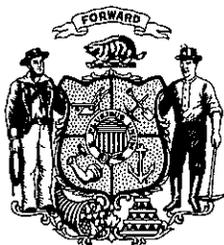


State of Wisconsin

SENATE CHAIR
Alberta Darling

317 East, State Capitol
P.O. Box 7882
Madison, WI 53707-7882
Phone: (608) 266-5830



ASSEMBLY CHAIR
John Nygren

309 East, State Capitol
P.O. Box 8593
Madison, WI 53708-8953
Phone: (608) 266-2343

Joint Committee on Finance

MEMORANDUM

To: Members
Joint Committee on Finance

From: Senator Alberta Darling
Representative John Nygren

Date: December 30, 2015

Re: 14-Day Passive Review Approval – DOA

Pursuant to s. 16.513(3), Stats., attached is a 14-day passive review request from the Department of Agriculture, Trade and Consumer Protections; Department of Health Services; Department of Justice; and Department of Administration, received on December 30, 2015.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Thursday, January 21, 2016** if you have any concerns about the request or if you would like the Committee to meet formally to consider it.

Also, please contact us if you need further information.

Attachments

AD:JN;jm



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Office of the Secretary
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1741
Fax (608) 267-3842
TTY (608) 267-9629

Date: December 30, 2015

To: The Honorable Alberta Darling, Co-Chair
Joint Committee on Finance

The Honorable John Nygren, Co-Chair
Joint Committee on Finance

From: Scott A. Neitzel, Secretary
Department of Administration

Subject: Section 16.513(3) Request

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J. Finance

SAN

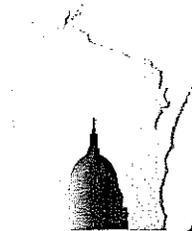
Enclosed are spending plans from the Department of Agriculture, Trade and Consumer Protection; Department of Health Services; Department of Justice; and Department of Administration to address unsupported overdrafts for fiscal year 2014-15. The plans have been approved by this department under the authority granted in s. 16.513(3), Wisconsin Statutes. The explanations for the requests are included in the attached materials.

As provided in s. 16.513(3), the request(s) will be approved on **January 25, 2016**, unless we are notified prior to that time that the Joint Committee on Finance wishes to meet in formal session about any of the requests.

Please contact Kirsten Grinde at 266-1353 in the Division of Executive Budget and Finance, if you have any additional questions.

Attachments

cc: Bob Lang, Legislative Fiscal Bureau



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Division of Executive Budget and Finance
Post Office Box 7864
Madison, WI 53707-7864
Voice (608) 266-1736
Fax (608) 267-0372
TTY (608) 267-9629

Date: December 30, 2015

To: Scott A. Neitzel
Secretary of Administration

From: Michael G. Heifetz 
State Budget Director

Subject: Fiscal Year 2014-15 Program Revenue Overdraft Review

Pursuant to s. 16.513(3), the department is required to review agency plans to address any unsupported overdrafts in program or segregated revenue appropriations, which are defined as appropriations where there are insufficient moneys, assets or accounts receivable to cover expenditures at the end of each fiscal year. The department then submits its recommendation to approve, disapprove or approve with modification the agency's plan to the Joint Committee on Finance. At the February 15, 2012, s. 13.10 meeting, the Committee approved a motion to direct the department to submit these overdraft plans for fiscal year 2011-12 and beyond within six months of the close of the fiscal year.

Since this requirement was enacted, the Department of Administration has conducted an examination of the program revenue and corresponding segregated revenue appropriations that had overdrafts at the end of each fiscal year. This examination is performed after the end of the fiscal year in order to comply with the requirements of s. 20.903(2), Wis. Stats., which states that liabilities may be created in program revenue and corresponding segregated revenue appropriations at the end of the current fiscal year not exceeding unexpended monies plus accrued accounts receivable, inventory and work in process. Certain appropriations are also authorized by statute to use the net book value of equipment and buildings (capital assets) as coverage for the overdraft. After a determination has been made that an appropriation does not have assets, receivables, inventory, or in some instances buildings and equipment to cover the overdraft, agencies are then required by s. 16.513, Wis. Stats., to submit a plan to the department detailing how these overdrafts will be resolved.

In some cases, the deficits are long-standing and will require multiple years and statutory changes, such as revenue adjustments, reallocation of costs or reductions in program requirements, to reduce or eliminate the deficit. And at times, the Administration has included plans to address the overdrafts as part of the biennial budget bills, only some of which have been accepted by the Legislature.

The unsupported overdraft appropriations in fiscal year 2014-15 total \$57,755,650. The following agencies have unsupported overdrafts in the following appropriations:

Department of Agriculture, Trade and Consumer Protection

Appropriation 122, Grain Inspection and Certification, in the amount of \$563,834. The fiscal year 2014-15 unsupported overdraft decreased by \$201,099 from the unsupported balance of \$764,933 in fiscal year 2013-14.

The department has submitted a plan to continue to lapse any remaining GPR balances at year-end to cover the deficit in this appropriation, as required by 2005 Wisconsin Act 25. In fiscal year 2014-15, the department transferred \$157,023 GPR from its general operations appropriation to address the deficit.

