

# Revenue

## Departmentwide

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### **LFB Summary Items for Which an Issue Paper Has Been Prepared**

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--	Debt Collection Appropriation (Paper #652)

### **LFB Summary Item Addressed in a Previous Paper**

<u>Item #</u>	<u>Title</u>
1	Standard Budget Adjustments (Paper #105)





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Joint Committee on Finance

Paper #650

### Unclaimed Property Positions (Revenue -- Departmentwide)

[LFB 2025-27 Budget Summary: Page 593, #2]

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#### CURRENT LAW

The Department of Revenue (DOR) is responsible for administering the state's unclaimed property program. Under Chapter 177 of the statutes, property is generally considered to be abandoned or unclaimed if the owner does not have active contact with the holder of the property in one to five years, depending on the type of property, and if the holder of the property has been unable to contact the owner of the property. A holder of unclaimed property is generally a financial institution, insurance company, publicly traded corporation, or a similar institution. Unclaimed property typically includes contents of safe deposit boxes, wages, bank deposits, traveler's checks or money orders, stock and other intangible interests in business associations, and distributions caused by certain insurance company activities. A holder of unclaimed property is required to report annually to DOR on the unclaimed property in the holder's possession, consisting of a list of owners and the value of their unclaimed property.

Holders who fail to file a timely report or fail to pay or deliver abandoned property to DOR are subject to various penalties outlined in state law. However, 2021 Act 87 made revisions to Wisconsin's unclaimed property law to align state laws with the Revised Uniform Unclaimed Property Act, as approved by the National Conference of Commissioners on Uniform State Laws. Among these revisions, Act 87 created a voluntary disclosure program, in which DOR and a holder who has failed to file a report (or has failed to include all required property on the report) enter into an agreement regarding the reporting and transfer of unclaimed property. The agreement generally applies to the five reporting periods immediately preceding the filing date of the holder's application. With this agreement, a holder agrees to: (a) report and deliver any property that was abandoned during any year to which the agreement applies within 60 days of execution of the agreement; (b) perform required duties relating to notice provided to property owners within 30

days of execution of the agreement, unless otherwise provided; (c) comply prospectively with unclaimed property laws; and (d) waive appeal rights under Chapter 177 for periods under the agreement.

Act 87 specified that DOR must waive penalties imposed on holders, if the holder's application for voluntary disclosure is received by DOR between February 1, 2022, and February 28, 2023, and the agreement is executed within 180 days of receipt of the application. Under 2023 Act 138, this waiver was made permanent, such that holders can receive a waiver of penalties regardless of when an application is received by DOR.

DOR utilizes a number of methods to locate owners, including: (a) maintaining an online searchable database of unclaimed property; (b) annually advertising unclaimed property and its owner in newspapers throughout the state; (c) matching the names of unclaimed property owners with public record information; and (d) matching the names and social security numbers of unclaimed property owners with Wisconsin tax records. DOR began using its automatic data matching process, authorized under 2013 Act 308, in June of 2015. This process uses income tax returns to identify property owners. Each match is classified as an "auto-claim." For property values approved via auto-claim of \$2,000 or less, property is automatically remitted to its owner by check. For values greater than \$2,000, DOR mails instructions to owners on how to file a claim.

If a property owner cannot be located, the value of the property is applied to the owner's account for future claims by the owner or the owner's heirs, and the proceeds of the property are deposited to the Common School Fund. The income of the Common School Fund is distributed as school library aids in proportion to the number of people between the age of four and 20 within each school district.

The unclaimed property program is provided base funding and position authority of \$3,923,000 PR and 5.95 PR positions (1.0 supervisor and 4.95 specialists), the funding for which comes from unclaimed property remitted to the state. The 0.95 PR position is supplemented by \$4,800 GPR and 0.05 GPR position to provide 1.00 full position. The five unclaimed property specialist positions (one entry-level, one developmental, two senior, and one advanced) review and process records and forms to manage and determine unclaimed property claims under statutory provisions, provide direction to owners (or their representatives) regarding claim requirements and eligibility, and compute and determine payments, assets, or securities transferred related to claims. Unclaimed property specialists approve claims, review and reconcile holder reports, and provide customer assistance. The maximum claim amount a specialist can approve increases with experience: (a) \$5,000 for entry level; (b) \$10,000 for developmental level; and (c) \$20,000 for senior and advanced level. Claims greater than the maximum for the specialist's experience level must be approved by both the unclaimed property specialists and the supervisor.

The Office of Criminal Investigation (OCI) is provided base level funding and position authority of \$1,612,000 GPR and \$565,200 SEG and 11.75 GPR and 4.25 SEG positions. These positions consist of four cigarette, tobacco, and vapor excise tax special agents, five fraud analysts, and six fraud investigators. OCI conducts criminal investigations of individuals suspected of violating Wisconsin tax laws and assists in the prosecution of the offenders.

## DISCUSSION POINTS

1. The 2013-15 biennial budget act (2013 Act 20) transferred administration of the unclaimed property program to DOR from the Office of the State Treasurer. Act 20 also transferred 5.95 positions from the State Treasurer to DOR. These positions included two permanent project positions that were extended multiple times before being made permanent in the 2021-23 biennial budget act. The Department provides 0.05 GPR positions to make the 0.95 position whole.

2. Table 1 shows the amount of unclaimed property remitted to DOR by holders and the amount of property paid out to owners since 2019-20. There has been some fluctuation in the amount of property remitted and returned to owners, as the quantity and value of property varies from year to year. However, the overall level of activity has increased over time, while unclaimed property staffing has remained at six positions. Remitted unclaimed property has grown 44% and claims paid to owners have grown 28% over this five-year period, which suggests that more unclaimed property is being remitted than DOR can return to owners with current staff levels.

