,511,000	2,465,500	2,511,000	2,465,500
Boiler inspections	1,514,800	1,609,200	1,514,800	1,609,200
Elevator inspections	1,438,700	1,435,100	1,438,700	1,435,100
Private sewage plan reviews and septic tank permits	2,087,400	1,757,800	2,087,400	1,757,800
One- and two-family building permit fees	1,062,700	901,600	1,062,700	901,600
Electrical program fees	964,300	993,300	964,300	993,300
Manufactured home licenses and title fees	501,300	307,100	501,300	307,100
Amusement ride and ski tow inspections	235,900	232,500	235,900	232,500
Mine safety inspections and credentials	149,500	115,600	149,500	115,600
Heating, ventilation, and air conditioning (HVAC) and ozone refrigerant permits, credentials	207,200	186,800	207,200	186,800
Swimming pool plan reviews	162,900	165,800	162,900	165,800
Weatherization fees *	66,900	0	0	0
Other revenues	<u>299,000</u>	<u>243,600</u>	<u>299,100</u>	<u>243,600</u>
Total Revenue	\$18,565,600	\$17,683,800	\$18,498,800	\$17,683,800
Less transfer to private onsite wastewater system grant program	-\$840,000	-\$840,000	-\$840,000	-\$840,000
Total Available	\$30,538,700	\$34,881,900	\$33,992,900	\$32,667,200
Expenditures				
Industry Services operations	\$12,500,600	\$14,059,400	\$14,249,900	\$14,266,300
Information technology projects (one-time)	0	4,400,000	2,500,000	1,500,000
Information technology (ongoing)	0	0	495,000	530,000
Additional staff (separate paper)	<u>0</u>	<u>0</u>	<u>740,100</u>	<u>986,800</u>
Subtotal	\$12,500,600	\$18,459,400	\$17,985,000	\$17,283,100
Compensation and health insurance reserves	0	0	184,500	111,400
Expenditure of prior year encumbrances	<u>0</u>	<u>88,400</u>	<u>0</u>	<u>0</u>
Total Expenditures	\$12,500,600	\$18,547,800	\$18,169,500	\$17,394,500
Closing Balance, June 30	\$18,038,100	\$16,334,100	\$15,823,400	\$15,272,700

* 2017 Wisconsin Act 59 deleted the rental unit weatherization program.

funds almost all of the general operations of the Division of Industry Services. Most of the revenues are received from several categories of plan review and inspections for several types of building construction and components, and for credentials issued for people working in trades professions.

15. Under the bill, the appropriation would be authorized \$17,985,000 PR in 2019-20 and

\$17,283,100 PR in 2020-21 with 115.64 positions. This funding includes the recommended information technology funding as well as \$740,100 in 2019-20 and \$986,800 in 2020-21 for staffing additions discussed in a separate paper. DSPS has not updated estimates of revenues deposited in the appropriation for 2018-19 through 2020-21. However, the Department anticipates that revenue amounts received in 2018-19 and 2020-21 will be similar to revenues received in 2016-17, and revenues received in 2019-20 will be similar to revenues received in 2017-18. The table provides information regarding revenues and expenditures in 2017-18 through 2020-21 for the Industry Services appropriation, based on the general DSPS revenue assumptions. It is estimated that the appropriation would have a June 30, 2021, closing balance of \$15.3 million under the bill as introduced. Thus, it is expected that the appropriation will have a sufficient balance to pay for the funding proposed under the bill.

16. If no one-time or ongoing funding is provided, DSPS could request funding at a later date, including through a 14-day passive review by the Committee under s. 16.515 of the statutes, after it has more specific information about the costs and timing of the project [Alternatives A4 and B5].

ALTERNATIVES

A. One-Time Funding

1. Approve the Governor's recommendation to provide \$2,500,000 PR in 2019-20 and \$1,500,000 PR in 2020-21 in one-time funding for information technology improvement projects to replace the trades credentialing system.

ALT A1	Change to	
	Base	Bill
PR	\$4,000,000	\$0

2. Provide \$1,041,700 PR in 2019-20 and \$2,083,300 PR in 2020-21 in one-time funding for information technology improvement projects. (This would delay funding by seven months.)

ALT A2	Change to	
	Base	Bill
PR	\$3,125,000	-\$875,000

3. Provide \$2,500,000 PR in 2019-20 in one-time funding for information technology improvement projects. (This would approve the first year of recommended funding but not the second year.)

ALT A3	Change to	
	Base	Bill
PR	\$2,500,000	- \$1,500,000

4. Take no action.

ALT A4	Change to	
	Base	Bill
PR	\$0	- \$4,000,000

B. Ongoing Funding

1. Approve the Governor's recommendation to provide \$495,000 PR in 2019-20 and \$530,000 PR in 2020-21 in ongoing funding for information technology improvement projects to be used for license and customer portal costs of the trades credentialing system.

ALT B1	Change to	
	Base	Bill
PR	\$1,025,000	\$0

2. Modify the Governor's recommendation to provide \$495,000 PR in 2019-20 and \$530,000 PR in 2020-21 as one-time funding instead of ongoing.

ALT B2	Change to	
	Base	Bill
PR	\$1,025,000	\$0

3. Provide \$206,300 PR in 2019-20 and \$509,600 PR in 2020-21 as ongoing funding for information technology improvement projects. (This would delay funding for seven months.)

ALT B3	Change to	
	Base	Bill
PR	\$715,900	- \$309,100

4. Provide \$206,300 PR in 2019-20 and \$509,600 PR in 2020-21 as one-time funding for information technology improvement projects. (This would delay funding for seven months, and provide it as one-time funding instead of ongoing.)

ALT B4	Change to	
	Base	Bill
PR	\$715,900	- \$309,100

5. Take no action.

ALT B5	Change to	
	Base	Bill
PR	\$0	- \$1,025,000

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