



Legislative Fiscal Bureau

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February 15, 2012

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Administration: Plans for Unsupported Overdraft Appropriations -- Agenda Item II

Section 16.513 of the statutes requires state agencies to submit quarterly reports to the Department of Administration (DOA) on projected revenues and expenditures for each appropriation supported with program or segregated revenues. If it is projected that there will be insufficient revenues in the ensuing quarter to meet expenditures in any appropriation, the agency must submit a plan to DOA to "assure that there are sufficient moneys, assets, or accounts receivable to meet projected expenditures under the appropriation." If the plan is approved by DOA, it must then be submitted to the Joint Committee on Finance for its approval under a 14-day passive review process.

On December 28, 2011, DOA Secretary Huebsch submitted plans under s. 16.513 for unsupported overdrafts in 18 appropriations. The overdrafts were determined at the conclusion of the 2009-10 fiscal year. The submittal identifies 18 appropriations whose unsupported overdrafts totaled \$112.5 million.

On January 4, 2012, an objection was raised regarding the plans. Therefore, the request to approve the plans has been scheduled for the Committee's February 15, 2012, meeting under s. 13.10 of the statutes.

A list of the overdrafts, by appropriation follows:

<u>Agency/Appropriation</u>	<u>Unsupported Overdraft</u>
<i>Administration</i>	
• Print, Mail, InfoTech	\$24,596,368
• Integrated Business Information System (IBIS)	6,798,306
• Grants for Substance Abuse	2,038,226
• Information Technology Investment Fund (ITIF)	2,788,983
<i>Agriculture, Trade and Consumer Protection</i>	
• Grain Inspection Program	619,912
<i>Commerce</i>	
• Safety and Buildings Operations	279,129
<i>Corrections</i>	
• Juvenile Operations	8,388,321
<i>Health Services</i>	
• Internal Intra-Agency Programs	5,449,340
<i>Historical Society</i>	
• Self-Amortizing Debt Service	345,800
<i>Justice</i>	
• Crime Laboratories	5,276,389
• Penalty Surcharge Receipts	4,943,731
• Gun Purchaser Record Checks	891,166
• Crime Information Alerts	253
<i>Military Affairs</i>	
• React Center	26,844
<i>Natural Resources</i>	
• Development Program Operations	693,833
<i>Revenue</i>	
• RTA Administration	8,300
• County and Municipal Aid	45,603,000
<i>State Fair Park</i>	
• General Program Operations	3,215,020
<i>Miscellaneous</i>	
• Banking Fees	<u>744,562</u>
Total	\$112,361,683

Following is a brief summary of such unsupported overdrafts and the administration's plan to address it.

Administration

Printing, Mail, Communication, and Information Technology Services; Agencies. The Department of Administration (DOA) provides printing, mail processing, communications, and information technology (IT) development, management and processing services to state agencies. The Department assesses state agencies for these services.

This DOA appropriation has statutorily authorized forestalling authority. This authority allows DOA to spend in excess of the revenues received, to the extent that the non-depreciated assets under the appropriation offset the excess expenditures. In this case, assets such as IT equipment, sorting machines and other equipment that have a multiple year expected value are depreciated over the expected life of the equipment. Funding for the appropriation was \$103,157,700 PR in 2009-10. The negative cash balance of the appropriation was \$56,659,630 of which \$32,063,262 was supported by the non-depreciated value of assets under the appropriation. As a result, the appropriation had an unsupported balance of \$24,596,368 at the end of 2009-10.

The Department reports that the deficit is due to costs related to consolidation of data processing services among agencies which was completed at the end of 2009-10. The Department states that revenues to offset the costs have increased and "in fiscal year 2010-11, the department established a rate structure that supports full recovery of costs and partial recovery of the deficit."

Integrated Business Information System. Under 2007 Wisconsin Act 20, the Department was required to implement, operate, maintain, and upgrade an integrated business information system (IBIS) for all executive branch agencies for the following: (a) all financial services (including accounting and auditing of payroll); (b) procurement; (c) human resources; and (d) other administrative duties. The Department was authorized to provide these services to any executive branch agency as long as those services could be provided efficiently and economically. Legislative and judicial branch agencies were allowed participate at their discretion.