The 2015-17 Biennial Budget, 2015 Wisconsin Act 55, deleted 4.0 FTE positions as well as \$195,600 in associated expenditure authority from this appropriation. In addition, the 2013-15 Biennial Budget, 2013 Wisconsin Act 20, required the department to transfer an amount equal to the overdraft amount as of June 30, 2013, from unencumbered balances in program revenue appropriations, the agricultural chemical management segregated fund or the agricultural chemical cleanup program segregated fund. The department submitted a plan to the Joint Committee on Finance to address the deficit, and has transferred \$200,000 in program revenue from the telephone solicitation and regulation appropriation under s. 20.115(8)(jm) to the grain inspection appropriation. Under the plan, the department will continue to transfer from program revenue balances to the grain inspection appropriation until the deficit is eliminated.

RECOMMENDATION: Approve the plan.

Department of Health Services

Appropriation 225, Alternative Services of Institutes and Centers, in the amount of \$14,601,917. The net cash overdraft is \$21,323,743, and there are inventories and receivables of \$6,721,826 that offset a portion of the overdraft.

The overdraft in this appropriation relates to the operations of the Northern Wisconsin Center. Since fiscal year 2004-05, the department has only operated an Intensive Treatment Program at the center for individuals with intellectual disabilities who live in the community. Under this program, counties and Family Care managed care organizations fund a portion of the costs (billed at an interim per diem rate) and the center receives Medicaid reimbursement for the remaining portion of eligible costs. Because cost settlements take several months to finalize, the department records a receivable in anticipation of reimbursement for the days of care billed. In fiscal year 2013-14, the department completed its reconciliation of prior year cost settlements,

and no longer had a receivable in anticipation of settlement that was large enough to support the overdraft.

The department has indicated the ongoing unsupported overdraft for the Northern Wisconsin Center is the result of several major factors, including the difference between the interim intensive treatment program daily rate and the actual cost per bed day at the center, declines in census that result in higher bed tax assessments than Medicaid reimbursement, and past accounting treatments of certain center costs and revenues. One interim daily rate, based on average costs, is applied to all of the department's state centers, but Northern Wisconsin Center's actual costs are significantly above the average costs due to its comparatively small size. The department estimates an average annual Medicaid claim of \$4.6 million. In addition, the center receives a Medicaid access incentive payment for each occupied bed, but pays the bed tax for all licensed beds, occupied or vacant. Due to Northern Wisconsin Center's vacancy rate, it does not receive sufficient access payments to cover the bed tax assessment.

The department has submitted a plan recommending that the Department of Administration and Department of Health Services develop a plan to reduce the cash deficit by utilizing any available revenues received as reimbursement from the Medicaid program for the operations and services of the state centers and to more accurately reflect revenues earned by the centers but not paid until final cost reporting is completed after the fiscal year.

RECOMMENDATION: Approve the plan.

Appropriation 267, Interagency and Intra-Agency Operations, in the amount of \$6,091,883. Agency staff indicated that the unsupported overdraft is the result of the costs of utilities and maintenance of common areas and vacant buildings at the Northern Wisconsin Center, which are not reimbursable under the Medicaid program. The deficits associated with the downsizing of the Northern Wisconsin Center are transferred from the institutional operations and charges appropriation under s. 20.435(2)(gk) into appropriation 267 in order to keep track of the costs.

The department has submitted a plan that indicates the department will continue to employ strategies identified in previous plans to address the deficit. The department will continue to seek approval from the Governor and the Joint Committee on Finance to use revenue from the sale of surplus land on the Northern Wisconsin Center campus, valued at \$3 million, to reduce the shortfall. The department will also identify any operating budget balances each year that could be used to offset the deficit. Further, beginning in fiscal year 2010-11, the department began allocating all utility and common area maintenance and grounds costs to the agencies that occupy campus facilities, including the Departments of Corrections, Military Affairs and

Veterans Affairs. Previously, only the incremental costs were paid by the other agencies.

The department's plan also indicated that the department would consider moving its short-term care unit for people with intellectual disabilities from the campus to reduce overhead costs and that it supported the Department of Administration assuming responsibility for power plant, utility, maintenance and groundskeeping operations and billings on the campus to assist with streamlining operations and implementing a uniform allocation methodology.

RECOMMENDATION: Approve the plan.

Department of Justice

Appropriation 230, Penalty Surcharge Receipts, in the amount of \$3,701,066. This is an increase of \$1,653,066 from the fiscal year 2013-14 closing deficit balance of \$2,048,000. Surcharge revenue, including accounts receivable were \$15,376,463 in fiscal year 2014-15, compared to \$18,438,208 in fiscal year 2013-14, a decrease of \$3,061,745.

Under 2015 Wisconsin Act 55, in order to reduce the deficits of both the justice information fee in the Department of Administration, and the penalty surcharge receipts appropriations, the penalty surcharge receipts will be utilized to fund court interpreters appropriation under s. 20.625(1)(k) in the amount of \$232,700, while the funding for crime lab equipment and supplies appropriation under s. 20.455(2)(jb) will now be funded by the DNA surcharge, rather than penalty surcharge, in the amount of \$558,100 annually. This is expected to reduce obligations to the fund by \$325,400 annually. However, the department indicates that without significant changes in either appropriated amounts or increased surcharges, the deficit is expected to continue.

RECOMMENDATION: Approve the plan and continue to review the allocation of penalty surcharge receipts to determine the most appropriate use of the funds and reduce the deficit.

Appropriation 281, Grants for Substance Abuse, in the amount of \$1,823,492. This is a decrease of \$53,476 from the fiscal year 2013-14 deficit. The appropriation was originally created in the 2005-07 Biennial Budget and was transferred to the department under 2013 Wisconsin Act 20. It provides grants to counties for substance abuse treatment programs. Revenues are collected from fines on those convicted of manufacturing or distributing a controlled substance.

