Workforce Development

Departmentwide and Worker's Compensation

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LFB Summary Items for Which Issue Papers Have Been Prepared

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5	Electronic Transmission of Worker's Compensation Records and Payments
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LFB Summary Item Addressed in Standard Budget Adjustments (Paper #101)

Item #	Title
1	Standard Budget Adjustments

LFB Summary Item to be Addressed in a Subsequent Paper

Item #	Title
11	Work Opportunity Tax Credit

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June, 2021 | Joint Committee on Finance | Paper #665

Increase Vocational Rehabilitation Resources
(Workforce Development -- Departmentwide and Worker's Compensation)

[LFB 2021-23 Budget Summary: Page 634, #2]

CURRENT LAW

The Division of Vocational Rehabilitation (DVR) within the Department of Workforce Development (DWD) is required to advise and assist any individual who applies to DVR for vocational rehabilitation services. The vocational rehabilitation program is a federal and state program to assist individuals with disabilities to obtain, maintain, and improve employment opportunities. Funding for the program is provided by the U.S. Department of Education's Rehabilitation Services Administration through a federal vocational rehabilitation Title I-B grant (78.7%), as well as state matching funds (21.3%). These matching funds are drawn from general purpose revenues (GPR) in a continuing appropriation under DVR.

The amount of Title I-B funds that may be drawn with state matching funds is capped at a certain amount annually for each state. Federal funds are allocated among states based on a formula, which is, in part, based on the state's population and per-capita income. A state must provide the required amount of matching funds or it will not receive its total allotment for that year. This funding is used to provide services to disabled individuals and to cover administrative expenses. Federal monies allocated to Wisconsin for federal fiscal year 2020-21 are $65,064,265. For the 2020-21 federal fiscal year, state matching funds of $17,606,553 would be required to receive the full federal matching grant.

DISCUSSION POINTS

1. The following table shows the estimated amount of Title I-B federal funding available from federal fiscal year 2021 through 2023 and the amount of GPR required to fully match the additional federal resources. Amounts in the 2022 and 2023 federal fiscal years are based on DWD

estimates as of the September, 2020, agency budget request for the percentage increase shown in Title I-B grants. On February 2, 2021, the Department of Education awarded $65,064,265 in Title I-B grant funding to DWD for the 2021 federal fiscal year. According to DWD, this amount was consistent with the base-year amount that the Department assumed to calculate the GPR match funding requested in the agency budget submission.

Federal Vocational Rehabilitation Grants and State Matching Funds -- FFY 2021 through FFY 2023

Federal Fiscal Year (FFY)	Grant Allocation (FED)	% Growth in FED Allocation	State Matching Funds (GPR)	State Match
2021	$65,064,265	--	$17,606,553	21.3%
2022	65,600,000	0.8%	17,754,511	21.3
2023	65,900,000	0.5	17,835,705	21.3

2. The methodology DWD used to arrive at the agency's GPR request includes a decline in case service costs during 2020-21, followed by a rebound in active vocational rehabilitation case numbers and costs through the 2021-23 biennium as part of the post-pandemic economic recovery. As of March 2021, the Department reports that while case service costs have declined slightly more than the original projections, these lower costs will not change the overall level of GPR needed during the 2021-23 biennium. However, if actual case service costs end the fiscal year lower than the original projections by the Department, it would reason that there would be some amount of additional carryover funding into the 2021-23 biennium.

3. Among DVR's options for controlling costs is the authority to expand the order-of-selection waiting list process. Under federal law, if vocational rehabilitation services cannot be provided to all eligible individuals with disabilities in the state who apply for the services, the state must: (a) show the order to be followed in selecting eligible individuals to be provided vocational rehabilitation services; (b) provide the justification for the order of selection; (c) include an assurance that individuals with the most significant disabilities will be selected first for the provision of vocational rehabilitation services; and (d) provide that eligible individuals who do not meet the selection criteria must have access to other services provided through an information and referral system. DWD currently uses three categories of selection, with Category 1 including those with the most significant disabilities and the highest priority for services. Category 2 includes individuals with a significant disability, and Category 3 includes all other persons eligible for DVR services.