The IBIS appropriation is PR-continuing appropriation with forestalling authority (described above). While DOA initially purchased hardware and software under the state's master lease program, the project was put on hold in April, 2008. The Department, "suspended further maintenance payments in order to give the Administration an opportunity to look at options of moving forward with an enterprise resource planning system. If it is determined to be feasible, state agencies will be billed to recover the costs incurred in this appropriation." As of the end of 2009-10, the appropriation overdraft was \$10,791,208, with support from revenues and undepreciated assets of \$3,992,902. As a result, the unsupported overdraft was \$6,798,306 as of June 30, 2010.

Grants for Substance Abuse Treatment Programs. The grants for substance abuse treatment programs appropriation receives funding from: (a) a portion of the drug abuse program improvement surcharge (DAPIS), a 75% surcharge on fines and penalty surcharges imposed for

violations of the uniform controlled substances act (Chapter 961); and (b) a \$10 drug offender diversion surcharge assessed for property crime convictions under Chapter 943. Monies from the appropriations support grants to counties to enable them to establish and operate programs that provide alternatives to prosecution and incarceration for criminal offenders who abuse alcohol or other drugs, and for contracts to evaluate the program. The appropriation concluded 2009-10 with a deficit of \$2,038,200.

Under 2009 Act 28, expenditure authority for the appropriation was reduced from \$755,000 to \$7,500. Further, Act 28 increased the justice information system (JIS) surcharge from \$12 to \$21.50, specified that \$1.50 of the surcharge be provided to support grants, and created a separate appropriation for receipt and expenditure of JIS revenues for the program. The s. 16.513 plan states that, "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 exceeded expenditures. However, it will take time to eliminate the fiscal year 2009-10 unsupported overdraft." [In 2010-11, this appropriation received revenues totaling \$48,400.]

Information Technology Investment Fund. Under 1995 Wisconsin Act 27, the Legislature created the information technology investment fund (ITIF) as a source of revenue for the initiation and development of IT in state agencies. Revenue was to be generated from assessments on vendors doing business with the state. A grant program was established for state agencies for IT projects. The amount of estimated revenue was never realized and the grant awarded resulted in unsupported borrowing from the general fund. Under 1999 Wisconsin Act 9, the grant program was repealed and the ITIF was renamed the VendorNet Fund with a purpose of administering VendorNet and repayment of the loan to the fund.

A total of \$3,957,700 was initially borrowed against the general fund, of which \$111,523 was unspent and returned. Between 1998-99 and 2002-03 a total of \$862,196 was repaid from VendorNet fees (\$810,474) and revenue from other agencies (\$51,722). Between 2003-04 and 2009-10, all repayments came from DOA general program operations, totaling \$195,000, leaving a negative balance of \$2,788,983. The Department's s. 16.513 plan states that it will continue to make payments toward the amount owed.

Agriculture, Trade and Consumer Protection

Grain Inspection Program. The Department of Agriculture, Trade and Consumer Protection (DATCP) conducts inspection, weighing and testing of grain shipped from the Port of Superior. The Department is authorized 21.0 positions for the grain inspection program, and is budgeted \$1,400,800 PR each year under 2011 Act 32. The program is supported by fees charged on the basis of either: (a) an hourly rate for the staff persons required; or (b) the type of service provided.

The PR continuing appropriation for grain inspection had a cash balance of -\$658,500 (\$619,900 unsupported) on June 30, 2010, although the shortfall declined to -\$425,200 on June 30, 2011. The appropriation has had a negative balance since the close of the 2000-01 fiscal year. To

correct the accumulated negative balance, DOA is required under s. 16.56 of the statutes to transfer unencumbered amounts in DATCP's GPR general operations appropriations to the grain inspection PR account at the close of each fiscal year. Also, the U.S. Department of Agriculture, which has delegated authority to DATCP for inspection of export shipments, last year approved a fee increase that took effect September 1, 2011; the previous fee structure had been in place since 2004. Further, DATCP has adjusted staffing practices in recent years to minimize: (a) overtime; (b) seasonal layoffs, which in past years typically occurred when the Port of Superior closed for the winter, and resulted in DATCP paying unemployment costs; and (c) instances in which persons are on duty without any inspections taking place. However, shipping volumes and associated revenues are significantly dependent on conditions in the international grain market. Although 2010-11 shipping volumes and inspection revenues exceeded program expenditures, DATCP reports shipping volumes for 2011-12 have declined substantially due to grain market conditions.