**TABLE 1**

**Unclaimed Property Remitted to DOR and Claims Paid to Owners (\$ In Millions),  
2019-20 through 2023-24**

<u>Fiscal Year</u>	<u>Remitted Unclaimed Property</u>	<u>Percent Change</u>	<u>Claims Paid to Owners</u>	<u>Percent Change</u>
2019-20	\$63.9	3.4%	\$33.7	-0.3%
2020-21	64.0	0.2	37.1	10.1
2021-22	85.2	33.1	35.2	-5.1
2022-23	113.6	33.3	38.8	10.2
2023-24	91.8	-19.2	43.1	11.1

3. The unclaimed property specialists spend most of their time processing property claims and holder reports. The level of work associated with these activities can be seen in Table 2, which shows the number of properties received, claims received, active holders, holder reports received, and securities received since 2019-20. Most of the amounts in Table 2 are annual measures, representing new properties, claims, reports, and securities received by DOR each year. However, the number of active holders is an ongoing measure, building off the previous year's amount. Since 2019-20, each measure has grown, with the number of properties and claims received having grown 43% and 29%, respectively, indicating an increase in workload for unclaimed property staff, while maintaining the same staffing level.

**TABLE 2****Number of Properties, Claims, Holder Reports, and Securities Received, and Active Holders, 2019-20 through 2023-24**

<u>Fiscal Year</u>	<u>Number of Properties Received</u>	<u>Number of Claims Received</u>	<u>Number of Active Holders</u>	<u>Number of Holder Reports Received</u>	<u>Number of Securities Received</u>
2019-20	491,582	59,471	31,427	12,920*	84,916
2020-21	531,264	50,368	32,165	24,350	75,521
2021-22	560,532	43,247	33,024	24,970	73,195
2022-23	728,059	68,699	34,224	19,890	94,313
2023-24	703,074	76,803	35,159	20,650	86,735

\*Excludes 12,000 out-of-state holder \$0 reports filed in error.

4. Tables 1 and 2 show an increase in the amount of unclaimed property remitted, the number of properties received, and the number of claims received and paid to owners since 2019-20. As previously mentioned, 2021 Act 87 created a voluntary disclosure program, through which holders of unclaimed property that have not properly reported unclaimed property in previous years could turn over those properties to DOR without the imposition of penalties. The Department indicates that this voluntary disclosure program resulted in more holders reporting property and existing holders reporting more properties, which helps to explain increased activity in recent years. In addition, DOR states that it has increased outreach efforts to holders and potential owners, which has also contributed to more properties and claims received.

5. The number of securities (stocks, mutual funds, savings bonds, etc.) received, as shown in Table 2, is a subset of the number of properties received. For example, in 2023-24, securities comprised 86,735 (12.3%) of all properties received (703,074). According to DOR, managing securities is highly skilled work that requires time and specialized knowledge. Only senior and advanced level unclaimed property specialists have the expertise to perform all functions related to the processing of securities. Entry level specialists do not process securities, while developmental level specialists perform only basic functions related to securities processing. Many tasks related to securities go beyond processing of claims, and include research, collaboration with brokerage partners, applying dividends and capital gains to each security, and performing mergers. Although the number of securities fluctuates from year to year, the Department has received a higher number of securities in 2022-23 and 2023-24 than in previous years.

6. Table 3 shows auto-claims and manual claims approved and paid since 2019-20. Auto-claims consist of all claims resulting from the data matching process, including claims that require some manual work when they are not a perfect match. Manual claims include all other claims. Since 2019-20, auto-claims have comprised 56% of all claims approved. While auto claims have made up a larger percent of total claims approved over the last four years, claims processed that require manual approval have been increasing in recent years. For the first time since the implementation of the automatic data matching process in 2015-16, manual claims exceeded auto-claims in 2023-24, representing 64% of all claims approved.

**TABLE 3****Unclaimed Property Claims Approved and Paid,  
2019-20 through 2023-24**

<u>Fiscal Year</u>	<u>Auto-Claims</u>		<u>Manual Claims</u>	
	<u>Approved</u>	<u>Paid (Millions)</u>	<u>Approved</u>	<u>Paid (Millions)</u>
2019-20	25,815	\$5.4	5,794	\$28.3
2020-21	26,015	5.1	14,456	32.0
2021-22	19,607	6.6	15,839	28.6
2022-23	33,140	10.4	22,981	28.4
2023-24	23,224	5.7	41,039	37.4

7. The amount of auto-claims paid has comprised only 18% of total claims paid, while the number of auto-claims approved has comprised 56% of all claims approved. DOR indicates that this is because auto-claims help with simple matches, generally of properties with lower dollar values, reducing the amount of time unclaimed property staff need to spend on these smaller claims. Manual claims generally represent more complex matches that require more of the staff's time. As noted, the auto-claim process helps to match smaller property values with their owners, while manual claims are processed for higher valued or more complex properties. For example, while the average paid unclaimed property claim in 2023-24 was \$670, the average manual claim paid (\$911) was for higher valued property than the average auto-claim paid (\$245).

8. According to the Department, while the automatic data matching process has improved DOR's efficiency in matching property with its owner, it has also increased the workload for the unclaimed property staff, as they must test the system annually, respond to claimant and holder questions generated by this matching process, and perform additional work when it identifies claims that are not a perfect match. DOR states that the lower number of manual claims approved in 2019-20 can be attributed to temporary high turnover among unclaimed property specialist positions.

9. State law requires that all claims received by DOR be processed within 90 days after they are filed. According to DOR, it could be sued if it were not able to meet this statutory timeline, resulting in additional administrative expenses for the Department. Because the purpose of the unclaimed property program is to reunite owners with their property, it could be argued that the state would not be fulfilling the statutory purpose of the program if position authority were insufficient to process claims in a timely manner.

