



Legislative Fiscal Bureau

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March 25, 2015

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Plans for Unsupported Overdraft Appropriations, 2013-14 -- Agenda Item III

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 30, 2014, DOA Secretary Huebsch submitted plans under s. 16.513 for unsupported overdrafts in 13 appropriations. The overdrafts were determined at the conclusion of the 2013-14 fiscal year. The submittal identifies 13 appropriations whose unsupported overdrafts totaled \$50.5 million.

On January 20, 2015, an objection was raised regarding the plans. Therefore, the request to approve the plans has been scheduled for the Committee's March 25, 2015 meeting under s. 13.10 of the statutes.

A list of the overdrafts, by appropriation, follows:

2013-14 Unsupported Overdrafts

<u>Agency/Appropriation</u>	<u>Unsupported Overdraft</u>
<i>Administration</i>	
• Justice Information Fee Receipts	\$1,227,200
• Enterprise Resource Planning System	16,504,700
• Information Technology Investment Fund (ITIF)	2,689,000
<i>Agriculture, Trade and Consumer Protection</i>	
• Grain Inspection Program	764,900
<i>Corrections</i>	
• Juvenile Correctional Services	4,511,900
<i>Health Services</i>	
• Interagency and Intra-agency Programs	5,949,800
• Alternative Services of Institutes and Centers	14,044,100
<i>Justice</i>	
• Penalty Surcharge & Receipts	2,048,000
• Crime Information Alerts	334,000
• Grants for Substance Abuse Treatment Programs for Criminal Offenders	1,877,000
<i>Military Affairs</i>	
• REACT Center	345,500
<i>Natural Resources</i>	
• Administration and Technology Program Operations	55,800
<i>Safety and Professional Services</i>	
• Indirect Cost Reimbursement	<u>142,600</u>
Total	\$50,494,500

Administration

Justice Information Fee Receipts. Under current law, a \$21.50 justice information system (JIS) surcharge is generally assessed with a court fee for the commencement or filing of certain court proceedings, including civil, small claims, forfeiture, wage earner, or garnishment actions, appeals from municipal court, third party complaints in a civil action, or counterclaim or cross complaint filings in a small claims action. Of the \$21.50 received from the JIS surcharge, \$6.00 is allocated to the Court System for the operation of the Consolidated Court Automation Programs (CCAP). The remaining revenue is received by the Department of Administrations' (DOA) justice information fee receipts appropriation, which was created under 2011 Act 32. The justice information fee receipts appropriation is required to lapse the first \$700,000 it receives from the

JIS surcharge to the general fund to be recorded as GPR-earned. Subsequent JIS surcharge revenues received by DOA are transferred to the following departments to support various state programs:

<u>Department</u>	<u>State Program</u>	<u>Amount Transferred 2013-14</u>
Administration	Justice information systems	\$4,097,000
Justice	Interoperable communications system	1,019,700
	Law enforcement officer supplement grants	1,224,900
	Child advocacy center grant program	238,100
	Treatment, alternatives, and diversion (TAD) grant program	1,078,400
	Wisconsin justice information sharing programs	661,700
Corrections	Victim notification	682,300
Circuit Courts	Court interpreters	<u>232,700</u>
Total*		\$9,234,800

*Total appropriated amounts from the JIS surcharge do not include the following: (a) a first draw lapse of \$700,000 to the general fund; and (b) \$6.00 of every \$21.50 assessed that is allocated to the Court System for the operation of CCAP.

For 2012-13 and 2013-14, the following table identifies: (a) the total amount generated by the JIS surcharge; (b) the amount of JIS surcharge revenues received by the Court System for the operation of CCAP; and (c) the amount of JIS revenues received by DOA.

	<u>2012-13</u>	<u>2013-14</u>
JIS surcharge revenues received by Court System for CCAP	\$3,664,600	\$3,334,700
JIS surcharge revenues received by DOA	<u>9,470,300</u>	<u>8,617,600</u>
Total	\$13,134,900	\$11,952,300

In 2013-14, DOA's justice information fee receipts appropriation concluded with a deficit for the first time since its inception under 2011 Act 32. The appropriation concluded 2013-14 with a deficit of \$1,227,200. [The appropriation concluded 2012-13 with a positive balance of \$90,000.] In order to address the deficit, the Department of Administration provides the following proposal:

"Under current law, the cash balances remaining in the appropriations [that receive JIS revenue funding from DOA] do not revert to the Department of Administration, and cannot be encumbered for a subsequent year. At the end of fiscal year 2013-14, \$3,311,065 in unencumbered balances existed in the receiving appropriations. The Department of Administration is requesting introduction of language in the 2015-17 biennial budget to require the reversion of the unencumbered balances in the appropriations in the Departments of Justice and Corrections, and the Circuit Courts to appropriation 123 [justice information fee receipts] on June 30 of each year to address the deficit."