The table shows the condition of the grain inspection PR account through June 30, 2011. The general fund transfers reflect \$55,700 transferred to the general fund in 2009-10, which was reinstated in 2010-11 due to concerns expressed by the Legislative Audit Bureau on the transfer of amounts from appropriations with negative cash balances. Section 16.56 transfers reflect the unencumbered amounts transferred from DATCP general operations appropriations. These amounts have declined in recent years, and no significant transfers are expected in the 2011-13 biennium.

DATCP Grain Inspection Appropriation Condition

	Actual <u>2008-09</u>	Actual <u>2009-10</u>	Actual <u>2010-11</u>
Opening Balance	-\$472,500	-\$470,900	-\$658,500
Revenues	1,245,600	1,381,400	1,906,800
Expenditures	-1,548,000	-1,520,200	-1,729,300
Transfers to General Fund	0	-55,700	55,700
S. 16.56 Transfers	<u>304,000</u>	<u>6,900</u>	<u>100</u>
Closing Balance	-\$470,900	-\$658,500	-\$425,200

DATCP reports that in response to lower shipping volumes and lower revenues thus far in 2011-12, 4.0 current vacancies will be maintained, pending changes in shipping volumes after the Port of Superior reopens in 2012.

Commerce

Safety and Buildings Operations. In 2009-10 Commerce reported an unsupported overdraft in its safety and buildings operation appropriation of \$279,100. This was a \$411,600 reduction from the prior year and Commerce had a June 30, 2011, positive cash balance in the appropriation.

Corrections

Juvenile Correctional Services. The juvenile correctional services appropriation funds the

operation of juvenile correctional facilities and certain aftercare services provided to juveniles following release from the facilities. Program revenue credited to the appropriation derives from daily rates charged by facility care that are paid by counties or the state for certain serious juvenile offenders. If monies generated by the daily rate exceed actual institutional costs in a fiscal year by 2% or more, the amounts in excess of 2% must be remitted to the counties during the subsequent fiscal year, in amount proportionate to the total number of days of juvenile placements at the facilities for each county and for the state.

The s. 16.513 submission indicates that the unsupported deficit in 2009-10 was \$8,388,321, as a result of declining populations in juvenile institutions, which also "incurred expenditures that were either unbudgeted or under-budgeted, such as employee salary and fringe benefits." For its plan to address the deficit, the Department notes:

"In the spring of 2011, Governor Walker directed DJC to close two juvenile schools and consolidate all boys to Lincoln Hills School and create a new girls school (Copper Lake School) on the grounds of Lincoln Hills School. Ethan Allen School and Southern Oaks Girls School were closed and the youth were transported to their new facility as of July 1, 2011. This consolidation directly addressed the reduction in juvenile populations and the impact on operational funding by reducing staffing and facility costs. Also, in 2011 Wisconsin Act 32, an additional \$17 was added to the JCI daily rate to reduce the juvenile operations deficit and will be added in future budgets until the deficit is eliminated. The deficit in §20.410(3)(hm) is expected to decrease by approximately \$2,100,000 in FY2012 if the juvenile population remains at budgeted levels."

Health Services

Internal Intra-Agency Programs. The Department of Health Services (DHS), Division of Long Term Care operates three residential treatment centers for individuals with developmental disabilities -- Central Center in Madison, Southern Center in Union Grove, and Northern Center in Chippewa Falls. A program revenue appropriation to the Division permits DHS to expend all moneys it receives from other state agencies and all moneys transferred from other units within DHS to administer its programs and projects. DHS uses this appropriation to fund the costs of utilities and maintenance of common areas and vacant buildings at Northern Center. At the end of 2009-10, the appropriation had an unsupported deficit of \$5,449,340. This deficit occurred because costs that were previously eligible for reimbursement under the state's medical assistance (MA) program are no longer MA-eligible, due to the reduction in long-term care services at that facility since 2004-05.