In 2023-24, the average number of days it took DOR to process claims increased to 82 days (from 36 in 2022-23), representing a 128% increase. While this average was below the 90-day requirement, DOR indicates that the unclaimed property program experienced several months during the year where claims processing exceeded 90 days. SB 45/AB 50 would provide the program with an additional unclaimed property specialist position, which would allow DOR to process claims more quickly.

10. The Office of Criminal Investigation is located within DOR and is made up of 15 employees and a director. OCI's fraud unit largely investigates fraud and identity verification for tax matters administered by DOR. However, due to a recent increase in the level of fraud within the unclaimed property program, DOR has begun utilizing OCI's services for these claims as well. Therefore, fraud analysts are splitting their time between tax fraud and unclaimed property fraud.

The Department began noticing and tracking fraud within the unclaimed property program in 2020-21. Since that time, the number of fraudulent unclaimed property claims reviewed by OCI has increased 292%, from 179 claims in 2020-21 to 701 claims in 2023-24. According to DOR, fraudulent claims totaled over \$3 million in 2023-24, and included a case in which criminal charges were imposed.

11. Given increased levels of fraud within the program, DOR is requesting positions within OCI that would be dedicated to addressing fraud within the unclaimed property program. Under SB 45/AB 50, one revenue auditor position would be provided to focus on fraud review and prevention, while one IS business automation specialist (0.5 PR and 0.5 GPR) would conduct data analysis and recommend technology solutions to identify and defeat fraud in the unclaimed property program. The IS business automation specialist position would focus 50% of their time on unclaimed property fraud detection and the other 50% on individual income tax fraud detection. Providing positions dedicated to unclaimed property fraud would alleviate the workload of existing OCI fraud analysts and investigators, allowing them to focus their time on tax fraud.

12. As previously discussed, the unclaimed property program has seen increases in properties and claims received, including potentially fraudulent claims received. The portion of claims requiring manual processing has also increased, requiring time from unclaimed property specialists. These increases in claims, fraud, and complexity of cases have contributed to longer claims processing times and the need for additional staff. According to DOR, the proposed unclaimed property specialist would manage holder reporting and reconciliation and would support claims processing.

13. If the Committee desires to provide additionally staffing to address the increased workload within the unclaimed property program and address the increase in fraudulent claims, it could provide \$204,000 PR in 2025-26 and \$250,400 PR in 2026-27 and 2.5 positions annually to the unclaimed property program [Alternative A1]. The new positions would consist of: (a) one unclaimed property specialist; (b) one revenue auditor; and (c) one information system (IS) business automation specialist. For the IS business automation specialist, new position authority and funding for 0.5 positions would be provided, and a vacant revenue auditor position would be reallocated to provide the other 0.5 position and funding to assist with general tax fraud.

14. However, the Committee could choose to provide some of the requested positions and take no action on the others. DOR indicated in its agency budget request the following priority order for the requested positions: (a) 1.0 unclaimed property specialist to address increased workload and complexity within the program; (b) 0.5 IS business automation specialist to identify fraud through data analysis and technology solutions; and (c) 1.0 revenue auditor to review and prevent unclaimed property fraud and allow existing OCI fraud analysts and investigators to focus on tax fraud. The Committee could provide funding and position authority for any combination of these positions [Alternative A2a, A2b, and A2c].



15. Under Article X, Section 2 of the Wisconsin Constitution, the clear proceeds of all fines and forfeitures (including unclaimed and escheated property) are deposited to the Common School Fund. In 2023-24, the Department deposited \$50 million in unclaimed property into the Common School Fund. An increase in expenditures within the unclaimed property program could reduce the amount transferred to the Common School fund each year. However, addressing fraud and reducing the amount of property paid out to the wrong owners could increase the amount transferred.

16. Finally, if the Committee believes that the current level of staffing within the unclaimed property is sufficient to address current workload, it could take no action [Alternative A3].

### **Existing Position Authority**

17. As previously mentioned, 2013 Act 20 transferred administration of the unclaimed property program and 5.95 FTE positions to DOR from the Office of the State Treasurer. Since that time, 5.95 PR positions have been provided to the program. The Department provides 0.05 GPR positions to make the 0.95 position whole.

18. The Committee could convert the 0.05 positions provided to the unclaimed property program from GPR to PR [Alternative B1]. The split-funded position is an unclaimed property specialist position who works full time for the unclaimed property program. Converting the position would simplify DOR's accounting and position reports. It could be argued that converting this position would properly fund all six positions from unclaimed property remitted to the state.

19. According to DOR, existing expenditure authority in its unclaimed property -- administrative expenses appropriation is sufficient to fund the additional salary associated with this position, and no additional PR expenditure authority would be needed. If Alternative B1 were adopted, DOR could utilize the \$4,800 annual savings from reduced salary costs for other priorities of the Department, such as offsetting higher costs for supplies and services and postage (discussed in LFB Paper #651).

20. However, the Committee could choose to reduce DOR's general program operations appropriation by \$4,800 GPR annually to reflect the salary cost that would no longer be required to fund the transferred position authority [Alternative B2].

21. The split-funded position has been provided to the unclaimed program since 2013 Act 20 without issue. Converting funding for the position from GPR to PR would reduce the amount deposited to the Common School Fund by \$4,800 annually. For these reasons, the Committee could choose to take no action and maintain current law [Alternative B3].

## **ALTERNATIVES**

### **A. Additional Positions**

a. Provide \$204,000 PR in 2025-26 and \$250,400 PR in 2026-27 and 2.5 permanent positions annually to support increased workload within the unclaimed property program. Reallocate \$48,100 GPR in 2025-26 and \$64,100 GPR in 2026-27 and 0.5 vacant revenue auditor

position to the unclaimed property program to fully fund 1.0 IS business automation specialist.

