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

308 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 23, 2019

Re: 14-Day Passive Review Approval

Pursuant to s. 16.513(3), Stats., attached is a 14-day passive review request from the Department of Agriculture, Trade and Consumer Protection; Department of Transportation; Department of Corrections; Department of Health Services; Department of Justice; and Department of Administration received on December 23, 2019.

Please review the material and notify **Senator Darling** or **Representative Nygren** no later than **Wednesday, January 15, 2020**, 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

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary

DEC 2 3 2019
Jt. Finance

Date: December 23, 2019

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

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

From: Joel T. Brennan, Secretary
Department of Administration
Joel T. Brennan

Subject: Section 16.513(3) Request

Enclosed are spending plans from the Department of Agriculture, Trade and Consumer Protection; Department of Transportation; Department of Corrections; Department of Health Services; Department of Justice; and Department of Administration to address unsupported overdrafts for fiscal year 2018-19. 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 17, 2020**, 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

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary
Brian Pahnke, Administrator

Date: December 23, 2019

To: Joel Brennan
Secretary

From: Brian Pahnke
State Budget Director

Subject: Fiscal Year 2018-19 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, past Governors have included plans to address the overdrafts as part of the biennial budget bills, only some of which have been accepted by the Legislature.

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 | DOA.WI.GOV

The unsupported overdraft appropriations in fiscal year 2018-19 total $101,014,057. The following agencies have unsupported overdrafts in the following appropriations:

Department of Agriculture, Trade and Consumer Protection

Appropriation 12200 [s. 20.115(1)(h)], Grain Inspection and Certification, in the amount of $596,333. The total cash overdraft is $686,753, and there are accounts receivable of $90,420 as coverage. The fiscal year 2018-19 unsupported overdraft increased by $298,028 from the unsupported overdraft of $298,305 in fiscal year 2017-18.

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 2018-19, the department transferred $166,839 GPR from its general operations appropriations 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. Going forward, the department will continue to lapse any remaining GPR balances to reduce the deficit.

RECOMMENDATION: Approve the plan.

Appropriation 23400 [s. 20.115(2)(j)], Dog Licenses, Rabies Control and Related Services, in the amount of $185,440.

The department has convened a work group to review the programmatic requirements of the dog licensing, rabies control and related services program. The purpose of the work group is to make recommendations to the department related to the expenditures and revenues in the program that would resolve the unsupported overdraft.

RECOMMENDATION: Approve the plan.

Department of Transportation

Appropriation 46700 [s. 20.395(4)(es)], Other Department Services, Operations, Service Funds, in the amount of $2,165,856. The fiscal year 2018-19 unsupported overdraft decreased 74 percent from the unsupported overdraft of $8,321,057 in fiscal year 2017-18.

From fiscal year 2014-15 through fiscal year 2016-17, the Department of Transportation expended $14,290,170 in costs associated with implementation of the State Transforming Agency Resources (STAR) project. The department started recovering costs in fiscal year 2016-17 by amortizing the expenditures across each operating division. The current deficit of $2,165,856 represents the unamortized STAR implementation costs. The department estimates fully amortizing the STAR implementation costs by the end of fiscal year 2023-24. This will retire the deficit balance.

RECOMMENDATION: Approve the plan.

Department of Corrections

Appropriation 32300, which is part of s. 20.410(3)(hm), Juvenile Correctional Services, in the amount of $7,721,103. The net cash overdraft is $10,154,747, and there are accounts receivable of $2,433,644 that offset a portion of the overdraft. The fiscal year 2018-19 unsupported overdraft increased by $3,279,720 from the unsupported overdraft of $4,441,383 in fiscal year 2017-18.

The overdraft in this appropriation is the result of a declining juvenile population as well as unanticipated expenditures to fund contracted health staff to handle medication administration. In 2019 Wisconsin Act 9, the department included a $6 add-on to the daily rate to reduce the projected deficit. An add-on to the daily rate will continue until the deficit is retired. The department projects that if the projected population remains the same as the fiscal year 2019-20 projected population, the deficit will be retired in fiscal year 2039-40. However, the implementation of 2017 Wisconsin Act 185 should decrease the juvenile population, which would result in retirement of the deficit extending beyond fiscal year 2039-40.

RECOMMENDATION: Approve the plan.

Department of Health Services

Appropriation 22500 [s. 20.435(2)(g)], Alternative Services of Institutes and Centers, in the amount of $11,015,934. The net cash overdraft is $14,291,783, and there are accounts receivable of $3,275,849 that offset a portion of the overdraft. The fiscal year 2018-19 unsupported overdraft decreased by $7,903,952 from the unsupported overdraft of $18,919,886 in fiscal year 2017-18.

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.

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 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 Medicaid practice of reimbursing centers for capital assets based on multiyear depreciation schedules has also contributed to the deficit. Centers incur the cost for vehicles or equipment but must run a cash deficit until the depreciation schedule is complete.

The department has submitted a plan that includes a 2017 Wisconsin Act 59 provision that allows the department to retain $1 million per year in GPR-Earned revenues to apply against the deficit. Act 59 also added language explicitly allowing the department to incur liabilities, in excess of revenues, up to the value of equipment and buildings financed from the appropriation. This language allows the department to account for those assets in overdraft statements, which provides a more complete picture of the appropriation.

RECOMMENDATION: Approve the plan.

Appropriation 26700 [s. 20.435(2)(kx)], Interagency and Intra-Agency Programs, in the amount of $6,693,511. The net cash overdraft is $7,297,635, and there are accounts receivable of $604,124 that offset a portion of the overdraft. The department 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. The department has the responsibility for all campus power plant, maintenance, groundskeeping and snowplowing operations without base funding for the costs. Forty-six percent of the building square footage at the Northern Wisconsin Center is vacant, and not reimbursable by Medicaid.

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 23000 [s. 20.455(2)(i)], Penalty Surcharge, Receipts, in the amount of $12,607,134. This is an increase of $1,975,769 from the fiscal year 2017-18 closing deficit balance of $10,631,365.