DHS indicates that it intends to address the deficit by: (a) seeking the approval of the Governor and the Joint Finance Committee to credit revenue from the future sales of surplus land at Northern Center to the appropriation; (b) applying any balances in the agency's annual operating budget to reduce the deficit; and (c) allocating all utility and common area maintenance costs in future years proportionately to state agencies on the Northern Wisconsin Center campus (Corrections and Veterans Affairs) so that the deficit will not continue to increase.

Historical Society

The Wisconsin Historical Society self-amortizing facilities debt service appropriation receives revenues from gifts, grants, bequests, and sales, or other revenues to the history preservation partnership trust fund and from nonprofit foundations formed for each historic site. The appropriation had a deficit related to debt service costs for the Circus World Museum totaling \$341,900, accumulated over fiscal years 2005-06 through 2009-10.

The debt service costs are related to bonds issued in 1986 for a new exhibit hall and visitor center at the Circus World Museum. The Circus World Museum Foundation agreed to pay the debt service payments until the bonds were fully paid. However, due to financial pressures, the Foundation has been unable to make full payments in recent years. The debt service payments were charged to the PR debt service appropriation under the Historical Society and an offsetting receivable from the Foundation was created.

By 2010-11, the debt from the Foundation was equal to \$345,800, and on March 16, 2011, the Building Commission approved the release of \$350,000 from the building trust fund contingency, as a cash grant to the Wisconsin Historical Society. The purpose of the grant was to assist Circus World Museum with payments of outstanding debt to the self-amortizing facilities appropriation. The designated funds were transferred to the appropriation, and the previous debt has been cleared. In addition, the Historical Society agreed to relieve the Circus World Museum Foundation of future bond payments and will assume financial responsibility for the remaining five years of the bonds. Payments are expected to total \$8,300 in 2011-12, declining to \$2,500 in 2015-16, when the bonds will be paid in full.

Justice

Crime Laboratories; Deoxyribonucleic Acid Analysis (DNA). The crime laboratories; DNA analysis appropriation receives revenue from the \$13 crime laboratories and drug law enforcement surcharge, and the \$250 deoxyribonucleic acid analysis surcharge. Monies in the appropriation support DNA analysis and the DNA databank, drug law enforcement, activities of the state crime laboratories, and DNA prosecution activities of the district attorneys. The appropriation concluded 2009-10 with a deficit of \$5,276,400.

Under 2009 Act 28 (the 2009-11 biennial budget) the crime laboratories and drug law enforcement surcharge was increased from \$8 to \$13. This assessment is applied if a court imposes a sentence, places a person on probation, or imposes a forfeiture for most violations of state law, or municipal or county ordinance. The administration indicates that increased fee revenue permitted the deficit in this appropriation to be reduced by \$58,100 in the fiscal year. The s. 16.513 plan indicates that, "if revenues from the increased fee remain constant, it will generate sufficient revenue to cover costs in future years and prevent the shortfall from growing, with the potential of moving this account to a positive position in the future."

Penalty Surcharge; Receipts. The penalty surcharge; receipts appropriation receives

revenue from the penalty surcharge. Under current law, whenever a court imposes a fine or forfeiture for most violations of state law or municipal or county ordinance, the court also imposes a penalty surcharge of 26% of the total fine or forfeiture. Monies from the appropriation support programs in the Departments of Justice, Public Instruction, Corrections, and Administration, the Office of Justice Assistance, and the Office of the State Public Defender. The appropriation concluded 2009-10 with a deficit of \$4,943,700.

According to the s. 16.513 plan: "2009 Wisconsin Act 28 imposed a 5 percent reduction on all appropriations that are funded from penalty surcharge receipts, as well as an additional 1 percent across-the-board reduction on all appropriations. 2011 Wisconsin Act 32 imposed an additional 10 percent reduction on appropriations funded from penalty surcharge receipts and required all unencumbered balances to lapse back to appropriation 230 at the end of each fiscal year. If revenues remain constant, it is expected that revenues will exceed expenditures, stopping the growth of the deficit and reducing the overdraft."