4. If no additional GPR funding were provided beyond standard budget adjustments, as approved by the Committee on May 6, the Department estimates that the continuing balance in DVR's GPR appropriation would be -$204,000 at the close of the 2021-23 biennium given current assumptions about staffing and case services costs [Alternative 1]. This would result in $1 million less in combined GPR and FED funding, of DVR's roughly $90 million all-funds annual program costs. Should adequate resources not be provided, DVR would need to monitor demand during the biennium to determine if and when to place eligible individuals in Category 2 on a waiting list. DVR

has not placed Category 2 individuals on a waiting list since 2014.

5. The Department estimates that the amount of GPR provided in Assembly Bill 68/Senate Bill 111 will fully fund the DVR program and draw the full federal Title I-B funding anticipated to be available to DVR in the 2021-23 biennium. According to the Department, the $929,300 GPR total request would not be used as overmatch, but rather any excess GPR would remain in the continuing appropriation to apply to Title I-B grants in the 2023-25 biennium.

6. DVR routinely carries over funds between state fiscal years, mostly due to differences in the state and federal fiscal years and to cover spending commitments for services spanning multiple state fiscal years. At present, DWD estimates that an entire Title I-B federal grant allotment that is obligated in one federal fiscal year, will take approximately 20 months to fully expend. Spending down one grant amount over 20 months results in carrying encumbrances from one state fiscal year to the next.

7. The Department estimates the continuing balance in DVR's GPR appropriation at the close of 2020-21 to be $2.8 million. As a point of comparison, for the five years from 2015-16 through 2019-20, the continuing closing balance in DVR's GPR appropriation averaged $3.2 million per year. The Department further indicates that generally all continuing amounts are either encumbered or otherwise committed for DVR costs and services.

8. If the GPR amounts for vocational rehabilitation services in AB 68/SB 111 is approved without modification [Alternative 2], the continuing balance at the close of the 2021-23 biennium is estimated to be $726,000. Given the continuing balance together with potentially lower-than-anticipated service costs incurred in 2020-21, the Committee could choose to provide a lower amount of GPR funding while placing the balance of the additional GPR funding requested by the Department in the Committee's supplemental appropriation, should DWD need the additional GPR resources to secure the full federal match. [Alternative 3]

9. In addition, AB 68/SB 111 would provide 1.0 employment supports coordinator position and associated funding. According to the Department, the position would coordinate and report on activities for the advancement of competitive integrated employment opportunities for individuals with disabilities, as required under 2017 Wisconsin Act 178, and coordinate supported employment services for individuals with the most significant disabilities. Act 178 requires prioritization of competitive integrated employment in all publicly funded services and supports to working-age persons with disabilities. It also requires DWD to lead a collaboration with other state agencies, including the Departments of Health Services and Public Instruction to support increased competitive integrated employment. [Alternative 4]

ALTERNATIVES

1. Provide $204,000 GPR and $753,800 FED in 2022-23 for the vocational rehabilitation program. (Funding would be estimated to support estimated state matching expenditures for vocational rehabilitation services in the 2021-23 biennium, when combined with a portion of the funds from the continuing balance.)

ALT 1	Change to Base
GPR	$204,000
FED	753,800
Total	$957,800

2. Provide $890,900 GPR and $3,291,700 FED in 2022-23 for the vocational rehabilitation program. (This would be estimated to fully fund the program in the 2021-23 biennium, based on estimated case numbers and federal funding.)

ALT 2	Change to Base
GPR	$890,900
FED	3,291,700
Total	$4,182,600

3. Provide $204,000 GPR and $753,800 FED in 2022-23 for the vocational rehabilitation program. Additionally, provide $686,900 GPR in the Joint Committee on Finance supplemental appropriation in 2022-23. (DWD could request additional funding if needed to match federal funds.)

ALT 3	Change to Base
GPR	$890,900
FED	753,800
Total	$1,644,700

4. In addition to Alternative 1, 2, or 3, provide $16,400 GPR and $60,600 FED in 2021-22, and $22,000 GPR and $81,300 FED in 2022-23, and 0.21 GPR positions and 0.79 FED positions annually for the vocational rehabilitation program.