Beginning 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 have been utilized to fund court interpreters appropriation under s. 20.625(1)(k) in the amount of $232,700, while the funding for the crime lab equipment and supplies appropriation under s. 20.455(2)(jb) is now 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 28100 [s. 20.455(2)(kv)], Grants for Substance Abuse Treatment Programs for Criminal Offenders, in the amount of $1,652,721. This is a decrease of $43,222 from the fiscal year 2017-18 deficit balance of $1,695,943. 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 was transferred to the Department of Justice in fiscal year 2013-14. Any drug abuse surcharge revenues that exceed $1,275,000 for the year are to be split one-third to the Department of Justice appropriation 28100 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 2018-19 exceeded expenditures. However, it will take time to eliminate the unsupported overdraft that had accumulated over several years. At current revenue levels, the deficit will remain through fiscal year 2057-58.

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

Department of Administration

Appropriation 12300 [s. 20.505(1)(id)], Justice Information Fee Receipts, in the amount of $5,379,794. This is an increase of $879,657 from the fiscal year 2017-18 deficit balance of $4,500,137.

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 were returned to the appropriation, reducing the fiscal year 2015-16 deficit. The unencumbered balances returned to the appropriation for fiscal year 2016-17 totaled $248,309, fiscal year 2017-18 totaled $267,362 and fiscal year 2018-19 totaled $395,121. Despite the ongoing transfer of those balances to s. 20.505(1)(id), the continuing imbalance between surcharge collections and required transfers will continue to increase the deficit. The department states that additional legislative changes to appropriations supported by the justice information fee will be required to address the deficit.

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

Appropriation 12600 [s. 20.505(1)(kL)], Printing, Mail, Communication and Information Technology Services; State Agencies; Veterans Services, in the amount of $4,148,443. The total cash overdraft is $19,443,182, and there are capital assets of $6,232,017 and accounts receivable of $9,062,722 as coverage.

The department attributes the negative closing balance to a decrease in the depreciated value of equipment net of outstanding master lease debt. State agency utilization of cloud-based subscription services from private-sector vendors has increased in recent years; however, the department's rate structure is based on existing costs and debt service associated with on-premises information technology infrastructure.

In addition, the negative closing balance includes costs associated with the department's project to replace the existing enterprise Automated Call Distribution System, which will not be supported by its proprietary vendor in the future. The department contracted with Genesys for the replacement, but the project ultimately failed due to the lack of functionality represented by the vendor. This project resulted in $6.35 million in costs incurred between fiscal year 2015-16 and 2018-19, plus an additional $3 million in future master lease obligations. No cost recovery has occurred for this project, and the department indicates that it does not plan to pursue a replacement vendor for the system. To recover incurred costs, the department is currently considering implementation of an assessment to agencies that would have participated in the project. The department expects to decide whether to implement this assessment by January 2020.

To address the other portion of the unsupported overdraft, the department plans to reduce existing costs and adjust the assessment rates billed to state agencies for information technology services. In addition, the department will reevaluate and revise its master lease financing policies and procedures and will develop and implement a review process for paying off master lease balances.

RECOMMENDATION: Approve the plan.

Appropriation 13800 [s. 20.505(1)(kd)], Enterprise Resource Planning System, in the amount of $46,251,324. The total cash overdraft is $67,819,998, and there are capital assets of $20,932,691 and accounts receivable of $635,983 as coverage. The unsupported overdraft increased by $1,423,616 from the fiscal year 2017-18 unsupported overdraft of $44,827,708.

The department was directed to implement and maintain the integrated business information system (IBIS) pursuant to s. 16.971(2)(cf), Wis. Stats. 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. In fiscal year 2015-16, the department implemented the project's financial module (Release 1) and human resources/payroll module (Release 2). In addition, the department implemented the STAR financial module for the Department of Transportation (Release 3).

With the deployment of STAR Releases 1 and 2 in fiscal year 2015-16, the department began incurring postdeployment maintenance and operations costs for the system. These costs began to be recovered from agencies starting in fiscal year 2015-16 and annually thereafter. As such, the maintenance and operation costs do not contribute to the deficit in this appropriation. The STAR Project development costs began to be recovered through an annual assessment to state agencies beginning in fiscal year 2017-18. In fiscal year 2018-19, the department assessed agencies $17,385,548 for STAR operations and maintenance. The department assessed agencies $5,810,527 for STAR project development costs, which represented 80 percent of the annual amount necessary to fully recover project and financing costs of the project.

In fiscal year 2018-19, the department expended $14,206,498 in costs associated with STAR Project implementation, of which $1,601,201 was for continued development activities and $12,605,297 was for ongoing maintenance and operations expenses.

The department will continue to annually assess state agencies for ongoing operations and maintenance costs and to fully collect project and financing costs over a period of 19 years. In addition, the department plans to begin to assess agencies for previously unrecovered costs incurred from the IBIS project. This includes a one-time assessment of $5,547,624 in fiscal year 2019-20 and $591,212 annually over the subsequent 16 years.

RECOMMENDATION: Approve the plan.

Appropriation 83600 [s. 20.505(8)(jm)], General Program Operations; Bingo, in the amount of $32,516. Revenues for this appropriation come from bingo licenses, fees and taxes. Bingo license fees are $10 for each bingo occasion and $5 annually for the member responsible for handling gross bingo receipts, except for certain operations, and these fees have remained unchanged since 1973. Licensed organizations also pay a 1 percent tax on the first $30,000 in gross receipts, and 2 percent on all gross receipts that exceed $30,000, paid semiannually based on the license year. Suppliers of bingo equipment are also required to be licensed and pay an annual fee of $25 and a supplementary fee based on gross annual bingo supply sales.

Of the two methods of charitable gaming — bingo and raffles — revenues from bingo licenses, fees and taxes have been in decline for over a decade. In fiscal year 2014-15, bingo revenues totaled $342,556 compared to $271,822 in fiscal year 2018-19. Conversely, the licenses, fees and taxes collected for raffle gaming have been increasing over the same period, from $259,817 in fiscal year 2014-15 to $305,572 in fiscal year 2018-19. The closing balance in the raffle appropriation was $117,985 in fiscal year 2018-19. The Division of Gaming has in the past attempted to ensure costs between these charitable gaming appropriations are properly attributed to each of the charitable activities, which has resulted in decreased bingo expenses and increased raffle expenses. However, the division has recently initiated a new time study to refine the estimated costs assignable to each gaming appropriation based on current licensing trends and technology resources. The results of the study will inform the department's plan to resolve this overdraft, and may require legislative approval to implement.