Gun Purchaser Records Checks. The handgun purchaser record checks appropriation receives revenue from a \$13 fee assessed on the dealer of a handgun (who may pass the charge on to the purchaser) for each background check. Monies from the appropriation support the Department of Justice's costs associated with the background checks. The administration indicates that the appropriation concluded 2009-10 with a deficit of \$891,200.

Under 2009 Act 28, the record check fee was increased from \$8 to \$13 per background check. The s. 16.513 plan states: "The department projects that elimination of the shortfall depends on the level of handgun checks conducted annually. At the \$13 fee rate, revenues met overall costs in fiscal years 2009-10 and 2010-11 and are expected to continue to do so in the future if the level of handgun checks remains constant."

Crime Information Alerts. The provisions of 2009 Wisconsin Act 358 created the crime alert network under s. 165.785. Under the program, the Department of Justice may develop, administer, and maintain an integrated crime alert network to provide information regarding known or suspected criminal activity, crime prevention, and missing or endangered persons. In order to support the network, the Department may charge a fee to members of the private sector who receive information from and participate in the network. The Department has set the fee for private sector participants in the network at \$12 annually. The appropriation concluded 2009-10 with a deficit of \$300.

The s. 16.513 plan states that, "The department expects this appropriation to be in deficit until the program is fully implemented and subscribers paying the fee, are enrolled."

Military Affairs

REACT Center. The REACT Center is intended to serve as a search and rescue training facility for state and local first responders. The REACT Center has been created to train first responder personnel, including fire-fighters, law enforcement personnel, emergency medical

technicians, military organizations and students to develop physical, mental, and leadership skills. The REACT Center concluded 2009-10 with a deficit of \$26,800.

According to the s. 16.513 plan: "The department submitted a plan to address the deficit by reducing program expenditures and increasing revenues. First, the department eliminated several positions and changed the remaining positions from project to limited term employment (LTE), significantly reducing personnel expenditures. The department has also pursued and received federal certification of the training provided at the center, which will allow the department to compete for federal training contracts. Finally, the department has completed the creation of the collapsible structure team made up of firefighters from departments throughout the state, which will increase the utilization of the center."

Natural Resources

Development Program Operations. In fiscal year 2009-10, DNR reported an unsupported overdraft of \$693,833 in the development program's general operations appropriation. Of the total overdraft, \$551,000 was owed to DNR from the West Wisconsin Land Trust as reimbursement under a federal grant for a portion of a DNR land purchase. This was resolved in fiscal year 2010-11, when the Natural Resources Board approved the acceptance of a land donation from the Trust to the Department as settlement of the invoice, as the Trust, despite holding land assets, was deemed to have no financial capacity to pay DNR the \$551,000 owed. Therefore, the Natural Resources Board accepted the 1,528 acre land donation with an estimated value of almost \$3.2 million, and charged an additional \$551,000 to the Knowles-Nelson Stewardship program for the land purchase. Although approximately \$2.5 million in total stewardship funds were used to acquire the acreage, the land donated was worth approximately \$660,000 more than the amount of state funds used to acquire it. The unsupported overdraft also includes \$110,000 in expenditures related to a Ducks Unlimited project for the Wisconsin Northwest Pothole Habitat Initiative which had not yet been billed to Ducks Unlimited. As of June 30, 2011, the Department had reduced the negative cash balance in the appropriation to \$297,900.

Revenue

RTA Administration. The program revenue appropriation for administration of the Southeastern Regional Transit Authority generated an overdraft of \$8,300 in 2009-10. The Department incurred information technology costs to prepare for administering the collection of regional transit authority (RTA) fees. RTA's were created under 2009 Wisconsin Act 28. However, no RTA was created in fiscal year 2009-10, and, therefore, no fees were collected. The Department has submitted a plan, which would reallocate the information technology costs to its GPR administrative and space rental, general program operations appropriation.