<b>ALT A1</b>	<b>Change to Base Funding</b>	<b>Positions</b>
PR	\$454,400	2.50

1. Provide any number of the following positions to support the unclaimed property program:

b. Provide \$60,100 PR in 2025-26 and \$72,500 PR in 2026-27 and 1.0 unclaimed property specialist permanent position annually to address increased unclaimed property activity.

<b>ALT A2a</b>	<b>Change to Base Funding</b>	<b>Position</b>
PR	\$132,600	1.00

c. Provide \$48,100 PR in 2025-26 and \$64,100 PR in 2026-27 and 0.5 IS business automation specialist annually to perform data analysis to identify and defeat fraud within OCI. Reallocate \$48,100 GPR in 2025-26 and \$64,100 GPR in 2026-27 and 0.5 vacant revenue auditor position to the unclaimed property program to fully fund 1.0 IS business automation specialist.

<b>ALT A2b</b>	<b>Change to Base Funding</b>	<b>Position</b>
PR	\$112,200	0.50

d. Provide \$95,800 PR in 2025-26 and \$113,800 PR in 2026-27 and 1.0 revenue auditor position annually to support fraud review and prevention within OCI.

<b>ALT A2c</b>	<b>Change to Base Funding</b>	<b>Position</b>
PR	\$209,600	1.00

2. Take no action.

## **B. Existing Position Authority**

1. Delete 0.05 GPR positions annually from DOR's collection of taxes -- general program operations appropriation. Provide 0.05 PR positions annually to DOR's unclaimed property -- administrative expenses appropriation.

<b>ALT B1</b>	<b>Change to Base Positions</b>
GPR	-0.05
PR	<u>0.05</u>
Total	0.00

2. Delete \$4,800 GPR and 0.05 GPR positions annually from DOR's collection of taxes -- general program operations appropriation. Provide 0.05 PR positions annually to DOR's unclaimed property -- administrative expenses appropriation.

<b>ALT B2</b>	<b>Change to Base Funding</b>	<b>Positions</b>
GPR	-\$9,600	-0.05
PR	<u>0</u>	<u>0.05</u>
Total	-\$9,600	0.00

3. Take no action.

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Joint Committee on Finance

Paper #651

### Supplies and Services and Postage Increases (Revenue -- Departmentwide)

[LFB 2025-27 Budget Summary: Page 593, #3, and Page 594, #4]

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#### BACKGROUND

The Department of Revenue (DOR) is provided base funding of \$261,406,700 from all funds. Funding for supplies and services, including postage, is \$70,431,300, representing 27% of base expenditure authority.

#### DISCUSSION POINTS

1. The Department of Revenue is seeking additional funding for supplies and services, including postage, largely to address the rising cost of doing business. The various uses of the proposed funding increase are described below.

##### Supplies and Services Increase

2. SB 45/AB 50 would provide \$1,839,600 GPR and \$200,000 PR in 2025-26 and \$1,804,600 GPR and \$165,000 PR in 2026-27 for supplies and services to support various operational improvements at DOR [Alternative A1]. These improvements include: (a) contract information technology (IT) work; (b) a new mail truck; (c) IT infrastructure improvements; (d) improvements to DOR's enterprise tax processing system (WINPAS); (e) legal services; (f) training and travel costs; and (g) an upgrade in payment processing from DOR's third-party vendor. Table 1 shows the annual costs associated with each item. For all but one of the PR appropriations that would be increased, the unencumbered balance of each appropriation at the end of the fiscal year is transferred to the general fund. The provision of funding to various PR appropriations is estimated to reduce the year-end transfer from these appropriations to the general fund by \$165,000 annually.

TABLE 1

## Supplies and Services Increase under SB 45/AB 50

<u>Purpose</u>	<u>2025-26</u>	<u>2026-27</u>	<u>2025-27 Biennium</u>	<u>Fund Source</u>
Contract IT Work	\$125,000	\$125,000	\$250,000	GPR
Contract IT Work	165,000	165,000	330,000	PR
Mail Truck	35,000	-	35,000	GPR
Mail Truck	35,000	-	35,000	PR
IT Infrastructure Improvements	826,700	826,700	1,653,400	GPR
WINPAS Improvements	692,900	692,900	1,385,800	GPR
Legal Services	15,000	15,000	30,000	GPR
Training and Travel Costs	120,000	120,000	240,000	GPR
Payment Processing Upgrade	<u>25,000</u>	<u>25,000</u>	<u>50,000</u>	GPR
GPR Subtotal	\$1,839,600	\$1,804,600	\$3,644,200	
PR Subtotal	<u>200,000</u>	<u>165,000</u>	<u>365,000</u>	
TOTAL	\$2,039,600	\$1,969,600	\$4,009,200	

3. The following section provides details regarding each of the Department's requests for increased funding, as the Committee may wish to consider each item in Table 1 separately. Under Alternative A2, the Committee could adopt any combination of the proposed funding amounts, as described below.

4. *Contract IT Work.* The Department indicates that it has reduced the number of IT contractors in recent years in order to free up expenditure authority for mandatory expenses that have been increasing in cost. The reduction in contractors has led to a backlog of PR-funded projects that are awaiting completion, such as updates to the tax refund claim management system to better handle and track refund claims and updates to the unclaimed property system for better integration with other WINPAS processes. According to the Department, hiring an additional contract developer costs approximately \$150,000 per year, and there is need for at least two to three contract developers to address the current project backlog. Providing \$165,000 PR annually would allow contracting of one developer for a full year, and support funding for another contractor for about one month out of each year [Alternative A2a]. Increased PR funding for a part-year contractor could support a full-year contract with the additional funding requested for WINPAS improvements (discussed later).