RECOMMENDATION: Approve the plan.

<u>Information Technology Investment Fund</u>

Appropriation 16000, Information Technology Investment Fund – Special Projects, in the amount of $2,563,948. The unsupported overdraft decreased by $25,000 from the fiscal year 2017-18 unsupported overdraft of $2,588,948. 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 of Administration has used various excess revenues to make payments towards the reduction of this deficit and continues to do so.

RECOMMENDATION: Approve the plan.

Fiscal Year 2019 Program Revenue Overdraft Review
Agency Reported Unsupported Overdrafts

						Support for Overdraft					
Agency	Fund	Appr	Prgm Alpha	Description	FY 2019 Unexpended Closing Balance	Accounts Receivable	Inventory	Capital Assets Net of Master Lease	Total Support For Overdraft	Unsupported Overdraft	
11500	S100	12200	(1)(H)	Grain Inspection and Certification	(686,753)	90,420			90,420	(596,333)	
11500	S100	23400	(2)(J)	Dog Licenses	(185,440)	0			0	(185,440)	
39500	S211	46700	(4)(ES)	Other Department Services	(2,165,856)	0			0	(2,165,856)	
41000	S100	32300	(3)(HM)	Juvenile Correctional Services	(10,154,747)	2,433,644			2,433,644	(7,721,103)	
43500	S100	22500	(2)(g)	Alternative Services	(14,291,783)	3,275,849			3,275,849	(11,015,934)	
43500	S100	26700	(2)(kx)	Interagency & Intra-agency Programs	(7,297,635)	604,124			604,124	(6,693,511)	(*)
45500	S100	23000	(2)(I)	Penalty Assessment Surcharge	(12,607,134)	0			0	(12,607,134)	
45500	S100	28100	(2)(KV)	Grants for Substance Abuse Treatment	(1,652,721)	0			0	(1,652,721)	
50500	S100	12300	(1)(ID)	Justice Information Fee Receipts	(5,379,794)	0			0	(5,379,794)	
50500	S100	12600	(1)(KL)	Printing, mail, communication, and info	(19,443,182)	9,062,722		6,232,017	15,294,739	(4,148,443)	
50500	S100	13800	(1)(KD)	Enterprise Resource Planning System	(67,819,998)	635,983		20,932,691	21,568,674	(46,251,324)	
50500	S100	83600	(8)(JM)	General Program Operations, Bingo	(32,516)	0			0	(32,516)	
87000	S280	16000	(1)(Q)	Information Tech Investment Fund	(2,563,948)	0			0	(2,563,948)	
					(144,281,506)	16,102,742	0	27,164,708	43,267,449	(101,014,057)	

(*) Receivables are used to reflect the actual unsupported overdraft for Northern Wisconsin Center (NWC) campus deficit.

State of Wisconsin
Governor Tony Evers

Department of Agriculture, Trade and Consumer Protection

Date: December 2, 2019

To: Brian Pahnke, State Budget Director
Department of Administration

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

Subject: FY19 Program Revenue Overdraft Report

The FY19 Program Revenue Overdraft Report identified two Department of Agriculture, Trade and Consumer Protection (DATCP) appropriations as having an unsupported overdrafts. As required by s.16.513, DATCP is submitting our plan to resolve the unsupported deficits.

The unsupported overdraft in appropriation s.20.115 (1)(h), grain inspection and certification, at the end of FY19 was $596,332. The total cash overdraft is $686,753, and there are accounts receivable of $90,421. The unsupported overdraft increased by $298,027 from the FY18 unsupported balance of $298,305. In FY19, collected revenue was $1,254,288 and expenditures were $1,487,703.

As required by s.16.56, DATCP will continue to lapse any remaining GPR balances at year end to reduce the deficit in the appropriation. In FY19, DATCP transferred $166,839 from unencumbered balances in our GPR general operations appropriations to the grain inspection appropriation.

In FY19, DATCP also has an unsupported overdraft in appropriation s.20.115 (2)(j), dog licenses, rabies control, and related services. The beginning FY19 balance was $13,442, collected revenue was $256,855 and expenditures were $455,738 leaving an unsupported overdraft in the appropriation of $185,440.

DATCP has convened a work group to review programmatic requirements and revenue and expenditures associated with appropriation s.20.115 (2)(j), dog licenses, rabies control and related services. The purpose of the work group is to propose recommendations for review and implementation by DATCP to resolve the unsupported overdraft.

If you have any questions regarding DATCP's plan, please contact me at 608.224.4748.

WisDOT Division of Business Management

4822 Madison Yards Way
Madison, WI 53705

CORRESPONDENCE MEMORANDUM

Date: November 26, 2019

To: Brian Pahnke, State Budget Director
Division of Executive Budget and Finance
Wisconsin Department of Administration

Carol Herwig, Deputy Controller
Division of Executive Budget and Finance
Wisconsin Department of Administration

From: Scott B. Thornton, Controller
Bureau of Financial Management
Wisconsin Department of Transportation

Subject: Fiscal Year 2018-19 Segregated Revenue Unsupported Overdraft Plan

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In accordance with s. 16.513(3)(a), Wisconsin Statutes, please accept this memo as the Department of Transportation's ("WisDOT" or "Department") plan to address fiscal year 2018-19 segregated revenue unsupported overdraft in the following appropriation:

- Appropriation 46700 [s.20.395(4)(es)], Other Department Services, Operations, service funds

The appropriation ended fiscal year 2018-19 with a deficit balance of $2,165,856. The unsupported overdraft balance improved from the fiscal year 2017-18 ending deficit of $8,321,057 decreasing by $6.2M or 74%.