ALT 4	Change to Base Funding	Positions
GPR	$38,400	0.21
FED	141,900	0.79
Total	$180,300	1.00

5. Take no action.

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June, 2021 Joint Committee on Finance Paper #666

Worker's Compensation Appropriation Changes
(Workforce Development -- Departmentwide and Worker's Compensation)

[LFB 2021-23 Budget Summary: Pages 634 and 635, #3 and #4]

CURRENT LAW

The Work Injury Supplemental Benefit Fund (WISBF) is a segregated fund within the Department of Workforce Development's (DWD) worker's compensation program that pays benefits to individuals or dependents under four different benefit programs: (a) supplemental benefits; (b) additional death benefit for children; (c) preexisting disability and indemnity benefits; and (d) payment of certain barred claims. The WISBF is funded through statutory assessments against insurance carriers and employers for specified injuries, such as dismemberments and death claims. DWD's Worker's Compensation Division collects the assessments.

The Uninsured Employers Fund (UEF) pays worker's compensation benefits on valid worker's compensation claims filed by employees who are injured while working for illegally uninsured Wisconsin employers. When a compensable claim is filed, the UEF pays the injured employee worker's compensation benefits as if the uninsured employer had been insured. The UEF is funded through penalties assessed against employers for illegally operating a business without worker's compensation insurance, as well as from reimbursement payments from uninsured employers for benefit payments made by the fund.

DISCUSSION POINTS

Supplemental Benefit Fund Reimbursements

1. 2015 Wisconsin Act 55 terminated reimbursements from the Department's WISBF account for certain supplemental benefits paid by insurers for persons with permanent total disability or continuous temporary total disability. Instead, Act 55 provided that an insurer paying supplemental benefits would be entitled to annual reimbursement from the worker's compensation (WC) operations

fund. Under Act 55, annual reimbursements to insurers are supported by WC operations fund revenues from a special assessment on insurers. Assessments from insurers of up to $5,000,000 in each calendar year must be deposited in the WC operations fund and used to provide reimbursement to insurers paying supplemental benefits.

2. Assembly Bill 68/Senate Bill 111 would create an annual appropriation from the Department's WC operations fund and provide $5,000,000 in expenditure authority annually to provide reimbursement to insurance carriers paying supplemental benefits. The bill would specify that all moneys received from an existing special assessment on insurers be credited to the new appropriation. The provision would create sufficient budget authority for the new appropriation but would not increase employer assessments, payments, or revenue to the Department. In addition to creating a new WC operations fund appropriation, the bill would transfer the unencumbered balance of the amount collected from the special assessment on insurers from the existing WISBF appropriation to the new appropriation. The transfer would be required on the bill's effective date and is estimated by the Department to be $48,900 [Alternative 1].

3. While Act 55 authorized DWD to collect and pay out a maximum of $5,000,000 per year from the WC operations fund for supplemental benefit reimbursement payments, no additional expenditure authority was provided to make those additional reimbursement payments. Rather, DWD has been depositing assessments in the existing WISBF appropriation and paying reimbursements from that account, as this appropriation allows for payment of all moneys received. If the additional budget authority were not provided, DWD would continue to use authority in the existing WISBF appropriation to make reimbursement payments to insurers [Alternative 2]. Performing the reimbursement payments in this manner does not meet the statutory requirements as specified in Act 55.

Uninsured Employers Fund Appropriation Change

4. The UEF is a non-lapsable trust fund with specific revenue collection requirements. The fund supports a single appropriation [s. 20.445 (1) (sm) of the statutes] that is created as a SEG sum-sufficient appropriation. AB 68/SB 111 would convert the existing appropriation for UEF payments to a continuing appropriation for all monies received from sources identified under current law [Alternative 1]. Sum-sufficient appropriations do not carry encumbrances or other balances from one fiscal year to the next. The appropriation typically ends each fiscal year with a balance that must be moved by DWD to a separate account at the end of each fiscal year.

5. Changing the existing appropriation to continuing will not affect revenue collection and benefit payment processes and would allow the continuing revenue balance to be tracked within the existing appropriation account alongside expenditures. According to DWD, tracking the revenue balance and expenditures in the same appropriation account will reduce the administrative complexity of accounting and budget transactions and more accurately reflect the Department's use of the UEF appropriation. The provision would not reestimate base funding of $5,500,000 for the appropriation.