5. DOR indicates that the rising cost of existing FAST Collection Services (DOR's advanced technology system) contractors, funded by GPR and accounting for nearly half of IT contractor work, has prompted the request for additional GPR funding. DOR anticipates inflationary cost increases from current FAST Collection Services contractors (\$1,320,000) of about 10% annually (\$132,000 in 2025-26 and \$277,200 in 2026-27, compared to 2024-25 costs), based on prior experience with the vendor. At this rate of increase, funding of \$125,000 GPR annually [Alternative A2b] would help (but not entirely) offset these increasing contractor costs in 2025-26, but would not address further increases in 2026-27. Since it may not fully fund such increases, DOR would be left to make up these amounts elsewhere within the agency budget. It should be noted that this funding

would be in addition to the \$60,000 PR approved by the Committee on April 21, 2025, to address increased PR costs of the advanced technology system (described in greater detail in point 24).

6. *Mail Truck.* According to DOR, the current mail truck was purchased in March of 2013 and has undergone nearly \$32,500 in repairs since 2018-19 (including nearly \$4,000 year-to-date in 2024-25), not including routine truck maintenance. In the last five years, the average repair expense was \$5,600 per year. These repairs have included: (a) replacement of the driver's seat, rusted side steps, and fuel tank straps; and (b) fixes to address antifreeze leaking problems and hydraulic brake pressure issues. DOR has identified ongoing issues with the mail truck that will likely require repair in the future, including a broken steering wheel adjuster, a bent rear safety bar, rusted rear steps, and difficulty accelerating over the winter.

7. Given that repairs to the mail truck since 2018-19 have totaled over 45% of the cost of purchasing a new truck, the Committee could consider providing one-time funding of \$35,000 GPR and \$35,000 PR in 2025-26 to purchase a new truck rather than funding continual repairs [Alternative A2c]. As the truck continues to age, it is likely to require more costly repairs. On the other hand, if annual repair costs remain around \$5,300 per year, repairing the truck during the 2025-27 biennium could still be more cost effective than purchasing a new one.

8. *IT Infrastructure Improvements.* Additional funding for IT infrastructure improvements would largely address rising costs. The total annual funding for IT infrastructure improvements (\$826,700 GPR) [Alternative A2d] would be allocated as follows: (a) \$537,400 for software expenses; (b) \$165,300 for Division of Enterprise Technology hosting costs; (c) \$62,000 for laptop replacements; and (d) \$62,000 for cybersecurity upgrades.

9. In 2024-25, software costs totaled \$4,308,600. DOR anticipates inflationary cost increases of about 10% annually (\$430,900 in 2025-26 and \$904,800 in 2026-27, compared to 2024-25 costs). Based on data provided by the Department, software costs have increased by around 4.5% annually in recent years, which would represent increases of \$194,000 in 2025-26 and \$397,000 in 2026-27, compared to 2024-25 costs. However, the Department does plan to upgrade licenses related to advanced data and analytics, which would account for the additional expense.

10. The Department currently spends \$138,000 annually for client security tools protecting devices from malware and data loss. Through assessment of risk and trends in the digital environment, DOR has identified a need for cybersecurity upgrades. Additional funding of \$62,000 would allow the Department to upgrade existing licenses and security features to secure taxpayer data.

11. The Department replaces laptops on a five-year cycle, spending around \$360,000 annually. Under current projections, the aggregate change in the consumer price index is estimated to have increased 25% from 2020 to 2025. The price of laptops has also increased with inflation. To address this, DOR would allocate \$62,000 annually to its laptop replacement budget.

12. *WINPAS Improvements.* Increased funding of \$692,900 GPR annually would be provided under SB 45/AB 50 for various WINPAS improvements [Alternative A2e]. A new WINPAS support and maintenance contract is expected to begin in July of 2026. DOR indicates that the existing contract will cost \$5,975,600 in 2025-26, and anticipates that the new contract cost will

increase by at least \$200,000 in 2026-27.

13. The remainder of the WINPAS improvement funding (\$692,900 in 2025-26 and \$492,900 in 2026-27) would support investments in various system improvements, including enhancements to WisTax (which allows individuals to submit their state tax return to DOR for free) for tax year 2026. Based on information from DOR, funding for WINPAS improvements could be used to hire up to four contractors in 2025-26 and three contractors in 2026-27 to address the backlog of projects (discussed in point 4) related to contract IT work.

14. *Legal Services.* DOR indicates that providing \$15,000 GPR annually for legal services would support court reporting and mailing costs, which have increased in recent years [Alternative A2f]. The Department indicates that budgetary constraints have contributed to delayed settlement decisions.

15. *Training and Travel Costs.* Total training and travel costs declined significantly during the COVID-19 pandemic, from \$1.66 million in 2018-19 to \$623,000 in 2020-21. Expenditures started increasing again in 2021-22, reaching \$1.38 million in 2023-24, but have yet to reach pre-pandemic levels, in part, due to budget constraints. The Department indicates that, during the pandemic, funding for training and travel was reallocated to other priorities, particularly postage and technology, to address increasing prices. Now that travel for activities such as audits, field collections, and in-person meetings, trainings, and conferences has resumed, the Department no longer has available expenditure authority to address these costs.

16. To address difficulties with hiring from the Madison labor market, DOR has recently been hiring more employees at district offices throughout the state. Newly-hired employees are not always in the same location as their supervisors, or as each other, for group training, creating the need for additional travel expenses to allow for in-person training and supervision. Further, the Office of General Counsel within DOR has need for enhanced tax and litigation training for newly-hired attorneys, which the Department does not currently have the budget to support.

17. Providing \$120,000 GPR annually would help fund increased travel demand for audits, in-personal collaboration and training, including legal training for attorneys, and collection actions [Alternative A2g]. This funding would be provided in addition to \$6,000 PR approved by the Committee on April 21, 2025, to cover training and travel costs expenses for the Statewide Debt Collection (SDC) program (described in greater detail in discussion point 24).