For fiscal years 2007-08, 2008-09 and 2009-10, the only revenues for this appropriation consisted of drug offender surcharges. Beginning in fiscal year 2007-08, the first \$850,000 of revenues collected for the drug abuse surcharges were to be deposited to a Department of Health Services appropriation and any revenues between \$850,000 and \$1,275,000 were to be deposited to the Department of Administration appropriation 622. This appropriation transferred to the Department of Justice in fiscal year 2013-14. Any drug abuse surcharge revenues that exceeded \$1,275,000 for the year are to be split one-third to the Department of Justice appropriation 281 and two-thirds to the Department of Health Services appropriation. However, during fiscal year 2009-10, there were less than \$520,000 in drug abuse surcharge revenues, and all were deposited to the Department of Health Services appropriation. Starting with fiscal year 2009-10, the budget for this appropriation was reduced to \$7,500 with no new grant commitments. With this change, the revenues in fiscal year 2010-11 through fiscal year 2014-15 exceeded expenditures. However, it will take time to eliminate the unsupported overdraft that had accumulated over several years.

The department has submitted a plan of reduced expenditures plus continued revenue sources to resolve the overdraft. Since expenditures were reduced starting in fiscal year 2009-10, expenditures will continue at this reduced level for future fiscal years because there are no remaining grant commitments in the appropriation. An appropriation was created in 2009 Wisconsin Act 28 (alternatives to prosecution and incarceration for persons who use alcohol or other drugs, justice information surcharge appropriation under s. 20.505(6)(j)) to fund grant commitments from a different revenue source. The 2011-13 and 2013-15 Biennial Budgets, 2011 Wisconsin Act 32 and 2013 Wisconsin Act 20, left intact the \$7,500 annual expenditure authority and existing revenue sources for the program. Revenues of \$45,976 were collected to address the deficit in fiscal year 2014-15. As a result, it is anticipated that the continued receipt of surcharge revenue in excess of expenditures will further reduce the overdraft in appropriation 281. At current revenue levels, the deficit will remain through fiscal year 2054-55.

RECOMMENDATION: Approve the plan and continue to review fund balances within the department for potential reallocation to address the deficit.

Department of Administration

Appropriation 123, Justice Information Fee, in the amount of \$2,800,879. This is an increase of \$1,573,674 from the fiscal year 2013-14 deficit.

Revenues for this appropriation come from assessments for the commencement or filing of certain civil court proceedings, including large claims, small claims forfeitures, garnishments, municipal court appeals or other claims. The current surcharge is \$21.50. Of this amount, \$6.00 is appropriated to the Court System for the operation

of circuit court automated information systems (CCAP). The remaining revenues are distributed to other appropriations in the Departments of Justice and Corrections, and the Circuit Courts. Beginning with 2011 Wisconsin Act 20, the Department of Administration is also required to lapse \$700,000 of surcharge revenue in each fiscal year to the general fund.

Under 2015 Wisconsin Act 55, the justice information fee revenue transfer to support the court interpreters appropriation under s. 20.625(1)(k) was eliminated, reducing the future annual obligation of the fee revenue by \$232,700. In addition, Act 55 required that the unencumbered balances of each recipient appropriation be transferred to the justice information appropriation under s. 20.505(1)(id). In September 2015, \$1,527,075 in unencumbered balances was returned to the appropriation, reducing the current deficit to \$1,273,804. The department indicates that these changes will positively impact the appropriation balance but anticipates that additional legislative changes to appropriations supported by the justice information fee will be required to address the deficit.

RECOMMENDATION: Approve the plan.

Appropriation 138, Enterprise Resource Planning System, in the amount of \$25,508,627. The total cash overdraft is \$34,268,881, and there are capital assets of \$8,760,254 as coverage. The unsupported overdraft increased by \$9,003,966 from the fiscal year 2013-14 unsupported overdraft.

The department was directed to implement and maintain the integrated business information system (IBIS) pursuant to s. 16.971(2)(cf), Wisconsin Statutes. After the initial system implementation was put on hold in April 2008 and maintenance payments suspended in May 2011, the Department of Administration opted to move forward in fiscal year 2012-13 with an enterprise resource planning system and announced the State Transforming Agency Resources (STAR) Project.

The deficit in this appropriation as of fiscal year 2014-15 is a result of the department continuing to incur costs associated with STAR Project implementation. In fiscal year 2014-15, the department built and tested the project's financial module (Release 1). Significant work was also completed on the project's human resources/payroll module (Release 2). The primary cost drivers behind the \$50,598,009 in fiscal year 2014-15 STAR expenses were personnel and contractual professional services to support both project releases ahead of implementation. Of the total fiscal year 2014-15 STAR expenses, \$36,770,646 was financed by the state's Master Lease program.

Release 1 was fully deployed on October 1, 2015, and Release 2 was deployed on December 14, 2015. Project work will continue for the scheduled deployment of

Release 3, which will fully implement the STAR financial module for the Department of Transportation, on July 1, 2016.

Costs incurred by the department for STAR Project work and financing will be recovered by an annual assessment to state agencies beginning in fiscal year 2016-17. With the deployment of STAR Releases 1 and 2 in fiscal year 2015-16, the department has also begun incurring postdeployment maintenance and operations costs for the system. These costs will be recovered from agencies starting in fiscal year 2015-16 and annually thereafter. As such, the ongoing costs will not contribute to the deficit in this appropriation. The department is working to finalize a methodology for both assessments.