The administration's s. 16.513 plan recommends that the Department's proposal be given future consideration by the Committee and the Legislature. However, DOA's proposal would require statutory modifications, and, therefore, the introduction and adoption of a bill by the Legislature.

In addition to the Department's proposal, the s. 16.513 plan recommends to "Modify the plan to review the fund balances within the department for potential reallocation to address the deficit and to review the appropriations supported by the surcharge to determine whether alternative revenue sources can be utilized through legislative changes."

In the 2015-17 biennial budget (Assembly Bill 21/Senate Bill 21), the Governor has recommended that: (a) unencumbered cash balances in appropriations that receive JIS revenue funding from DOA revert to DOA at the end of the fiscal year; (b) the application of JIS be expanded to include violations currently exempt from the fee thus providing increased revenue; and (c) some programs currently funded from JIS be modified.

Enterprise Resource Planning System. Under 2007 Wisconsin Act 20, the Department was required to implement, operate, maintain, and upgrade an integrated business information system 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 to participate at their discretion.

The appropriation is a PR-continuing appropriation with forestalling authority, which allows an agency to spend in excess of the revenues received to the extent that the non-depreciated assets under the appropriation offset the excess expenditures. While DOA initially purchased hardware and software under the state's master lease program, the project was put on hold in April, 2008. Maintenance payments for the purchased software continued to be made from the appropriation through 2010-11, at which time payments were suspended "to look at options of moving forward with an enterprise resource planning (ERP) system." In June, 2013, following a revised cost estimate and development of plans for implementation, the administration expended \$17,069,720 in software license, hardware, and support purchases for the project, financed through the state's master lease program.

In 2013-14, DOA purchased new software for the project at a cost of \$10.0 million after determining that upgrades to the existing software would incur a greater expense. Since the previously purchased software became obsolete, the total value of depreciated assets was reduced by the net value of the software (\$6.9 million). In addition, the Department "incurred personnel and professional services costs and made other license, hardware and support purchases totaling \$15,510,253 as it undertook the plan, analyze and design phases" of the project. In total, \$20,074,200 of 2013-14 expenditures for the project was financed by the state's master lease program.

As of the end of 2013-14, the appropriation overdraft was \$20,629,800, with support of \$4,125,100 from the value of equipment, software, and intangible assets in excess of master lease obligations. As a result, the unsupported overdraft was \$16,504,700 as of June 30, 2014. The unsupported overdraft at the end of 2012-13 was \$8,443,700 (2013-14 represents an increase of \$8,061,000 to the unsupported deficit). The Department's s. 16.513 plan indicates that it will bill state agencies to recover costs incurred by the project when the implementation of the ERP system

is complete.

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 \$111,500 was unspent and returned. Between 1998-99 and 2002-03 a total of \$862,200 was repaid from VendorNet fees (\$810,500) and revenue from other agencies (\$51,700). Between 2003-04 and 2013-14, all repayments came from DOA general program operations, totaling \$295,000, leaving a negative balance of \$2,689,000 (the 2013-14 deficit represents a \$25,000 reduction to the deficit from 2012-13). 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 through the ports of Superior and Duluth, Minnesota. The grain inspection program is authorized 19.0 positions and is budgeted \$1,148,600 PR in 2014-15. The program is supported by fees charged on the basis of either: (a) an hourly rate for required staff; or (b) the type of service provided.

The PR continuing appropriation for grain inspection had a cash balance of approximately -\$933,100 on June 30, 2014, with \$168,200 being supported by receivable income and \$764,900 being an unsupported overdraft. The unsupported portion of the overdraft decreased by \$275,100 from June 30, 2013, when unsupported overdrafts were -\$1,040,000. The table below shows the condition of the grain inspection PR appropriation from 2011-12 through 2013-14.