County and Municipal Aid, Police and Fire Protection Fund Appropriation. The county and municipal aid program is funded with a combination of revenues collected from the police and fire protection fee (levied on voice communications service connections) and general fund revenues. Police and fire protection fee revenues are deposited in a segregated fund. After

deducting amounts for the administrative costs of fee collection, the balance is appropriated annually for county and municipal aid program payments. The sum-sufficient, general fund appropriation for the county and municipal aid program (accounting for over 90% of total funding for the program), is adjusted to fund the balance of the statutory aid distribution.

In 2009-10, police and fire protection fund revenue was not credited to the county and municipal aid appropriation, due to an administrative oversight. Consequently, expenditures from that appropriation for making aid payments resulted in an overdraft in that appropriation of \$45,603,000. Since the police and fire protection fund revenues were not credited to the appropriation in 2009-10, there was a balance in the fund at the end of that fiscal year. The Department of Revenue's plan credited the 2009-10 police and fire protection fund balance to the 2010-11 appropriation to address the overdraft. Going forward, the Department of Administration indicates that the allocations of police and fire protection fund revenues will be made at the end of each fiscal year, based on the actual amount of revenues collected in that year.

State Fair Park

General Program Operations. State Fair Park's general operations PR appropriation had a cash balance of -\$4,583,400 on June 30, 2010, \$3,215,000 of which was unsupported. The appropriation cash balance has increased to -\$242,900 as of June 30, 2011, and State Fair Park officials expect a 2011-12 operational surplus of \$1 million or more, which would eliminate the negative balance. State Fair Park operations are primarily supported by the Wisconsin State Fair, as well as other events throughout the year on Fair grounds and at the Wisconsin Exposition Center, which is owned by the Park.

Miscellaneous Appropriations

Banking Fees. Interest earnings for each of the funds participating in the state investment fund (SIF) are used to pay the bank service costs charged for servicing each fund. In 2009-10, general fund interest earnings were insufficient to cover the banking fees allocated to the general fund, and the excess fees were recorded as an overdraft of approximately \$700,000 in a clearing account. It is estimated that in 2010-11, approximately \$800,000 in excess bank service costs were charged to the same account.

Similarly, in 2009-10 interest earnings allocated to the conservation fund within the SIF were insufficient to cover charged banking fees, by an amount equal to \$70,831. DOA's plan would transfer that overdraft to a revenue-earned appropriation for the conservation fund, and record it as negative revenue for that account.

Due to a recent law change in 2011 Act 32, University of Wisconsin program revenue accounts now earn interest on their cash balances. In addition, the general fund's cash balance may be negative during portions of the fiscal year, due to a difference in the timing of revenues and expenditures. Therefore, without the earnings from the UW PR cash balances, the annual net SIF interest earnings for the general fund will be lower than in past years.

One approach that could be used to address this general fund overdraft would be to record these amounts as negative revenues, which would be offset by positive departmental revenues generated by other agencies. Another approach would be to pay these interest costs from GPR sum sufficient appropriations created in 1982 to pay interest costs from the general fund to other state funds. From an accounting perspective, either approach appears workable. Because costs are more frequently encountered than negative revenues, this office incorporated estimated interest payments of \$2,800,000 GPR in 2011-12 and \$1,300,000 GPR in 2012-13 into its revenue estimates of February 9, 2012. The amount in 2011-12 is larger, because it includes payments to address the accumulated overdrafts from 2009-10 and 2010-11. Either approach (recording negative revenues or paying interest costs) would result in the same estimated ending balance in the general fund.

SUMMARY

The administration has submitted its report on unsupported overdrafts for the Committee's review and approval. A number of these overdrafts have subsequently been reduced or eliminated.

The purpose of s.16.513 is to report on, and address, current and ensuing deficiencies. The report submitted to the Committee is based upon unsupported overdrafts of fiscal year 2009-10. This is similar to previous reports that have been reported to the Committee some eighteen months after the close of a fiscal year. A more meaningful report would identify program and segregated appropriations projected to be in deficit for the most recent and current fiscal year.

ALTERNATIVES

1. Approve to plans to address the unsupported overdrafts as submitted.
2. Deny any of the plans in the request and direct the administration to submit a revised plan(s) for the Committee's approval.

BL/lb