18. *Payment Processing Upgrade.* The Department indicates that Nacha (originally known as the National Automated Clearinghouse Association) standards are requiring upgrades to DOR's payment processor system (GIACT). Nacha governs the ACH Network, which is a payment system that reaches all U.S. bank and credit union accounts, and allows for direct payments and deposits. If DOR is not in compliance with Nacha standards, the Department cannot participate in ACH transactions. Increased funding of \$25,000 is provided annually under SB 45/AB 50 to make the necessary upgrades to GIACT [Alternative A2h].

19. If the Committee decides that current DOR funding for supplies and services is sufficient to maintain current operations, the Committee could take no action on this item [Alternative A3].



## Postage Cost Increase

20. Table 3 shows GPR and PR postage expenditures incurred by DOR since 2018-19. Total GPR and PR postage expenditures declined in 2019-20 and 2020-21, but have increased 24% since that time. Postage expenditures include both USPS postage costs and Department of Administration (DOA) mailing costs. The Department utilizes the mailing services of DOA when it is not feasible to complete a mailing in-house. DOA charges agencies for its mailing services, which include pre-sort services of \$0.10 per letter and pre-sort add-ons of either \$0.038 or \$0.29 per letter, depending on the volume and complexity of mailing demands. DOR indicates that DOA mailing charges, which include USPS postage paid by DOA and charged back to DOR, will make up approximately 59% of all postage expenditures in 2024-25.

**TABLE 3**  
**GPR and PR Postage Expenditures, 2018-19 to 2023-24**

	<u>GPR</u>		<u>PR</u>		<u>Total</u>	
	<u>Expenditures</u>	<u>% Change</u>	<u>Expenditures</u>	<u>% Change</u>	<u>Expenditures</u>	<u>% Change</u>
2018-19	\$1,696,059		\$1,932,145		\$3,628,204	
2019-20	1,895,005	11.7%	1,327,714	-31.3%	3,222,719	-11.2%
2020-21	1,691,767	-10.7	1,410,457	6.2	3,102,225	-3.7
2021-22	1,588,156	-6.1	1,554,044	10.2	3,142,200	1.3
2022-23	1,847,780	16.3	1,568,441	0.9	3,416,222	8.7
2023-24	1,968,446	6.5	1,877,212	19.7	3,845,658	12.6

21. SB 45/AB 50 would provide \$158,600 GPR and \$278,900 PR annually for postage expenses, comprised of: (a) \$133,600 GPR to DOR's collection of taxes - general program operations appropriation; (b) \$25,000 GPR to the administrative services - general program operations appropriation; (c) \$50,000 PR to the administration of county sales and use taxes appropriation; (d) \$50,000 PR to the business tax administration appropriation; (e) \$78,900 PR to the debt collection appropriation; (f) \$50,000 to the collections by the department appropriation; and (g) \$50,000 to the collections from the financial record matching program appropriation. Table 4 shows total expenditures from each of these appropriations in 2023-24, and presents the proposed increases to these appropriations included in SB 45/AB 50. Although total GPR and PR expenditures in 2023-24 were only \$217,454 above 2018-19 levels, additional postage price increases (described below) for 2024-25 and 2025-26 are not yet reflected in Table 3.

**TABLE 4****SB 45/AB 50 Proposed Increase for Postage Compared to 2023-24 Expenditures**

<u>Appropriation</u>	<u>Actual 2023-24 Expenditures</u>	<u>SB 45/AB 50 Increase</u>	<u>% Increase</u>	<u>Fund Source</u>
Collection of Taxes - General Program Operations	\$1,893,544	\$133,600	7.1%	GPR
Administrative Services - General Program Operations	59,913	25,000	41.7	GPR
Administration of County Sales and Use Taxes	15,264	50,000	327.6	PR
Business Tax Administration	149,378	50,000	33.5	PR
Debt Collection	241,837	78,900	32.6	PR
Collections by the Department	154,077	50,000	32.5	PR
Collections for the Financial Record Matching Program	<u>163,510</u>	<u>50,000</u>	30.6	PR
GPR Subtotal	\$1,953,457	\$158,600	8.1%	
PR Subtotal	<u>724,066</u>	<u>278,900</u>	38.5	
TOTAL	\$2,679,523	\$437,500	16.3%	

22. For each of the PR appropriations (except the business tax administration appropriation) shown in Table 4, the unencumbered balance of each appropriation at the end of the fiscal year is transferred to the general fund. For the business tax administration appropriation, the year-end transfer is reduced by 10% of expenditures and encumbrances during the year. Therefore, an increase in PR expenditures for each appropriation would reduce the year-end transfer to the general fund.

23. The Department's collection of taxes - general program operations GPR appropriation can be used for the administration of income, franchise, sales, excise, and death tax laws. As such, it can be utilized to supplement other PR appropriations that do not have sufficient expenditure authority to fund its operations. DOR indicates that this supplementation has occurred to cover postage costs for PR appropriations without sufficient expenditure authority. Therefore, a larger percentage increase would be provided to the PR appropriations both to cover increased postage costs and reduce reliance on GPR to pay for program specific postage costs.

24. On April 1, 2025, the Department of Administration, on behalf of DOR, submitted a passive review request under s. 16.515/16.505(2) requesting additional expenditure authority of \$565,000 PR in 2024-25 to support the SDC program. This amount would be allocated as follows: (a) \$425,000 to cover rising postage costs; (b) \$74,000 for rental space shortfalls; (c) \$60,000 for contract services fees related to the advanced technology collection system; and (d) \$6,000 for travel and training of existing SDC revenue agents. No objections were raised to this request; therefore, the request was approved on April 21, 2025. The \$565,000 of increased expenditure authority for the SDC program is an ongoing amount. However, the Committee would have to approve a modification to the 2025-27 Chapter 20 schedule to reflect this change, described in LFB Paper #652, as it was not included in the adjusted base under SB 45/AB 50.