History of Deficit and Recovery Plan:

Beginning in fiscal year 2014-15 and lasting through fiscal year 2016-17 the agency expended $14,290,170 in costs associated with WisDOT STAR implementation. The department started recovering costs in fiscal year 2016-17 by amortizing the expenditures across each operating division. The current fiscal year deficit of $2,165,856 represents the unamortized STAR implementation costs. The department estimates fully amortizing the STAR implementation costs by the end of fiscal year 2023-24. This will retire the deficit balance.

Cc: Casey Newman
Bryan Thiel
Matt Aslesen
Zach Picknell

Wisconsin Department of Corrections
Governor Tony Evers | Secretary Kevin A. Carr

Date: September 17, 2019

To: Brian Pahnke, Director
Division of Executive Budget & Finance
Department of Administration

From: Kevin A. Carr, Secretary
Department of Corrections

Kevin A. Carr

Subject: §16.513 – Juvenile Correctional Services Deficit

Pursuant to §16.513 Wisconsin Statutes, the Department of Corrections (DOC) submits its plan to address an unsupported overdraft in the appropriation under §20.410(3)(hm), Juvenile Correctional Services, for FY19.

Background:

Since FY16, the DOC accumulated an operating deficit and ended FY19 with a year-end deficit of ($10,154,700) Program Revenue (PR) in its juvenile correctional services appropriation. The unsupported overdraft at the end of FY19, including the inventory/receivables coverage, was ($7,721,100). In FY19, the funding in this appropriation was utilized by the Department's Division of Juvenile Corrections (DJC) to operate Type 1 juvenile correctional facilities (JCF).

As a result of ending several fiscal years with an unsupported overdraft in §20.410(3)(hm), in 2007 Wisconsin Act 20 (the 2007-09 Biennial Budget) a provision was added which allowed DOC to transfer surplus revenues from two juvenile appropriations to §20.41(3)(hm) to reduce the overall deficit. In 2011 Wisconsin Act 32 (the 2011-13 Biennial Budget), a $17 daily add-on was added to the JCF daily rate with the aim to eliminate the deficit within ten years. In 2015 Wisconsin Act 59 (the 2015-17 Biennial Budget), the add-on was reduced to $6/day as a result of the Department's ability to reduce the deficit.

In FY15, the Department retired the deficit and ended the year with a cash surplus. However, juvenile populations declined rapidly in the period between FY16 and FY19, while at the same time the JCFs also incurred expenditures that were either unbudgeted or under-budgeted during FY17 and FY18, such as paying for contracted healthcare staff to handle medication administration. Additionally, a delay in authority to charge the FY18 daily rate led to lost revenue of $1,643,000 during that fiscal year. In FY19, the average daily population at JCFs was 54 youth less than the FY19 budgeted population. A combination of all of these factors resulted in a ($7,721,100) PR cash deficit at the end of FY19.

In 2019 Wisconsin Act 9 (the 2019-21 Biennial Budget), a $6/day rate add-on was included in the JCF daily rate to reduce the projected JCF operations deficit. This additional amount will be included in the JCF daily rate in future biennial budgets until the deficit is eliminated. The Department estimates that the deficit could be retired in FY40 if populations remain at the FY20 budgeted level.

The future of DOC's juvenile population is ultimately unknown, however, since 2017 Wisconsin Act 185 and 2019 Wisconsin Act 8 require the Department to close the Lincoln Hills and Copper Lake Schools and establish smaller, regionally based Type 1 Juvenile Correctional Facilities by July 1, 2021. The average daily population of those facilities and the funding mechanism to operate them will determine how quickly the Department will be able to retire the deficit using the $6/day add-on.

Plan of Action:

With the inclusion of the $6 add-on in the JCF daily rate and the on-going ability to transfer surplus funds from two other appropriations, the Department will work to reduce its FY19 year-end deficit in future biennia. The Department continues to review juvenile facility operations with the intent to further contain expenses and retire the juvenile correctional services deficit.

Prepared by: Peter James, Bureau of Budget and Facilities Management
240-5422

FY19 FUND CONDITION STATEMENT
§20.410(3)(hm) – Juvenile Correctional Services

REVENUES	FY18
Opening Balance (July 1)	($7,036,900)
Total Revenue	$24,651,100
EXPENDITURES	
Total Expenditures	$27,768,900
Closing Cash Balance	($10,154,700)

OPIB

Department of Health Services
Office of Policy Initiatives and Budget
PO Box 7850
Madison WI 53707-7850
Phone (608) 266-3816
Fax (608) 267-0358

Date: October 9, 2019

To: Brian Pahnke
State Budget Director
Department of Administration

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

Subject: FY 19 DHS Appropriations 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 19 with an unsupported overdraft:

- Appropriation s. 20.435(2)(kx) – Interagency and Intra-Agency Programs, ended with an unsupported overdraft of $6,693,510.73.
- Appropriation s. 20.435(2)(g) – Alternate services of institutes and centers, ended with an unsupported cash overdraft of $11,015,934.25

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

cc: Julie Willems Van Dijk
Amy McDowell
Bob Halverson
Barry Kasten
Christina Isenring

Appropriation 267 – Inter/Intra Agency Operations

The appropriation, s. 20.435(2)(kx) – Inter/Intra Agency Operations, ended FY 19 with an unsupported overdraft of $6,693,510.73. 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 19 with an unsupported cash overdraft of $11,015,934.25 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.

Below is a summary of the other major factors behind 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 $1,354 per day in FY 19; NWC's estimated FY 18 cost per day was $2,080. 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 over $4.0 million per year due to the rate averaging; the settlement amount varies from year to year, causing the year-end deficit to vary also.

- 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 19.

Bed Tax Losses FY 04 through FY 19	
Northern Center	$1,475,801
Central Center	$2,818,676
Southern Center	$970,326
Total	**$5,264,803**

- 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 subtracts 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 Overlapses 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**

Because of the excess lapse amounts from prior years, the biennial budget, beginning with the 2017-19 biennial budget, provides that the Department will retain $1,000,000 per year in current year GPR-Earned revenues to apply against the (2)(g) deficit, which will reduce the deficit slowly over the next several years.