RECOMMENDATION: Approve the plan.

Information Technology Investment Fund

Appropriation 160, Information Technology Investment Fund – Special Projects, in the amount of \$2,663,952. The unsupported overdraft decreased by \$25,000 from the fiscal year 2013-14 unsupported overdraft. The funding source to repay a one-time loan from the general fund was eliminated in fiscal year 2001-02, leaving the appropriation with a deficit. The department has used various excess revenues to make payments towards the reduction of this deficit and continues to do so.

RECOMMENDATION: Approve the plan.

Program Revenue Overdraft Review

FY15

Unsupported Overdrafts

Fd	Agy	Appr	Description	FY15 Net Cash Overdraft	Accounts Receivable	Inventory	Capital Assets Net of Master Lease	Total Support For Overdraft	Unsupported Cash Overdraft
100	115	122	Grain Inspection	(674,416)	110,582			110,582	(563,834)
100	435	2(G)	Alternative Services	(21,323,743)	6,721,826			6,721,826	(14,601,917)
100	435	267	Interagency And Intra-Agency Programs	(4,405,213)	(1,686,670)			(1,686,670)	(6,091,883)
100	455	230	Penalty Assessment Surcharge	(3,701,066)	0			0	(3,701,066)
100	455	281	Grants for Substance Abuse	(1,823,492)	0			0	(1,823,492)
100	505	123	Justice Information Fee	(2,800,879)	0			0	(2,800,879)
100	505	138	Enterprise Resource Planning System	(34,268,881)	0		8,760,254	8,760,254	(25,508,627)
280	870	160	Special Projects; Revenue Fees	(2,663,952)	0			0	(2,663,952)
				(71,661,642)	5,145,738	0	8,760,254	13,905,992	(57,755,650)



**WISCONSIN DEPARTMENT OF
ADMINISTRATION**

SCOTT WALKER
GOVERNOR

SCOTT A. NEITZEL
SECRETARY

Division of Administrative Services
Post Office Box 7869
Madison, WI 53707-7869
Voice (608) 266-2309
Fax (608) 264-9500

Date: December 18, 2015

To: Michael Heifetz, State Budget Director
Division of Executive Budget and Finance

Jeff Anderson, Deputy State Controller
Division of Executive Budget and Finance

From: Colleen Holtan, Director ~~EAH~~
Bureau of Financial Management
Division of Administrative Services

Re: FY15 Program Revenue Unsupported Overdraft Plan

In accordance with s. 16.53, Wis. Stats., please accept this memo as the Department of Administration's ("DOA" or "Department") plan to address fiscal year 2015 (FY15) program revenue unsupported overdrafts in the following appropriations:

- Agency 505 (DOA), Appropriation 123 - Justice Information Fee Receipts
- Agency 505 (DOA), Appropriation 138 - Enterprise Resource Planning System
- Agency 870 (ITIF), Appropriation 160 - Information Technology Investment Fund - Special Project

Appropriation 123 – Justice Information Fee Receipts

The Justice Information Fee was created by 1995 Wisconsin Act 27 (the 1995-97 Biennial Budget) when s. 814.635 (1) of the statutes was amended to rename the "court automation fee" to "justice information fee" Under the law, the Justice Information Fee is generally assessed with a court fee for the commencement or filing of certain civil court proceedings, including large claims, small claims forfeiture, wage earner, or garnishment actions, an appeal from municipal court, third party complaint in a civil action, or for filing a counterclaim or cross complaint in a small claims action. Act 27 established a Justice Information Fee of \$5.00 and required eighty percent of the moneys received under s. 814.635 (1) to be credited to the appropriation for the development and operation of automated justice information systems under s. 16.971 (9), and the remainder to the general fund.

1997 Wisconsin Act 27 (the 1997-99 Biennial Budget) increased from \$5.00 to \$7.00 the fee amount and decreased from 80% to four-sevenths the amount of moneys received under s. 814.635 (1) to be credited to s. 20.505 (1) (ja), Justice information

systems, and directed two-sevenths and one-seventh, respectively, to 20.680 (2) (j) Court information systems and interpreters and the general fund.

1999 Wisconsin Act 9 (the 1999-01 Biennial Budget) increased from \$7.00 to \$9.00 the fee amount and modified the amount of moneys received under s. 814.635 (1) to be credited to s. 20.505 (1) (ja), Justice information systems, 20.680 (2) (j), Court information systems and interpreters, and the general fund, to two-ninths, six-ninths and one-ninth, respectively.

2003 Wisconsin Act 139 consolidated court assessments, surcharges, and restitution payments into Chapter 814 of the statutes; renumbered section 814.635 of the statutes to s. 814.86; and changed the name of all of fees, assessments, surcharges, and restitution payments to surcharges.

2005 Wisconsin Act 25 (the 2005-07 Biennial Budget) increased from \$9.00 to \$12.00 the surcharge amount and modified the amount of moneys received under s. 814.86 (1) to be credited to s. 20.505 (1) (ja), Justice information systems, 20.680 (2) (j), Court information systems and interpreters, and the general fund, to five-twelfths, 50% and one-twelfth, respectively.

2009 Wisconsin Act 28 (the 2009-11 Biennial Budget) increased from \$12.00 to \$21.50 the surcharge amount. It also increased from three to six the number of appropriations to which moneys received under s. 814.86 (1) were to be credited and the changed the distribution method to one based on a fixed amount of the total fee (e.g., \$7.50 of every \$21.20 fee to s. 20.505 (1) (ja), Justice information systems). A summary of the changes in the Justice Information Surcharge is shown in TABLE 1.