DATCP Grain Inspection Appropriation Condition

	Actual <u>2011-12</u>	Actual <u>2012-13</u>	Actual <u>2013-14</u>
Opening Balance	-\$425,200	-\$981,300	-\$1,118,600
Revenues	792,100	984,200	929,500
Expenditures	-1,383,200	-1,121,500	-1,147,800
Transfers	<u>35,000</u>	<u>0</u>	<u>403,800</u>
Closing Balance	-\$981,300	-\$1,118,600	-\$933,100

Shipping volume is significantly dependent on international conditions in grain markets, and future account revenues and costs are difficult to predict as a result. For example, market conditions were favorable for U.S. exports in 2010-11, which increased program activity and

revenues, but conditions generally have been less favorable in the intervening years. To correct the accumulated negative balance, DATCP has taken several actions to improve the account's condition. DATCP in recent years has increased inspection and weighing fees and has maintained scheduling and overtime practices intended to minimize staffing costs. DATCP also has routinely held positions vacant, and it should be noted AB 21/SB 21 would delete 4.0 grain inspection positions as long-term vacancies, although the bill would not delete associated funding.

Two primary legislative directives also have attempted to correct the appropriation's accumulated shortfall. First, s. 16.56 of the statutes requires unencumbered amounts in DATCP's GPR general operations appropriations to be transferred to the grain inspection PR account at the close of each fiscal year. A total of \$203,800 was transferred in 2013-14, and approximately \$1.3 million has been transferred since the requirement took effect in 2005-06.

Second, as passed by the Legislature, 2013 Assembly Bill 40 would have required DATCP to transfer, by December 31, 2013, an amount sufficient to eliminate the accumulated shortfall in the account. DATCP was directed to make the transfer from funds available in program revenue appropriations, the agrichemical management fund, or the agricultural chemical cleanup program fund. The proposed transfers were to be submitted to the Joint Committee on Finance by November 15, 2013, under a 14-day passive review process. The Governor item-vetoed both the November 15 and December 31 deadlines, as well as the Joint Finance passive review. Under 2013 Act 20, DATCP is required to develop and implement a plan to transfer to the appropriation an amount equal to the June 30, 2013, grain inspection appropriation deficit, or about \$1.1 million, from available PR and segregated (SEG) balances. DATCP also is required to report the plan to the Joint Committee on Finance. In September, 2014, DATCP reported to the Committee that instead of a one-time transfer to correct the account condition, the Department plans to transfer the \$1.1 million from the allowable sources to the grain inspection appropriation over several years. DATCP transferred \$200,000 in 2013-14 from the program revenue appropriation for the state telemarketing do-not-call program.

Corrections

Juvenile Correctional Services. The juvenile correctional services appropriation funds the operations of juvenile correctional facilities and certain aftercare services provided to juveniles following from 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 an amount proportionate to the total number of days of juvenile placements at the facilities for each county and for the state.

The appropriation has operated with a year-end deficit since 2004-05, with the deficit amount decreasing each year since 2011-12. In 2012-13, the deficit was reduced from \$13,386,300 to \$8,888,600. For 2013-14, the Department reports revenue exceeded expenditures by \$4,244,200 for a year-end deficit of \$4,644,400. Factors contributing to the declining deficit include: (a) the closure of two juvenile schools in 2011; and (b) the 2011 Act 32 provision adding

\$17 to the daily rate amounts. As a result of monies from accounts receivable and inventory, the remaining unsupported cash overdraft in 2013-14 is \$4,511,900.

The Department's s. 16.513 plan would continue to identify cost reductions and the utilization of the additional \$17 per day rate. [In AB 21/SB 21, the additional daily rate is reduced from \$17 to \$6.]

Health Services

Interagency and Intra-agency Programs. The Department of Health Services (DHS), Division of Long Term Care (DLTC) operates three residential treatment centers for individuals with intellectual disabilities -- Central Wisconsin Center in Madison, Southern Wisconsin Center in Union Grove, and Northern Wisconsin Center in Chippewa Falls. At Northern Wisconsin Center (NWC), DHS administers a short-term treatment program that specializes in serving adults and children with intellectual disabilities that also have mental illness and aggressive or challenging behaviors. As of February, 2015, there were 14 individuals participating in the program.