- Apart from excess GPR-Earned lapses, the Medicaid practice of reimbursing Centers for capital assets based on multi-year depreciation schedules has also contributed to the deficit. Centers incur the cost for vehicles or equipment, for example, in the PR appropriation in the year of purchase, but must run a cash deficit until the depreciation schedule is complete. In recognition of this, 2017 Act 59 added language to s. 20.903 explicitly allowing the Department to incur liabilities in (2)(g), over and above revenues in the appropriation, up to the value of equipment and buildings financed from the appropriation. This language will allow DHS to account for such assets in future cash overdraft statements, thereby providing a more complete picture of the financial status of the appropriation beyond its cash position, by accounting for all cash and non-cash assets.

Recommendation

The Department will continue to work with DOA to use the tools provided in the 2017-19 biennial budget to reduce the deficit over the next several years.

STATE OF WISCONSIN
DEPARTMENT OF JUSTICE

Josh Kaul
Attorney General

Division of Management Services
17 West Main Street
P.O. Box 7951
Madison, WI 53707-7951

Date: September 20, 2019

To: Mr. Brian Pahnke, State Budget Director
Department of Administration

From: Darcey Varese, Financial Manager
Department of Justice

Darcey Varese

Subject: FY19 Department of Justice Reporting of Unsupported Overdrafts

Pursuant to §16.513, Wis. Stat., the Department of Justice is submitting plans to address unsupported shortfalls in program revenue appropriations in state fiscal year 2019 (SFY19).

20.455 (2)(i) Penalty Surcharge, Receipts

The unsupported cash overdraft for SFY19 was ($12,607,134.17), which is an increase over the deficit of ($10,631,364.65) in SFY18. The growth in the deficit is a result of expenditure authority in penalty surcharge appropriations exceeding revenues. Expenditures have exceeded revenues in eight of the past ten years.

Revenues from the penalty surcharge are appropriated in six state agencies across fifteen appropriations. It is anticipated that the deficit will continue to grow in future years without transferring expenditures to other funding sources or increasing penalty surcharge revenues.

20.455 (2)(kv) Grants for Substance Abuse Treatment Programs for Criminal Offenders

The unsupported cash overdraft for SFY19 is ($1,652,720.77), which is a decrease in the deficit of ($1,695,942.68) in SFY18.

This appropriation was transferred to the Department of Justice from the Department of Administration in the 2013-15 biennium with a cash deficit of ($1,911,631.89). The Department of Justice has not expended any funds from this appropriation since the transfer.

The deficit is being reduced annually by the appropriation authority of $43,221.91. The revenue in the appropriation is derived from the Drug Abuse Program Improvement Surcharge.

If you have any questions, please contact me at 608-266-9653.

Cc: Michael Schmidt
Andrew Potts
Michelle Gauger

STATE OF WISCONSIN
DEPARTMENT OF ADMINISTRATION

Tony Evers, Governor
Joel Brennan, Secretary
James M. Langdon, Administrator

Date: December 20, 2019

To: Brian Pahnke, Administrator
Division of Executive Budget and Finance

Carol Herwig, Deputy State Controller
Division of Executive Budget and Finance

From: Colleen Holtan, Director
Bureau of Financial Management
Division of Enterprise Operations

Re: FY 2018-19 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 2019-19 (FY19) program revenue unsupported overdrafts in the following appropriations:

- Agency 505 (DOA), Appropriation 12300 - Justice Information Fee Receipts
- Agency 505 (DOA), Appropriation 13800 - Enterprise Resource Planning System
- Agency 505 (DOA), Appropriation 12600 - Printing, mail, communication, and information technology services; agencies
- Agency 505 (DOA), Appropriation 83600 - General program operations; bingo
- Agency 870 (ITIF), Appropriation 16000 - Information Technology Investment Fund - Special Project

Appropriation 12300 – 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 changed the distribution method to one based on a fixed amount of the total fee (e.g., $7.50 of every $21.50 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

Authorizing Legislation	Amount
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 surcharge revenues decreased by more than $2.4 million to $16,978,696 and the amount transferred to appropriation accounts and the general fund increased $518,000 to 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) eliminated from the surcharge distribution as. 20.505 (1) (id) 8 and modified the appropriation language for the remaining appropriation accounts authorized under 20.505 (1) (id) to require the unencumbered balance on June 30 of each year to be transferred to the appropriation account under s. 20.505 (1) (id). Additionally, section 9226 of Act 55 required the return to the justice information surcharge appropriation account in an amount equal to the unencumbered balance as of June 30, 2015. During the 2015-17 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of $16,882,446; transferred to appropriation accounts and the general fund a total of $19,651,600; and received reversions of $2,098,822, resulting in an ending cash balance of $(3,471,171).

2017 Wisconsin Act 59 (the 2017-19 Biennial Budget) retained the surcharge amount and distribution structure. During the 2017-19 biennium, the Justice Information Fee Receipts appropriation collected surcharge revenues of $17,554,494; transferred to appropriation accounts and the general fund a total of $20,125,600; and received reversions of $662,486, resulting in an ending cash balance of $(5,3749,793).

The annual collections to, transfers from and resultant cash balance of the Justice Information Fee Receipts appropriation for the current and past biennia are reported in TABLE 2.

TABLE 2
Justice Information Fee Receipts Cash Balance

	2015-16	2016-17	2017-18	2018-19
Beginning Balance	$(2,800,879)	$(2,343,341)	$(3,471,171)	$(4,500,137)
Collections	$ 8,428,025	$ 8,454,461	$ 8,759,672	$ 8,794,822
Transfers:				
General Fund	$ 700,000	$ 700,000	$ 700,000	$ 700,000
Appropriation Accounts	9,121,000	9,130,600	9,356,000	9,369,600
Total	$ 9,821,000	$ 9,830,600	$10,056,000	$10,069,600
Less: Reversions[1]	(1,850,513)	(248,309)	(267,362)	(395,121)
Net Transfers	$ 7,970,487	$ 9,582,291	$ 9,788,638	$ 9,674,479
Net Collections	$ 457,538	$(1,127,830)	$(1,028,966)	$(879,657)
Ending Balance	$(2,343,341)	$(3,471,171)	$(4,500,137)	$(5,379,793)

[1] 2015 Wisconsin Act 55 modified appropriation accounts under 20.505 (1) (id), to require an annual reversion of unencumbered balances beginning in fiscal 2015-16 and to return unused moneys in an amount equal to the June 30, 2015, balance. The FY 2015-16 reversion amount included $1,527,075 collected as a result of the latter provision.