6. The Worker's Compensation Advisory Council (WCAC) is a statutory body responsible for advising DWD on administration of the worker's compensation program and recommending legislative changes. WCAC membership is equally split between representatives for employees and

employers. The Council typically recommends a series of statutory changes each biennium, and a bill is customarily introduced for legislative consideration. Both the WISBF and UEF appropriation changes were previously approved in the 2017-18 and 2019-20 sessions by the WCAC for inclusion in the biennial worker's compensation bill. A 2017 bill was never introduced. The 2019 bill was introduced as 2019 Senate Bill 673, but it did not pass pursuant to SJR 1. Should these provisions not be adopted as part of the biennial budget bill, both provisions would likely be included in any forthcoming bill submitted by the WCAC for the 2021 legislative session [Alternative 2].

ALTERNATIVES

1. Provide $5,000,000 SEG annually in expenditure authority to a new annual appropriation under DWD from the worker's compensation operations fund for supplemental benefit reimbursement payments to insurers, and transfer any related unencumbered balance from the existing WISBF appropriation to the account. In addition, change the UEF SEG appropriation from sum-sufficient to continuing.

ALT 1	**Change to Base**
SEG	$10,000,000

2. Take no action.

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June, 2021 | Joint Committee on Finance | Paper #667

Account Reconciliation
(Workforce Development -- Departmentwide and Worker's Compensation)

[LFB 2021-23 Budget Summary: Page 637, #8]

CURRENT LAW

Under current law, state agencies are authorized to use clearing accounts when, at the time of receipt or disbursement, the state agency does not have sufficient information to distribute the revenue or expenditure to the appropriate Chapter 20 appropriation. Receipts and disbursements are required to be recognized in the fiscal year in which they are received or paid. Under s. 20.904 of the statutes, and Section 03-07 of the Wisconsin Accounting Manual, state agencies are required to transfer all revenues and expenditures from their clearing appropriations before the close of the accounting records for the fiscal year, and at such other times as determined by the Secretary of the Department of Administration (DOA). DOA is responsible for maintaining the state's accounting records, approving all payments, and ensuring budgetary control is enforced.

DISCUSSION POINTS

1. According to DOA, in 2016, the State Controller's Office (SCO) created a checklist to guide agencies through a month-end review of financial information to help ensure accuracy in their accounting records. One of the tasks on this monthly checklist directed agencies to transfer revenues and expenditures recorded to clearing appropriations during the month. The SCO also completes an annual review of clearing appropriations and works with agencies to clear revenues and expenditures from those appropriations before year's end. This review concentrates on revenues and expenditures but does not highlight balances that might exist in balance sheet accounts. These balances are often a result of timing issues that clear themselves up shortly after the fiscal period ends. Agencies certify the balances reflected in their appropriations annually.

2. The Legislative Audit Bureau (LAB) Report 20-30, "State of Wisconsin FY 2019-20 Financial Statements," was issued in December, 2020, and recommended "DOA develop a written

plan and timeline for resolving existing balances in clearing appropriations, provide training to state agencies, and report to the Joint Legislative Audit Committee by April 15, 2021, on the status of its efforts." The report states, "DOA agreed with these recommendations and indicated plans to work directly with individual agencies to resolve the balances." Subsequent to the report, an April 15, 2021, letter from DOA provided the following update:

> "Prior to April 1, 2021, the SCO contacted each of the state agencies that had existing balances in their clearing appropriations. In these communications, the SCO staff provided training to the agency staff on the appropriate use of clearing appropriations. By working directly with each agency individually, the State Controller's Office has gathered information on how each agency is using the clearing appropriations and how the existing balances developed. This has also allowed the State Controller's Office to develop a plan for resolving existing balances with each agency and tailor its training on the use of these appropriations. As a result of these efforts, DOA reports that of the 36 clearing appropriations identified by LAB that had a balance of a positive or negative $1.00 or more: (a) 19 appropriations' existing balances have already been resolved; (b) 13 appropriations are being actively reviewed by staff at the appropriate agencies, and will be cleared by June 30, 2021; and (c) four appropriations present challenges that require additional discussion to determine the appropriate resolution."