25. The Department's recent passive review request provides \$425,000 annually to DOR's debt collection appropriation to address increased postage costs within the SDC program. SB 45/AB

50 would provide an additional \$78,900 annually to the program. DOR indicates that the amounts included in SB 45/AB 50 are still necessary, as the \$425,000 covers the current postage shortfall, while the additional \$78,900 provided under the bill would address future price increases. Although these amounts (\$425,000 + \$78,900) reflect an increase of 208% over 2023-24 expenditures from the debt collection appropriation, DOR states that this is because other priorities utilized the debt collection expenditure authority, requiring the Department to supplement postage costs with its general program operations appropriation. Additional funding to the debt collection appropriation for mandatory postage costs effectively allows DOR to reallocate GPR for other needs within the Department.

26. DOR indicates that it requires electronic submission of tax forms and permit applications when allowed under state law, but otherwise must continue to support physically delivered letters, notices, and other items. This makes postage costs a fixed expense for the Department. Absent increased funding to support the rising cost of postage, DOR must reallocate available funds from other operations of the Department, such as tax enforcement.

27. The Department's postage cost varies depending on the type of correspondence. In general, DOR pays the postage rate for commercial first-class mail, which is currently set at \$0.545 per letter. However, DOR utilizes a postage meter for mail that does not meet the commercial first-class mail requirements, at a price of \$0.69 per letter. A postage meter is a postage printing machine or system leased by an authorized provider for use in a home or office. Meters print postage directly onto mail or onto a meter tape, which is then affixed to the mail. In addition, DOR is required to send certain letters by certified mail, which costs \$4.85 per item on top of the metered mail postage costs and is purchased at the time of mailing. Certified mail provides the sender of the mail with a confirmation when an item has been sent. Current prices were set on July 14, 2024.

28. Table 5 shows the changes in postage costs for the above-mentioned mailing options since January 21, 2018. As seen in the table, postage costs began increasing at a higher rate beginning in January, 2022. From May 23, 2021, to July 14, 2024 (when the current prices were set), commercial first-class mail, metered mail, and certified mail increased 37%, 35%, and 35%, respectively. These increases represent average annual rates of 11.0% for commercial first-class mail, 10.6% for metered mail, and 10.4% for certified mail. Another large increase in these rates is scheduled to take effect on July 13, 2025, with further increases anticipated in January and July of 2026 and 2027.

**TABLE 5****USPS Postage Cost Changes Since 2018**

<u>Effective Date</u>	<u>Commercial First-Class Mail</u>		<u>Metered Mail</u>		<u>Certified Mail</u>	
	<u>Price</u>	<u>% Change</u>	<u>Price</u>	<u>% Change</u>	<u>Price</u>	<u>% Change</u>
January 21, 2018	\$0.378		\$0.47		\$3.45	
June 23, 2019	0.383	1.3%	0.50	6.4%	3.50	1.4%
October 18, 2020	0.389	1.6	0.50	0.0	3.55	1.4
May 23, 2021	0.398	2.3	0.51	2.0	3.60	1.4
January 9, 2022	0.426	7.0	0.53	3.9	3.75	4.2
October 2, 2022	0.455	6.8	0.57	7.5	4.00	6.7
January 22, 2023	0.471	3.5	0.60	5.3	4.15	3.8
July 9, 2023	0.498	5.7	0.63	5.0	4.35	4.8
January 21, 2024	0.507	1.8	0.64	1.6	4.40	1.1
July 14, 2024	0.545	7.5	0.69	7.8	4.85	10.2
July 13, 2025	0.593	8.8	0.74	7.2	5.30	9.3

29. DOR sent out 3,547,539 letters in 2023-24. Assuming an average postage cost of \$0.545 per letter, the same mailing will cost the Department \$1,933,409 in 2024-25. The same number of mailings would have cost an estimated \$1,379,993 in 2020-21 (\$553,416 less than 2024-25), and is estimated to cost an additional \$170,282 in 2025-26, compared to 2024-25. For mail in which DOR utilizes a postage meter, mailing costs are higher.

Further, the Department indicates that approximately 60,000 letters are sent by certified mail each year. Therefore, such mailings will cost DOR an estimated \$291,000 in 2024-25 (in addition to other postage costs), while only costing approximately \$213,000 in 2020-21. This reflects an increase of \$78,000 in the last four years. In 2025-26, it is estimated that the cost of certified mail to DOR will increase by \$27,000, compared to 2024-25.

30. As seen in Table 5, USPS postage costs have increased significantly since 2021. As a result, the Department has been forced to reduce expenditures in other areas to cover postage costs. For example, within DOR's Audit and Compliance Bureaus, many collection actions are dependent on the mailing of letters. Therefore, increasing postage costs may impact these Bureaus' operations by: (a) reducing the number of letters that can be sent out, which subsequently reduces collection actions and revenues generated; and/or (b) increasing required resources devoted to postage, thereby reducing resources available to initiate additional audit actions within the Audit Bureau. A large portion of Audit and Compliance Bureau activities are funded by DOR's collection of taxes - general program operations appropriation.

31. To ensure that rising postage costs do not reduce other activities within DOR, the Committee may wish to provide \$158,600 GPR and \$278,900 PR annually to cover postage expenses [Alternative B1]. It is estimated that this alternative would reduce amounts transferred to the general fund by \$283,900 in 2025-26 and \$278,900 in 2026-27.

32. However, the Committee could choose to modify or exclude some of the funding amounts that would be provided under SB 45/AB 50 to various DOR appropriations, as displayed in

Table 4, to reflect the desired funding level. Some considerations with regard to the various funding amounts are included below.