As the negative cash balance in the Justice Information Fee Receipts appropriation continues to grow, legislative changes to: utilize alternative revenue sources for appropriations supported by the surcharge; and/or to modify the Justice Information System Surcharge annual transfer to the general fund such that the amount transferred per s. 20.505 (1)(id), Wis. Stats., is the lesser of $700,000 or the amount remaining in the appropriation after all other transfers under subds. 1 to 6 are made, should be considered. It should be noted that the latter change would, itself, be insufficient to prevent further increases in the amount by which the appropriation is unsupported.

Appropriation 12600 - Printing, Mail, Communication and Information Technology Services; Agencies

The appropriation under s. 20.505 (1) (kL), Wis. Stats., Printing, Mail, Communication and information technology Services; Agencies, is utilized by the Department to provide document sales, printing, mail processing, electronic communications, information technology development, management, and processing services, but not enterprise resource planning system services under s. 16.971 (2) (cf), to state agencies and veterans services under s. 16.973 (9). The appropriation is contained within the Technology Services Fund, an Internal Service Fund (ISF) of the State of Wisconsin, that provides services to the Department and other state agencies on a cost-reimbursement basis. All moneys received for the provision of document sales services and services under ss. 16.971, 16.972, 16.973, 16.974 (3), and 16.997 (2) (d), other than moneys received and disbursed under par. (ip) and s. 20.225 (1) (kb), are credited to the appropriation.

Appropriation s. 20.505 (1) (kL), ended FY 2018-19 with an adjusted closing balance of $(4,148,443). The adjusted closing position of the appropriation was calculated as the sum of the closed balance continuing, plus the value of accrued accounts receivable outstanding and the depreciated value of equipment for operations as permitted by s. 20.903 (2), and is compared in TABLE 3 to the values for the prior two fiscal years.

TABLE 3
Printing, Mail, Communication and Information Technology Services; Agencies
Cash Balance

	2016-17	2017-18	2018-19
Beginning Statutory Balance	$(25,612,528)	$(24,511,180)	$(23,974,572)
Plus: Collected Revenue	$ 100,542,655	$ 97,218,715	$ 98,746,964
Less: Expenditures	$ 99,441,307	$ 96,682,196	$ 94,215,574
Closed Balance Continuing	$(24,511,180)	$(23,974,572)	$(19,443.182)
Plus: s. 20.903(2), Wis. Stats. Coverage			
Accounts Receivable	$ 9,153,455	$ 10,185,320	$ 9,062,722
Equipment, Net of Master Lease	$ 20,315,077	$ 15,603,842	$ 6,232,017
Adjusted Closing Balance	$ 4,957,352	$ 1,814,591	$ (4,148,443)

As TABLE 3 shows, although the appropriation's beginning statutory balance increased $1,637,956 from FY 2016-17 to FY 2018-19, the s. 20.903 (2), coverage provided by the depreciated value of equipment net of outstanding master lease debt and the adjusted closing balance decreased by $14,083,060 and $9,105,794, respectively, resulting in a negative, "unsupported" position at the June 30, 2019, fiscal year end. Decreases in the depreciated value of equipment net of outstanding debt can be attributed, in part, to changes to licensing models from perpetual based licensing to subscription based models which generally cannot be capitalized and are instead treated as operational expenses; and to a decreased investment in hardware and licensing assets as well as support services for on-premise platforms maintained by the Department.

The adjusted closing balance in TABLE 3 also reflects costs incurred for the transition to a new platform for its Automated Call Distribution System (ACD) for which no recovery has occurred. The Department contracted with Genesys for the replacement of the existing ACD system platform, which will not be supported by its proprietary vendor in the future. However, the project failed, primarily due to the lack of functionality represented by the vendor, and the Department ended the contract for the project. Due to the variations in requirements of ACD user agencies, the Department will not be providing an enterprise ACD service and is working with current users of this service to transition to an alternative ACD system that will be procured and administered by utilizing agencies. The Genesys project has resulted in $6.35 million in costs incurred by the appropriation from FY 2015-16 thru FY 2018-19 for which no recovery has occurred, and an additional $3.0 million of future master lease payment obligations. The Department is considering an assessment to agency customers who participated in the project (i.e., would have received ACD service utilizing the new platform). A decision regarding the assessment is anticipated to be made in January 2020.

In addition to the consideration of an assessment to recover costs incurred for the development of the failed ACD platform replacement, the Department has undertaken and will continue to undertake efforts to eliminate the unsupported position of the appropriation under s. 20.505 (1)(kL), including reducing costs and developing rates that recognize costs associated with the delivery of technology services, including for costs associated with the Department's responsibility to evolve with changing technology environments, such as cloud-based services offered from private providers.

To address the reduction of the assets net of outstanding debt, the Department will modify its processes related to the selection of master lease financing over the outright purchase of information technology equipment. To accomplish this, the Department will develop policies and procedures to evaluate the feasibility and appropriateness of utilizing the master leasing financing option over the outright purchase of assets. The Department will also develop and implement a review process for paying off master leases, as possible, including through the establishment of review thresholds for remaining principal balances. The Department will formalize the application and review of uniform master lease feasibility and payoff processes through a revised Departmental approval process extending to Department finance, information technology, and executive leadership.

Appropriation 13800 - Enterprise Resource Planning System

Appropriation 13800 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 FY 2010-11, 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 FY 2012-13, 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, 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, $(15,007,022) was attributable to IBIS; $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 FY 2013-14, 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 book value of $6.9 million, became obsolete and was written off. The Department incurred personnel and professional services costs and purchased other license, hardware and support purchases at a total cost of $22,920,186, of which $19,523,510 was financed using the State's master lease program. The Department also made master lease principal and interest payments totaling $1,909,396. 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 FY 2014-15, the Department incurred $47,505,392 of personnel and other supplies and services costs. $37,712,118 of that amount was financed by the State's master lease program and $9,796,274 was paid from the ERP appropriation. The Department also made master lease principal and interest payments of $2,286,836 and $1,555,958, respectively. 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.