3. The Department of Workforce Development's (DWD) clearing account was one of the four appropriations identified in the April 15 letter as presenting "challenges that required additional discussion to determine the appropriate resolution." The closing fiscal year 2019-20 balance in DWD's clearing account was -$975,859. According to DOA, this negative balance was generated by the following two transactions:

> "In 1993-94, a transaction was created for $204,508, which was most likely processed to establish balances from the Central Accounting System onto WiSMART. In 1994, the state converted to the WiSMART system. The state no longer has the detail to research where this balance should have been recorded."

> "In 1996-97, Wisconsin Act 3, s. 20.445, Wis. Stats., was modified to change the name of the Department of Industry, Labor and Job Development to the Department of Workforce Development. In that year, a transaction was created in the amount of $771,351. SCO believes that this transaction was processed as part of the closing of the Department of Industry, Labor and Job Development. Again, the state no longer has the detail to research where this balance should have been recorded."

4. DWD, with the assistance of DOA and the SCO, conducted research into the source of the original expenditures and were unable to identify the appropriations or administrative divisions to which the transactions would have been related. According to DWD, there is no available information on the purpose or intent for either transaction. Had either been discovered, it may have been possible to assign portions of the clearing account's deficit to other agencies or accounts, if appropriate, rather than to DWD's general operations appropriation. It is also not clear why the transactions were not transferred from the clearing accounts at the time that would have been expected. Because the transactions in question were not reassigned to Chapter 20 appropriations at the time they required reconciliation, it is reasonable to assume the balances of some funds or appropriations have been higher by the $975,900 total. However, without knowledge of the nature of the initial transactions,

the funds cannot be determined.

5. Under s. 20.904, clearing accounts must be cleared prior to the end of the state fiscal year by identifying a funding source consistent with, and appropriate for, the purpose and intent of the original transaction. DWD argues it may not charge the negative balance to another fund source or appropriation because it can no longer be determined that the original nature of the debits is an allowable cost under the authorized expenditures for any other existing appropriation. As a result, the administration contends only general purpose revenue for DWD general operations can be used to cover the identified historical errors.

6. Due to the size of the clearing account deficit, the Department states that it is unable to absorb the debt with the resources available in DWD's existing GPR general program operations appropriation, which has adjusted base funding of $8,818,200, and of which $6,607,300 is dedicated to permanent position salaries and fringe. Because the state no longer has the detail on where this balance should have been recorded, AB 68/SB 111 would provide $975,900 in 2021-22 to DWD's GPR general program operations appropriation to clear this deficit in the Department's clearing account [Alternative 1].

7. Instead of appropriating additional funds, the Committee could direct DOA to identify transfers from other GPR appropriations for the 2021-22 fiscal year sufficient to clear the historical deficit in DWD's clearing account. The Committee is authorized under s. 13.101 (4) of the statutes to transfer between appropriations. If DOA were to identify, by March 1, 2022, appropriations with likely available funding on June 30, 2022, and make a request to the Committee for transfer of sufficient funding, the clearing account deficit could be resolved without additional appropriations in 2021-22 [Alternative 2].

8. Notwithstanding requirements under s. 20.904 that clearing accounts be resolved, the Committee could choose to take no action on this item at this time [Alternative 3]. The -$975,859 debt would remain in the Department's clearing account until the time that the deficit could be cleared by the identification of existing resources or the appropriation of new funding. The deficit would continue as a liability against the general fund, although the amount would remain a small portion of the general fund.

ALTERNATIVES

1. Provide $975,900 in 2021-22 to the Department of Workforce Development's general program operations annual appropriation to clear DWD's clearing account deficit.

ALT 1	Change to Base
GPR	$975,900

2. Direct the Department of Administration to identify amounts from 2021-22 GPR appropriations to transfer to the appropriation under s. 20.445 (1)(a) of the statutes to reconcile DWD's $975,900 clearing account deficit. Require DOA and DWD to submit a request for transfers to the

Joint Committee on Finance by March 1, 2022.

3. Take no action.

Prepared by: Ryan Horton

Workforce Development -- Departmentwide and Worker's Compensation

LFB Summary Items for Which No Issue Papers Have Been Prepared

Item #	Title
9	Human Resources Shared Services Position Adjustment
10	Federal Appropriation Reestimates