



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #791

Examination Fee Vendor Payment Reestimate (R&L)

[LFB 2001-03 Budget Summary: Page 580, #3]

CURRENT LAW

The Department of Regulation and Licensing (R&L) is responsible for ensuring that applicants for professional licensure pass any examination required by statute before obtaining a credential from the agency. The Department is authorized to charge a fee for administering the examination as long as the charges do not exceed the agency's best estimate of the costs of preparing, administering and grading the examination or obtaining and administering an approved examination from a testing service.

A credential applicant will take either an R&L administered exam or an exam given by a vendor who has been contracted by R&L to administer the exam. In the case of exams developed and administered by R&L, the applicant pays the required examination fee to the Department and 10% of the amounts paid are transferred to the general fund and the remaining 90% of the amounts paid are credited to the agency's examinations general program operations account. For examinations provided by outside test service, the applicant pays a fee comprised of the vendor fee established by contract and an add-on, if required, for R&L's examination administration and development costs. Examination fee payments to outside vendors are also subject to the requirement that 10% of the amounts paid be transferred to the general fund and 90% of the amounts paid be credited to the agency's examinations general program operations account. Base level expenditure authority in the agency's examinations general program operations appropriation for outside vendor examination fee payments is \$1,681,900 PR annually.

GOVERNOR

Clarify that if the Department prepares, administers, or grades an examination, the fee paid to R&L would be based on the agency's best estimate of the actual costs of those activities.

Specify that if the Department approves an examination that is prepared, administered and graded by a test service provider, the agency would charge a fee equal to its best estimate of the actual costs of approving the examination, including the selection, evaluation and review of the examination.

Delete \$600,000 PR annually of expenditure authority for examination fee payments for tests prepared and administered by outside test services. Under the Governor's recommendation, \$800,000 PR annually budgeted for actual vendor examination fee payments would actually be deleted. However, an offsetting add-back of \$200,000 PR annually would also be placed in unallotted reserve, resulting in the proposed net reduction of \$600,000 PR annually. The amounts placed in unallotted reserve would be available for release to R&L by DOA in the event that additional expenditure authority would be required for outside test service examination fee payments in either fiscal year of the next biennium.

DISCUSSION POINTS

1. Provisions of 1999 Wisconsin Act 9 newly imposed the requirement that 10% of the revenues collected by R&L for professional licensure examination fees be credited to the general fund. Act 9 also provided \$1,681,900 PR annually of increased expenditure authority to the Department to reflect the fact that testing service fee payments previously paid directly to vendors would instead be treated as fees to be collected by R&L, credited to the examinations general program operations account and then remitted to the vendor. At the time Act 9 was enacted, the \$1,681,900 PR annual adjustment in the agency's expenditure authority for vendor payments appeared to be the best available estimate of the amounts that would actually be expended for this purpose.

2. As the Department gained experience implementing the vendor fee collection provisions of Act 9, the following accounting procedures were developed for the examination fee revenues:

- Where the Department develops and administers the examination, the required fees are collected by the agency and are all subject to the 10%/90% funding split.
- Where the Department contracts with others to prepare, administer or grade an exam and the Department also has substantial input in developing the scope and content of the examination, the required fees will be collected by the agency. The vendor's examination fee is subject to the 10%/90% funding split and the agency's separately calculated contract administration, exam development and exam administration costs are also subject to the 10%/90% funding split.
- Where a national examination is prepared, administered and graded independently of the Department and the vendor is not an agent of the Department or under contract with it, the required examination fees are remitted by the applicant directly to the test service and do not flow through the state treasury. The Department has minimal involvement with the development or offering of these types of examinations. However, to the extent that the Department approves the

examination to ensure that it meets professional standards or incurs costs in selecting or reviewing the national examination, it does charge a fee to cover those costs. All applicants who apply for a Wisconsin license must pay this administrative fee amount to the Department. These fee payments are subject to the 10%/90% funding split.

3. The Governor's proposed statutory modifications have the effect of modifying current law to reflect the accounting procedures described above.

4. The Department has now had a full calendar year of examination fee vendor payment experience under the new Act 9 changes. Total vendor fee payments during calendar year 2000 amounted to \$697,900 PR. The principal reason that these fee payments are significantly below the additional expenditure authority of \$1,681,900 PR annually provided under Act 9 appears to be due to the fact that fees for a number of large national examinations approved by the Department (such as for architects, dentists, dietitians, physicians and registered nurses) are not collected by the Department and credited to any state account.

5. The Department's current biennial examination fee study, used to develop contract administration, exam development and exam administration charges, projects test service fee collections of \$814,300 PR annually during the 2001-03 biennium. This figure is based on the Department's projection of the number of applicants that will be taking an exam through an outside vendor times the examination fee expected to be charged by the testing service. A more recent reestimate by the Department now projects such examination fee collections at \$818,700 PR annually.

6. The Governor has recommended that base level vendor fee expenditure authority of \$1,681,900 PR annually be reduced to \$881,900 PR annually. Based on the agency's first year experience with vendor fee payments (\$697,900 PR), and given the agency's most recent vendor fee payment projections for each year of the next biennium (\$818,700 PR), the \$881,900 PR annually proposed by the Governor for examination fee vendor payments appears reasonable.

7. The additional \$200,000 PR annually that the Governor has recommended be placed in unallotted reserve does not appear to be required, and the Committee could choose to delete these amounts.

8. Finally, the examination general program operations account is a PR continuing appropriation. Under current law, the agency has the authority to expend 90% of all monies received in this appropriation as well as any available balances in the appropriation account. Consequently, even if examination fee vendor payments actually exceeded budget estimates, the additional expenditures could still be incurred, whether or not funding is also budgeted in unallotted reserve.

ALTERNATIVES

1. Approve the Governor's recommendation.

2. Modify the Governor's recommendation by deleting an additional \$200,000 PR annually budgeted in unallotted reserve for examination fee vendor payments.

Alternative 2	PR
2001-03 FUNDING (Change to Bill)	- \$400,000

3. Maintain current law.

Alternative 3	PR
2001-03 FUNDING (Change to Bill)	\$1,200,000

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