In FY 2015-16, the Department incurred $30,201,647 of costs related to the development of the STAR System. $14,577,530 of that amount was financed by the State's master lease program and $15,624,117 was paid directly from the ERP appropriation. In addition, the Department repaid $4,588,958 of master lease principal and $2,749,995 of interest.

The Department implemented the STAR Operations and Maintenance Assessment in FY 2015-16, assessing agencies $9,064,869 for estimated post-implementation maintenance and operations costs. The June 30, 2016, appropriation overdraft of $(55,911,711) was supported by the net book value of equipment, software and intangible assets in excess of master lease obligations of $17,833,546; accounts receivable of $7,636,103; and $(30,442,062) was unsupported.

In FY 2016-17, the Department expended $18,683,002 for personnel and other supplies and services costs: $5,888,412 was for continued development activities; and $12,794,590 was for ongoing maintenance and operations expenses. The State's master lease program financed $2,769,666 of the expenditures while $15,913,336 was paid directly from the ERP appropriation. Additionally, the Department repaid $5,867,033 of master lease principal and $3,203,122 of interest.

The FY 2016-17 STAR Operations and Maintenance Assessment was $15,932,268 and recovered FY 2016-17 estimated operations and maintenance costs and a true up of $1,913,568 for the amount by which prior year actual expenditures exceeded estimates. The June 30, 2017, appropriation overdraft of $(65,419,352) was supported by equipment, software and intangible assets in excess of master lease obligations of $21,399,631; accounts receivable of $8,159,093; and $(35,860,628) was unsupported.

In FY 2017-18, the Department expended $16,631,954 for personnel and other supplies and services costs: $2,691,250 was for continued development activities; and $13,940,704 was for ongoing maintenance and operations expenses. Additionally, the Department repaid $6,160,913 of master lease principal and $3,181,722 of interest.

The FY 2017-18 STAR Operations and Maintenance Assessment was $11,807,529 and recovered FY 2017-18 estimated operations and maintenance costs and a true up of $(1,255,710) for the amount by which prior year estimated expenditures exceeded actuals. The Department also assessed state agencies for STAR Project costs for the first time in FY 2017-18, with the FY 2017-18 amount of $4,357,895 calculated as 60% of the annual amount necessary to fully recover project and financing costs incurred in its development over a period of nineteen (19) years. The June 30, 2018, appropriation overdraft of $(67,387,015) was supported by the net book value of equipment, software and intangible assets in excess of master lease obligations of $22,241,715; accounts receivable of $317,592; and $(44,827,708) was unsupported.

In FY 2018-19, the Department expended $14,206,498 for personnel and other supplies and services costs: $1,601,201 was for continued development activities; and $12,605,297 was for ongoing maintenance and operations expenses. Additionally, the Department repaid $6,163.559 of master lease principal and $2,893,227 of interest.

The FY 2018-19 STAR Operations and Maintenance Assessment was $17,385,548 and recovered FY 2018-19 estimated operations and maintenance costs and a true up of $851,835 for the amount by which prior year actual expenditures exceeded estimates. The Department also assessed state agencies for STAR Project costs in an amount of $5,810,527 calculated as 80% of the annual amount necessary to fully recover project and financing costs incurred in its development over a period of nineteen (19) years. The June 30, 2018, appropriation overdraft of $(67,819,998) was supported by the net book value of equipment, software and intangible assets in excess of master lease obligations of $20,932,691; accounts receivable of $635,983; and $(46,251,324) was unsupported.

The Department will continue to annually assess state agencies in an amount necessary to cover estimated STAR System ongoing operations and maintenance costs and to fully collect project and financing costs incurred in its development over a period of nineteen (19) years. The Department will also assess state agencies a one-time amount of $5,547,624 in FY 2019-20 and $591,212 annually over sixteen (16) years, thereafter, for the previously unrecovered costs associated with IBIS.

Appropriation 83600 - General program operations; bingo

Wisconsin Constitutional amendments made charitable bingo games legal in 1973 and raffles in 1977. The Office of Charitable Gaming in the Department's Division of Gaming (Gaming) is responsible for administration of bingo and raffle operations under Chapter 563, Wis. Stats. Section 20.505 (8)(jm), General program operations; bingo, provides for general program operations relating to bingo and all moneys received by the Department under ss. 563.055, 563.13 (4), 563.135, 563.16, 563.22 (2) and 563.80 are credited to that appropriation. The unencumbered balance of the appropriation at fiscal year-end is transferred to the lottery fund as required by a 1999 constitutional amendment. Section 20.505 (8)(j), General program operations; raffles, provides for the general program operation for raffles, with all moneys received by the Department under ss. 563.92 (2) and 563.98 (1g) credited to that appropriation.

Religious, charitable, service, fraternal, and veterans' organizations, as well as any organizations for which contributions are deductible for state and federal income tax purposes, may be licensed to operate bingo-playing sessions in Wisconsin. Except for community-based residential facilities, community centers for senior citizens, and adult family homes, eligible organizations must have been in existence for at least three years, have established funding sources, and at least 15 members.

Bingo licenses are granted for one-year periods. A regular license allows an organization to hold an unlimited number of bingo occasions in the licensed year and requires that the price of any playing card does not exceed $1.00. A limited-period license allows bingo sessions to be conducted during no more than four of five consecutive days once per year. Organizations obtaining limited-period licenses may not charge admission but may charge up to $1.00 per bingo card. The maximum prize value allowable for a single bingo game is $500, and the total prize value for any playing occasion may not exceed $2,500. Prior to 2005, the maximum amount of prizes that could be paid out per bingo occasion was $1,000. In addition, organizations may conduct progressive jackpot bingo, in which the prize is carried over to a succeeding game if no player wins. The starting prize must be either a specified amount that does not exceed $500 or 50 percent (50%) of the card sales for the first game.