DHS uses a program revenue appropriation [20.435(2)(kx)] in the Division to expend all moneys it receives from other state agencies and all moneys transferred from other units within DHS to fund the costs of utilities and maintenance of common areas and vacant buildings at NWC. At the end of 2013-14, the appropriation had an unsupported deficit of \$5,949,800. This deficit occurred primarily 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 provided by the 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 NWC to the appropriation (currently estimated at a value of \$3 million); (b) applying any balances in the agency's annual operating budget to reduce the deficit; and (c) continuing to allocate all utility and common area maintenance costs proportionately to state agencies on the NWC campus (Corrections, Military Affairs, and Veterans Affairs).

In addition, DHS recommends that the Department of Administration (DOA) assume responsibility for all power plant, utility, maintenance, and grounds keeping operations at NWC because DHS believes that DOA would be in a better position to reduce campus operations costs and implement a uniform cost allocation methodology. Finally, DHS indicates that the agency may consider moving its short-term care unit from NWC to another location in the Chippewa Valley area, although such a move would affect infrastructure costs that would be borne by agencies that remain on the NWC campus.

DHS first submitted this plan in 2009-10, when it reported on the 2008-09 overdraft in this appropriation. Since that time, the deficit has increased, although the 2013-14 year-end deficit (\$5,949,800) was \$182,700 less than the 2012-13 year-end deficit (\$6,132,500). The table below shows the year-end unsupported overdraft amounts in this appropriation from 2007-08 to 2013-14.

**DLTC Interagency and Intra-agency Programs
Year-End Unsupported Overdrafts**

	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Unsupported Overdraft	\$3,008,900	\$4,463,100	\$5,449,300	\$5,800,600	\$5,954,600	\$6,132,500	\$5,949,800

Alternative Services of Institutes and Centers. In addition to the PR appropriation that supports utility and maintenance costs at NWC described in the previous section, DHS is budgeted funding to support "alternative services" offered at the three State Centers for Persons with Developmental Disabilities (state centers) and the two state mental health institutes (MHIs). At the MHIs, these alternative services may include mental health outpatient treatment and services, day programming, consultation and services in residential facilities, including group homes, residential care centers for children and youth, and community-based residential facilities. The state centers may offer the following alternative services -- short-term residential services, dental and mental health services, therapy services, psychiatric and psychological services, general medical services, pharmacy services, and orthotics. The costs of these alternative services are budgeted under s. 20.435(2)(g) of the statutes.

This appropriation had an unsupported overdraft of \$14,044,100 at the end of the 2013-14 fiscal year. DHS indicates that this overdraft was the result of providing intensive treatment services to residents at NWC that were not fully reimbursed by the MA program.

Each year, DHS establishes an interim per diem rate for treatment services provided at NWC. DHS bills counties, managed care organizations, and the Medicaid program based on this interim rate. At the close of the year, DHS prepares a cost settlement based on actual costs of providing these services, and submits an additional Medicaid claim for the difference between the amounts claimed and its actual costs. Because this settlement is not finalized until after the close of the fiscal year, DHS records a "receivable" in the appropriation based on the amount it anticipates receiving from the Medicaid program. The following table shows the amounts receivable in this appropriation for fiscal years 2009-10 through 2013-14.

**Alternative Services of Institutes and Centers
Amounts Receivable**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>
Amounts Receivable	\$20,847,400	\$25,886,700	\$29,975,500	\$32,031,800	\$3,965,200

DHS indicates that, in previous years, the amounts receivable were calculated as the difference between total costs expended for intensive treatment services at NWC and the revenue NWC received through the interim rate. DHS recorded these receivables based on the assumption that NWC would receive full reimbursement of the amounts receivable from the Medicaid program.

At the close of fiscal year 2013-14, the appropriation had a cash deficit of \$18,009,300 and receivables totaling \$3,965,200, which included: (a) \$2,269,900 related to services provided at Central Wisconsin Center; (b) \$898,000 related to services provided at Southern Wisconsin Center; (c) \$1,090,400 related to services at NWC, and (d) \$930,000 in anticipated settlement revenue for NWC for fiscal year 2008-09, less \$1,223,100 of deferred revenue that was used to offset these receivables. Accordingly, at the close of fiscal year 2013-14, this appropriation had an unsupported overdraft of \$14,044,100. This deficit resulted from DHS having reconciled all settlements from previous years in fiscal year 2013-14, which largely eliminated the receivables that the Department identified as the means of balancing this appropriation in previous years.