33. As previously mentioned, DOR recently received \$425,000 of additional funding for postage annually within the SDC program. The Committee could decide that this funding is sufficient and not provide the additional \$78,900 annually to the SDC program [Alternative B2].

34. In addition, providing PR funding to support postage costs would reduce current reliance on GPR funding sources for that purpose. As such, the provision of PR funding would free up expenditure authority within DOR's general program operations appropriations, reducing the need for additional GPR funding. The Committee could choose to provide only the requested \$278,900 PR funding annually for postage [Alternative B3a]. Alternatively, the Committee could choose to increase funding directly to DOR's two general program operations appropriations and provide \$158,600 GPR funding annually for postage [Alternative B3b].

35. On the other hand, the Committee could decide that current resources provided for postage are sufficient and take no action [Alternative B4]. In its agency budget request, DOR indicated that it is working on a project to increase taxpayer usage of My Tax Account and to send notices securely and electronically. Successful implementation of this program could reduce the volume of letters sent each year, reducing postage costs.

## ALTERNATIVES

### A. Supplies and Services

1. Provide \$1,839,600 GPR and \$200,000 PR in 2025-26 and \$1,804,600 GPR and \$165,000 PR in 2026-27 for supplies and services to support various operational improvements at DOR. These monies would support increased expenditures for: (a) contract IT work; (b) a new mail truck; (c) IT infrastructure improvements; (d) WINPAS improvements; (e) legal services; (f) training and travel costs; and (g) an upgrade in payment processing from DOR's third-party vendor. Estimate a decrease in amounts transferred to the general fund of \$165,000 annually.

ALT A1	Change to Base
GPR	\$3,644,200
PR	<u>365,000</u>
Total	\$4,009,200
GPR-REV	- \$330,000

2. Provide funding for any combination of the following items:

a. Provide \$165,000 PR annually to fund additional contract developers. Estimate a decrease in amounts transferred to the general fund of \$165,000 annually.

ALT A2a	Change to Base
PR	\$330,000
GPR-REV	- \$330,000

b. Provide \$125,000 GPR annually to address the increasing cost of existing FAST Collection Services contractors.

ALT A2b	Change to Base
GPR	\$250,000

c. Provide \$35,000 GPR and \$35,000 PR in 2025-26 to purchase a new mail truck.

ALT A2c	Change to Base
GPR	\$35,000
PR	<u>35,000</u>
Total	\$70,000

d. Provide \$826,700 GPR annually for IT infrastructure improvements.

ALT A2d	Change to Base
GPR	\$1,653,400

e. Provide \$692,900 GPR annually to fund the new WINPAS support and maintenance contract.

ALT A2e	Change to Base
GPR	\$1,385,800

f. Provide \$15,000 GPR annually to cover increased costs for legal services, including court reporting and mailing costs.

ALT A2f	Change to Base
GPR	\$30,000

- g. Provide \$120,000 GPR annually for increased travel and training costs.

ALT A2g	Change to Base
GPR	\$240,000

- h. Provide \$25,000 GPR annually to fund an upgrade to DOR's payment processing system.

ALT A2h	Change to Base
GPR	\$50,000

3. Take no action.

**B. Postage Costs**

1. Provide \$158,600 GPR and \$278,900 PR annually to address the increasing cost of postage. Estimate a decrease in amounts transferred to the general fund of \$283,900 in 2025-26 and \$278,900 in 2026-27.

ALT B1	Change to Base
GPR	\$317,200
PR	<u>557,800</u>
Total	\$875,000
GPR-REV	- \$562,800

2. Adopt Alternative B1, with a modification to exclude funding of \$78,900 PR annually for the SDC program. Provide \$158,600 GPR and \$200,000 PR annually to address the increasing cost of postage. Estimate a decrease in amounts transferred to the general fund of \$205,000 in 2025-26 and \$200,000 in 2026-27.

ALT B2	Change to Base
GPR	\$317,200
PR	<u>400,000</u>
Total	\$717,200
GPR-REV	- \$405,000

3. Adopt one of the following options:

a. Provide \$278,900 PR annually to address the increasing cost of postage. Estimate a decrease in amounts transferred to the general fund of \$283,900 in 2025-26 and \$278,900 in 2026-27.

<b>ALT B3a</b>	<b>Change to Base</b>
PR	\$557,800
GPR-REV	- \$562,800

b. Provide \$158,600 GPR annually to address the increasing cost of postage.

<b>ALT B3b</b>	<b>Change to Base</b>
GPR	\$317,200

4. Take no action.

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Joint Committee on Finance

Paper #652

### Debt Collection Appropriation (Revenue -- Departmentwide)

#### CURRENT LAW

The Department of Revenue (DOR) debt collection appropriation is provided base funding of \$4,023,500 PR annually. The funding source for this appropriation is from fees charged to debtors under the Statewide Debt Collection program and the Tax Refund Interception program. At the end of each fiscal year, any remaining balance resulting from fee revenues in excess of program expenses is deposited in the general fund.

#### MODIFICATION

Increase funding in DOR's debt collection appropriation by \$565,000 PR annually.

**Explanation:** On April 1, 2025, DOR submitted a request to the Joint Committee on Finance under s. 16.515/16.505(2) to increase expenditure authority for supplies and services in DOR's debt collection appropriation by \$565,000 in 2024-25 and annually thereafter. On April 21, 2025, the Committee informed DOR that its request had been approved. This modification reflects approval of the Department's request for ongoing expenditure authority. Increased expenditures from this appropriation result in a corresponding decrease in the amounts transferred to the general fund, which was incorporated into the revised estimates of general fund revenues distributed by this office in May.

Change to Base	
PR	\$1,130,000

Prepared by: Sean Moran