Bingo license fees are $10 for each bingo occasion and $5 annually for the member responsible for handling gross bingo receipts, except for community-based residential facilities, senior citizen centers, and adult family homes, which pay a one-time $5 license fee. These fees have remained unchanged since 1973, when bingo laws were first written. Licensed organizations also pay one percent (1.0%) tax on the first $30,000 in gross receipts, and two percent (2.0%) on all gross receipts that exceed $30,000 paid semi-annually based on the license year. Prior to 1999, the tax was a flat two percent (2%) on gross receipts. Suppliers of bingo equipment are also required to be licensed and pay an annual fee of $25 and a supplementary fee ranging from $10 to $1,000, based on gross annual bingo supply sales.

Raffle licenses may be obtained by the same types of organizations eligible to obtain bingo licenses, although the organizations are required to have been in operation for only one year. A $25 annual license fee allows an organization to conduct up to 365 raffles and one calendar raffle, which is a raffle in which multiple drawings are made on specified dates. Raffle licenses may be either Class A, which allow tickets to be sold before the day of the drawing with winners not needing to attend the drawing, or Class B, in which the tickets must be sold or delivered on the same day as the drawing and winners are generally required to attend the drawing.

TABLE 4, below, shows the estimated number of bingo and raffle licenses and amount of license fees and tax for calendar year (CY) 2019 compared to select prior calendar year periods.

TABLE 4
Charitable Gaming Licenses, Fees and Tax

	CY 2005	**CY 2015**	**CY 2016**	**CY 2017**	**CY 2018**	**CY 2019[1]**
Bingo Licenses (#)	539	387	381	371	356	370
Bingo License Fees	$ 169,638	$ 120,812	$ 114,689	$ 109,425	$ 107,078	$ 100,900
Bingo Tax	$ 322,466	$ 216,888	$ 207,577	$ 216,557	$ 194,092	$ 175,600
Bingo Revenue	$ 492,104	$ 337,700	$ 322,266	$ 325,982	$ 301,170	$ 276,500
Raffle Licenses (#)	7,785	10,149	10,562	11,014	11,868	11,700
Raffle License Fees	$ 194,625	$ 253,725	$ 264,050	$ 275,350	$ 296,700	$ 292,500

Source: Charitable Gaming System, Department of Administration, Division of Gaming
[1] Estimated.

The data illustrates a lengthy trend of decreasing bingo licenses, fee and tax revenues and increasing raffle licenses and fee revenues, which is consistent with the revenue experience, as measured on the fiscal year basis, in the State's accounting system. TABLE 5 shows revenues, expenditures, lottery fund transfers for the bingo appropriation (s. 20.505 (8)(jm)), which ended FY 2018-19 with a closing balance of $(32,516) and TABLE 6 shows revenues, expenditures and lapses to the general fund for the raffle appropriation (s. 20.505 (8)(j)), which ended FY 2018-19 with a closing balance of $117,895. Both tables provide unliquidated encumbrances and Chapter 20 expenditure authority for comparison purposes.

TABLE 5
Bingo Cash Balance, Expenditure Authority

	2014-15	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Beginning Balance	$ 3	$ 76	$ 448	$ 3	$ 19
Plus: Collected Revenue	$ 342,556	$ 317,673	$ 342,811	$ 312,157	$ 271,822
Less: Expenses	$ 321,241	$ 317,301	$ 310,656	$ 312,141	$ 304,357
Subtotal	$ 21,315	$ 448	$ 32,603	$ 0	$ (32,516)
Less: Transfer to Lottery Fund	$ 21,242	$ 0	$ 32,600	$ 0	$ 0
Closed Balance Continuing	$ 76	$ 448	$ 3	$ 19	$ (32,516)
Unliquidated Encumbrances	$ 73	$ 448	$ 0	$ 19	$ 339
Chapter 20 Expenditure Authority	$ 315,600	$ 348,300	$ 347,000	$ 346,900	$ 341,300

TABLE 6
Raffle Cash Balance, Expenditure Authority

	2014-15	2015-16	2016-17	2017-18	2018-19
Beginning Balance	$ 143,555	$ 66,127	$ 51,350	$ 62,005	$ 96,313
Plus: Collected Revenue	$ 259,817	$ 269,254	$ 272,805	$ 294,164	$ 305,572
Less: Expenses	$ 237,245	$ 234,031	$ 233,058	$ 259,856	$ 283,900
Subtotal	$ 166,127	$ 101,350	$ 91,097	$ 96,313	$ 117,985
Less: Lapse to General Fund[1]	$ 100,000	$ 50,000	$ 29,092	$ 0	$ 0
Closed Balance Continuing	$ 66,127	$ 51,350	$ 62,005	$ 96,313	$ 117,985
Unliquidated Encumbrances	$ 343	$ 248	$ 0	$ 17	$ 339
Chapter 20 Expenditure Authority	$ 291,100	$ 283,600	$ 280,700	$ 280,300	$ 284,300

[1] ACT 20 S 9252 Lapses

Gaming has previously undertaken efforts to ensure costs of its Charitable Gaming Office are properly attributed to each of its charitable activities, resulting in decreased bingo expenses and increased raffle expenses, particularly in fiscal years 2017-18 and 2018-19 (ref. TABLES 5 and 6), respectively. However, the Division recently initiated a new time study to refine the estimated costs assignable to each gaming appropriation based on current licensing trends and technology resources. The results of the study will inform the Department's plan to resolve the overdraft in appropriation s. 20.505 (8)(jm), and may require legislative approval to implement.

Appropriation 16000 - Information Technology Investment Fund - Special Project

In FY 1996-97, General Fund appropriation s. 20.505 (1) (ke), telecommunications and data processing, in the former Division of Technology Management, loaned $3,957,000 to the 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 FY 1996-97, DOA has made annual payments of varying amounts to reduce the loan obligation and at the end of FY 2018-19 the appropriation reported an unsupported overdraft of $(2,563,948). DOA will continue to consider various sources of revenue to apply to the overdraft and 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: Jim Langdon, Division Administrator