TABLE 1
Justice Information Fee/Surcharge

<u>Authorizing Legislation</u>	<u>Amount</u>
1995 Wisconsin Act 27	\$5.00
1997 Wisconsin Act 27	\$7.00
1999 Wisconsin Act 9	\$9.00
2005 Wisconsin Act 25	\$12.00
2009 Wisconsin Act 28	\$21.50 ¹

¹ Surcharge amount is unchanged as of current date

2011 Wisconsin Act 32 (the 2011-13 Biennial Budget) significantly changed the structure of the surcharge distribution with the creation of appropriation s. 20.505 (1) (id), Justice Information Fee Receipts, into which all moneys less \$700,000 received from the justice information surcharge under s. 814.86 (1) are collected for the purpose of annually transferring to the appropriation accounts the amounts in the schedule for subdivisions 1. to 8., and the retention of the transfer of \$6.00 of each \$21.50 received under s. 814.86 (1) for the operation of circuit court automated information systems. During the 2011-13 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of \$19,441,625 and transferred to appropriation accounts and the general fund a total of \$19,351,600, resulting in a FY13 ending cash balance of \$90,025.

2013 Wisconsin Act 20 (the 2013-15 Biennial Budget) retained the structure of the surcharge distribution implemented during the prior biennium. During the 2013-15 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of \$16,978,696 and transferred to appropriation accounts and the general fund a total of \$19,869,600, resulting in a FY15 ending cash balance of \$(2,800,879).

2015 Wisconsin Act 55 (the 2015-17 Biennial Budget) altered the surcharge distribution by repealing s. 20.505 (1)(id) 8., which provided for the transfer to s. 20.625 (1)(k), for Court Interpreters, and modified the appropriation language for the remaining appropriation accounts authorized under 20.505 (1)(id) to require that, notwithstanding s. 20.001 (3) (a), Wis. Stats., the unencumbered balance on June 30 of each year shall be transferred to the appropriation account under s. 20.505 (1) (id). Additionally, Section 9226 of that Act also required the return of certain unused moneys to the justice information surcharge appropriation account in an amount equal to the unencumbered balance as of June 30, 2015 during 2015-16. In September 2015, \$1,527,075 was returned to the surcharge appropriation. The amounts returned, by appropriation, are shown in Table 2.

TABLE 2
Justice Information Surcharge Funded Appropriations
June 30, 2015 Unobligated Cash Balance

<u>Appropriation</u>	<u>Appropriation Name</u>	<u>Cash Balance</u>
20.505 (1) (kh)	Justice Information Systems	\$ 56,144
20.455 (2) (ki)	Interoperable Communication System	37,586
20.455 (2) (kb)	Law Enforcement Officer Supplement Grants	-
20.455 (5) (ke)	Child Advocacy Centers	5,255
	Alternatives to Prosecution and Incarceration for Persons who use Alcohol or other Drugs; Justice	
20.455 (2) (kn)	Information Fee	505,806
20.455 (2) (ko)	Wisconsin Justice Information Sharing program	591,777
20.410 (1) (kd)	Victim Notification	330,507
20.625 (1) (k)	Court Interpreters	-
	Total	<u>\$ 1,527,075</u>

The return of unexpended and unobligated funds and the repeal of s. 20.625 (1)(k), will nominally positively impact the appropriation balance in 2015-16 and annually, thereafter, respectively. It does not, however, address the imbalance between surcharge revenue collections and required transfers to appropriation accounts that arose in 2012-13 and continued through 2014-15. Collections in the appropriation have decreased by \$1.6 million since 2011-12, while required transfers have increased, causing net collections in the appropriation to be \$(1,573,673) in 2014-15, as shown in Table 3.

TABLE 3
Justice Information Fee Receipts

	2011-12	2012-13	2013-14	2014-15
Collections	\$9,971,350	\$ 9,470,276	\$ 8,617,569	\$ 8,361,127
Transfers:				
General Fund	\$ 700,000	\$ 700,000	\$ 700,000	\$ 700,000
Appropriation Accounts	\$8,504,700	\$ 9,446,900	\$ 9,234,800	\$ 9,234,800
Total Transfers	\$9,204,700	\$10,146,900	\$ 9,934,800	\$ 9,934,800
Net Collections	\$ 766,650	\$ (676,624)	\$ (1,317,231)	\$ (1,573,673)

Therefore, it is anticipated that legislative changes to appropriations supported by the surcharge revenue will be required to address the deficit.

Appropriation 138 - Enterprise Resource Planning System

Appropriation 138 was created under 2007 Wisconsin Act 20 (the 2007-09 Biennial Budget) for the development of an integrated business information system (IBIS). The Department of Administration was authorized to implement and maintain the system pursuant to s. 16.971(2)(cf), Wis. Stats.

PeopleSoft Enterprise Resource Planning (PeopleSoft) software was selected for the IBIS project in 2006 and purchased from Oracle Corporation with financing provided through the State's Master Lease program. Semi-annual master lease payments were scheduled through FY13.

The implementation of IBIS was put on hold in April, 2008; nonetheless, annual maintenance payments for the PeopleSoft software continued to be made by the IBIS Development Appropriation through FY11, at which time they were suspended to give the Administration an opportunity to review options for moving forward with an enterprise resource planning (ERP) system.

In FY13, the Administration announced the State Transforming Agency Resources (STAR) Project to implement a State ERP system. Software licenses, hardware and support purchases totaling \$17,069,720 were made using financing provided by the State's Master Lease program and, as of June 30, 2013, the overdraft in the IBIS Development appropriation, which was renamed the Enterprise Resource Planning System appropriation by 2013 Wisconsin Act 20 (the 2013-15 Biennial Budget), was \$(15,323,739). Of that amount \$6,879,998 was supported by PeopleSoft software purchased in 2006 for which no Master Lease obligations remained and \$(8,443,741) was unsupported.

In FY14, the Department made the decision to purchase new software for the STAR Project at a cost of \$10,000,000 rather than incur a greater expense to upgrade the existing software. As a result, the previously purchased software, with a net value of \$6.9 million, became obsolete and was written off. The Department also incurred

December 18, 2015

Page 5 of 5

personnel and professional services costs and made other license, hardware and support purchases totaling \$25,510,253 as it undertook the plan, analyze and design phases of the STAR Project. \$20,074,181 of the total \$25,510,253 FY14 expenditures were made using financing provided by the State's Master Lease program. The June 30, 2014, appropriation balance was \$(20,629,813). Of that amount \$4,125,152 was supported by the value of equipment, software and intangible assets in excess of Master Lease obligations, and \$(16,504,661) was unsupported.

In FY15, the Department incurred \$50,598,009 of personnel and other supplies and services costs, the latter primarily consisting of contractual professional services, in support of the build and test phases for Release 1 and the build phase for Release 2. \$36,770,646 of that amount was financed by the State's Master Lease program and \$13,827,363 was paid directly from the appropriation. The June 30, 2015, appropriation overdraft was \$(34,268,881), of which \$8,760,254 was supported by the value of equipment, software and intangible assets in excess of Master Lease obligations, and \$(25,508,627) was unsupported.

Releases 1 and 2 of the STAR Project were deployed on October 1, 2015 and December 14, 2015, respectively. The final release, Release 3, is scheduled to be deployed July 1, 2016. The Department will assess state agencies for the STAR Project costs in an amount necessary to fully recover project and financing costs incurred in its development. The first assessment of those amounts will begin in FY17.

With the deployment of the STAR Project in FY16, the Department has begun to incur post-implementation maintenance and operations costs for the system. To avoid an increase in the unsupported balance attributable to the cost of operations, the Department will annually assess state agencies in an amount necessary to recover the same. The first annual assessment of ongoing maintenance and operations costs for the STAR system will begin in FY16.

Appropriation 160 - Information Technology Investment Fund - Special Project

In FY97, General Fund appropriation s. 20.505 (1)(ke), telecommunications and data processing, in the former Division of Technology Management, loaned \$3,957,000 to Information Technology Investment Fund (ITIF) under s. 20.870, to provide grants to agencies for information technology projects. A total of \$3,668,676 of grants was made from the ITIF, net of unspent grant funds. No expenditures have been made from the appropriation since then. Since its inception in FY97, DOA has made annual payments of varying amounts to reduce the loan obligation and at the end of FY15 the appropriation reported an unsupported overdraft of \$ 2,663,952. DOA will continue to consider various sources of revenue to apply to the overdraft and will continue to make payments towards its reduction.

Thank you for your consideration of the Department's plan. Should you have any questions or require additional information, please feel free to contact me at 266-1359.

Cc: Kevin Vesperman, Administrator

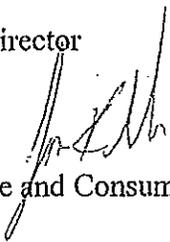


State of Wisconsin
Governor Scott Walker

Department of Agriculture, Trade and Consumer Protection
Ben Brancel, Secretary

Date: December 7, 2015

To: Michael Heifetz, State Budget Director
Department of Administration

From: Jason Gherke, Finance Director 
Department of Agriculture, Trade and Consumer Protection

Subject: FY15 Program Revenue Overdraft Report

The FY15 Program Revenue Overdraft Report identified one Department of Agriculture, Trade and Consumer Protection (DATCP) appropriation as having an unsupported overdraft. As required by s. 16.513, DATCP is submitting our plan to resolve the unsupported deficit.

The unsupported overdraft in appropriation 20.115(1)(h), grain inspection and certification, had a net cash overdraft of \$674,416. Receivables were \$110,581 therefore the appropriation had an unsupported overdraft of \$563,835. The unsupported overdraft decreased by \$201,098 from the balance of \$764,933 in FY14.

As required by s. 16.56, DATCP will continue to lapse any remaining GPR balances at year-end to cover the deficit in the appropriation. In FY15, DATCP transferred \$157,023 from unencumbered balances in our GPR general operations appropriations to the grain inspection appropriation.

If you have any questions regarding DATCP's plan, please contact me at 224-4748.

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Date: December 23, 2015

To: Michael Heifetz
State Budget Director
Department of Administration

From: Andy Forsaith, Director
Office of Policy Initiatives and Budget  OBO Andy Forsaith

Subject: FY 15 DHS Appropriation Closing with Unsupported Cash Overdraft

The State Controller's Office indicates that DHS closed appropriations with overdrafts and that a plan must be filed with the DOA State Budget Office to show how assets or receivables will be generated to cover the unsupported overdrafts.

The following appropriations ended FY 15 with an unsupported overdraft:

- Appropriation s. 20.435(2)(kx) – Interagency and Intra-Agency Programs, ended with an unsupported overdraft of \$6,091,882.92
- Appropriation s. 20.435(2)(g) – Alternate services of institutes and centers, ended with an unsupported cash overdraft of \$14,601,910.97

The attachment identifies the DHS plan to eliminate the deficits and cover ongoing expenditures.

cc: Tom Engels
Brian Shoup
Curtis Cunningham
Amy McDowell
Bob Halverson

Appropriation 267 – Inter/Intra Agency Operations

The appropriation, s. 20.435(2)(kx) – Inter/Intra Agency Operations, ended FY 15 with an unsupported overdraft of \$6,091,882.92. The unsupported overdraft is the result of costs for utilities and maintenance of common areas and vacant buildings at Northern Wisconsin Center (NWC). In prior years, these costs were reimbursable by the Medicaid program when DHS operated a large long term care residential program for people with disabilities. Since FY 05, the Department has operated only a small short term care unit, and as a result, a significant portion of campus costs are no longer Medicaid reimbursable.

At the same time the DHS program has decreased, other agencies have increased their presence at NWC. The Department of Corrections, Military Affairs, and Veterans Affairs programs represent roughly 97% of clients served and 63% of employees on campus. These agencies occupy 34% of the building space, compared to 20% for DHS programs. Vacant and mothballed buildings comprise 46% of the building square footage.

Despite its small campus “footprint,” DHS still has the responsibility for all campus power plant, maintenance, grounds keeping, and snowplowing operations. It has no base funding for these costs.

In prior year reports, the Department indicated it would pursue three strategies to address the deficit. First, it would seek approval from the Governor and Joint Committee on Finance to use revenue from future sales of surplus land at NWC. S. 13.101(17) provides that the Department of Health Services, the Department of Corrections, and the Department of Veterans Affairs may seek approval from the Joint Committee on Finance to use the land sale revenue for activities on the Northern Center campus. The value of the surplus land is estimated to be \$3 million. Second, the Department would identify any balances that may occur in its operating budget each year that could be used to fund the deficit. Through this process, the Department would attempt to reduce the remaining deficit over several years to the extent balances occur. Lastly, beginning in FY 11, DHS began to allocate all utility and common area maintenance and grounds keeping costs incurred each year to state agencies on the Northern Center campus on a proportional basis.

The Department will continue to rely on these strategies to address the deficit. DHS recommends that DOA assume responsibility for all NWC power plant, utility, maintenance, and grounds keeping operations and billings, because it is in a better position to streamline campus operations and implement a uniform allocation methodology. The Department is also open to considering moving its short term care unit off campus, to a smaller setting in the Chippewa Valley area, as a way to reduce its overhead costs.

Appropriation 225 – Alternate services of institutes and centers

This appropriation, s. 20.435(2)(g), ended FY 15 with a cash overdraft of \$14,601,910.97. This overdraft relates to operations of the Northern Wisconsin Center for People with Intellectual Disabilities (NWC) in numeric appropriation 225.

The Department operates three State Centers, which are state licensed and federally certified intermediate care facilities for people with intellectual disabilities (ICF-ID) and receive full cost reimbursement for all Medicaid-eligible costs. Northern Wisconsin Center operates only an Intensive Treatment Program (ITP) that provides short term services to people with intellectual disabilities who live in the community. Counties and Family Care managed care organizations (MCOs) fund a portion of the cost of their consumers in the ITP program, because they are responsible for funding services for the individuals while in the community. NWC receives reimbursement for the remaining portion of Medicaid eligible costs from the Medicaid program.

At the beginning of the year, the Center establishes an interim per diem rate, with which it bills counties, MCOs and the Medicaid program for consumers admitted to the ITP. After the close of the rate year, the Department prepares a cost settlement report based on all actual costs for the rate year and makes an additional Medicaid claim for the difference between the amounts claimed through the interim rate and the full allowable Medicaid costs. The Department typically finalizes the cost settlement nine to twelve months after the close of the fiscal year. The Department records a receivable for days of care billed under the interim rate but not reimbursed by the end of the fiscal year; it does not record any receivable for the Medicaid settlement, which can be positive or negative.

The Department has conducted further analysis over the past year regarding the factors leading to the deficit. Below is a summary of the major factors and recommendations for addressing the deficit:

- All three State Centers operate ITP programs. Each year, the Department establishes one ITP daily rate for the three programs, based on their average costs. The uniform rate is important so that counties and MCOs choose the ITP program based on the needs of their consumers rather than cost. NWC's actual cost per bed day is significantly above the average cost reflected in the interim ITP rate, because of its small size. The uniform ITP rate was \$1,056 per day in FY 15; NWC's final FY 14 cost per day was \$2,106. Consequently, NWC will always receive a cost settlement payment from Medicaid, because its final costs will be higher than revenues received through the interim rate. It is estimated that NWC's cost settlement will average \$4.6 million per year due to the rate averaging.
- The Centers do not receive Medicaid reimbursement for the state ICF-ID bed tax they are required to pay under s. 50.14(2)(bm). The Department deposits bed tax revenues from all facilities into the Medicaid Trust Fund, where they are matched with Medicaid FED and used to fund Medicaid benefits. At the same time, the Department makes a Medicaid access incentive payment to all ICFs (using GPR and FED) that, in total, approximately equals the bed tax paid by all facilities statewide. To comply with federal requirements,

the access payment is a fixed amount per Medicaid bed day for all facilities. Because the access payment is a fixed amount per bed, facilities with a large number of vacant beds will pay more in assessments than they receive back in access payments. Facilities with an occupancy rate of 90.5% or more receive access payments greater than bed tax paid. In recent years, Northern Center has had occupancy rates below 90.5% due to declines in its census. The following table summarizes bed tax losses from each center since the beginning of the tax through FY 15.

Bed Tax Losses FY 04 through FY 15	
Northern Center	\$1,009,079
Central Center	\$1,879,638
Southern Center	\$502,120
Total	\$3,424,007

- States can claim Medicaid reimbursement for depreciation and debt service costs for buildings and other capital assets used to provide Medicaid services. Following state budget procedures, the Department calculates these amounts and then lapses them to the General Fund as "GPR-Earned." The Department then claims Medicaid funds for these costs. The lapse is required on the basis that the state initially funds construction and debt service costs with GPR through the Capital Budget, and therefore the agency should return the Medicaid reimbursement to the General Fund. Over the past several years, not all of the Centers' depreciation and debt service costs were Medicaid reimbursable. However, the Department has lapsed to the General Fund all depreciation and debt service costs, not just the Medicaid reimbursed amounts. For dates of service after FY 12, the Department will subtract Medicaid disallowed claims from the amounts it lapses as GPR-Earned. Similarly, the Department has lapsed Medicaid reimbursement for depreciation for capital asset expenditures funded from the Centers' PR appropriations under (2)(g) and (2)(gk). Under Medicaid rules, the Centers must initially incur the expense and then are reimbursed by Medicaid over time according to depreciation schedules. The Department should have retained these depreciation reimbursements in the Centers appropriations to cover the initial capital costs. For FY 14 forward, the Department will not lapse Medicaid depreciation reimbursements for capital costs paid from the Centers appropriations. The following table summarizes amounts lapsed to GPR-Earned in excess of Medicaid reimbursement.

Excess GPR-Earned Lapses		
	Depreciation Overlaps for PR-funded Assets for FY 06-FY 13	Over-Lapse Amounts Associated with Disallowed Property Costs: FY 02-FY 13
Northern Center	\$458,633	\$3,336,033
Central Center	\$1,731,556	
Southern Center	\$2,141,501	
Total	\$4,331,691	\$3,336,033

The bed tax losses and excess GPR-Earned Lapses attributable to Northern Wisconsin Center directly contribute the negative revenue balance in appropriation 225. These same losses associated with CWC and SWC may be contributing to the appropriation 225 deficit indirectly. Central Center and Southern Center are budgeted to a separate appropriation under s. 20.435(2)(gk). Northern Center also used the appropriation s. 20.435(2)(gk) until the downsizing of its long term care program in 2005, when its budget was shifted to 225. It is possible that, in prior years, that revenue balances were shifted from NWC to the other centers within appropriation s. 20.435(2)(gk). Because of record retention limits and staff turnover, knowledge of transactions dating back 15 years or more is limited.

The following table summarizes the factors contributing to the 225 deficit:

Factors Behind Centers Operating Budget Deficit in Appropriation 225	
<i>Appropriation 225 -- FY 15 Year End Cash Deficit</i>	<i>(\$14,601,910)</i>
Northern Center Shortfall Due to ITP Rate Averaging	\$4,600,000
Northern Center Bed Tax Loss -- FY 04 through FY 15	\$1,009,079
Northern Center Depreciation Overlap for PR Assets -- FY 06-FY13	\$458,633
NWC Overlap Due to Disallowed Property Costs -- FY 02-FY13	\$3,336,033
<i>Remaining Amount*</i>	<i>(\$5,198,166)</i>
*Probable that bed tax losses and excess GPR-Earned deposits for Central and Southern Centers contributed to this remaining amount.	

Recommendations

The Department recommends that DOA work with DHS to develop a plan to reduce the cash deficit by utilizing any available revenues received as reimbursement from the Medicaid program for the operations and services of the state centers, and to more accurately reflect revenues earned by the centers but not paid until final cost reporting is completed after the fiscal year.

Date: September 1, 2015

To: Jim Behrend, Audit Supervisor
Department of Administration

From: Karen Van Schoonhoven, Budget Director
Department of Justice 

Subject: FY15 Unsupported Cash Overdrafts

There were two Department of Justice appropriations which ended FY15 with unsupported cash deficits. This memo provides information about these shortfalls as required under s.16.513, Wis. Stats.

Penalty Surcharge Receipts (Appropriation 230)

The unsupported cash deficit in appropriation 230, *penalty surcharge receipts*, alpha 2(i), was \$3,701,066 at the close of FY15; whereas, the deficit was \$2,048,000 at the end of FY 14. This appropriation is expected to be in deficit at the end of FY 16. Without significant changes in the numerous appropriations that are funded by penalty surcharge receipts or increases in surcharges, it is expected that this appropriation will continue to have an unsupported overdraft.

Grants for Offenders' Substance Abuse Treatment Programs (Appropriation 281)

The unsupported cash deficit in appropriation 281, *grants for offenders' substance abuse treatment programs*, alpha 2(kv), was \$1,823,492 at the close of FY 15, an improvement of \$53,476 from the unsupported overdraft of \$1,876,968 at the end of FY 14. There was an unsupported overdraft of \$1,919,129 that was transferred into this appropriation to DOJ from DOA in the 2013-15 Biennial Budget.

Revenue recorded in this appropriation was \$45,976 in FY 15 while only \$7,500 was spent in this appropriation in FY 15. At this current rate of revenues and expenditures, it will take approximately 45 years to eliminate this deficit.

Please contact me at 267-6714 with any questions.

cc: Caitlin Frederick, DOA
Andy Potts, DOA
Bonnie Cyganek, DOJ