DHS indicates that it intends to address the deficit by reviewing previous Medicaid claims to determine if any additional matching funds may be claimed. Because CMS will only reimburse NWC for expenses that are eligible to receive federal Medicaid matching funds and it is likely that NWC has incurred some expenses that are not MA-eligible, it is uncertain whether DHS will be able to claim sufficient MA funds in the future to offset the current unsupported overdraft. In future years, DHS plans to minimize non-Medicaid eligible expenses through strategies such as ensuring that depreciation and debt service costs of NWC are Medicaid-reimbursable.

In addition, DHS plans to use remaining revenue balances to offset the deficit over multiple years. DHS has similarly planned to use revenue balances to resolve the recurring unsupported overdraft in the interagency and intra-agency programs appropriation [20.435(2)(kx)], as described in the previous item.

Together, the unsupported overdrafts in 20.435(2)(kx) and 20.435(2)(g) totaled nearly \$20.0 million at the end of the 2013-14 fiscal year. At this time, it does not appear likely that DHS will be able to address these overdrafts in the near future under the plan submitted by the administration. Moreover, the plan does not address broader issues relating to the cost-effectiveness of continuing to provide intensive treatment services at NWC.

Justice

Penalty Surcharge; Receipts. Under current law, when a court imposes a fine or forfeiture on an individual for most violations of state law or municipal or county ordinance, a penalty surcharge is imposed on the individual totaling 26% of the fine or forfeiture. Revenue from the penalty surcharge is deposited in the Department of Justice's (DOJ) penalty surcharge; receipts appropriation and then transferred to the following appropriations:

<u>Department/Office</u>	<u>Appropriation</u>	<u>Amount Appropriated 2013-14</u>
Justice	Law enforcement training fund, local assistance	\$4,364,800
	Law enforcement training fund, state operations	3,011,300
	Crime laboratory equipment and supplies	308,100
	Transaction information management of enforcement (TIME) system	724,300
	Drug crimes enforcement; local grants	717,900
	Youth diversion program	672,400
	Law enforcement programs and youth diversion - administration	161,100
	Drug enforcement intelligence operations	1,678,100
	Reimbursement to counties for victim-witness services	748,900
Public Instruction	Alcohol and other drug abuse programs	591,800
	Aid for alcohol and other drug abuse programs	1,284,700
Corrections	Victim services and programs	276,500
	Correctional officer training	2,322,600
Public Defender	Conferences and training	144,800
Total		<u>\$17,007,300</u>

The penalty surcharge appropriation concluded 2012-13 with a deficit of \$2,948,600. The appropriation concluded 2013-14 with a deficit of \$2,048,000. [During 2013-14, the deficit decreased by \$900,600.] The Department indicates that surcharge revenue, including accounts receivable, were \$18,438,200 in 2013-14, compared to \$16,623,900 in 2012-13. Surcharge revenue from 2013-14 includes a judgment of \$1,444,900 from the state's litigation against Pharmacia, a drug company and subsidiary of Pfizer, Inc., for Medicaid fraud and deceptive trade practices.

The s. 16.513 plan recommends to "review the fund balances within the department for potential reallocation to address the deficit and to review the appropriations supported by the surcharge to determine whether alternative revenue sources can be utilized through legislative changes."

Under AB 21/SB 21 penalty surcharge obligations would be reduced by \$474,700 annually in the 2015-17 biennium. The 2015-17 budget bill would: (a) modify programs funded by the penalty surcharge; and (b) eliminate the youth diversion grant program. In place of the youth diversion program (as well as the law enforcement officer grant program and child advocacy center grant program), DOJ would operate a single state justice assistance grant program.

Crime Information Alerts. Provisions of 2009 Act 358 created the crime alert network under s. 165.785 of the statutes. Under the program, DOJ must develop, administer, and maintain an integrated crime network. The Department may use the crime network to provide information regarding known or suspected criminal activity, crime prevention, and missing or endangered persons to state agencies, law enforcement officers, and members of the private sector. In addition, DOJ must provide law enforcement agencies access to the crime network so that the agencies may disseminate reports of missing at-risk adults to persons engaged in broadcasting or outdoor advertising. According to the s. 16.513 plan, in 2011-12 the network was implemented, law enforcement agencies were set up and trained on the network, and an e-pay gateway was established to accept credit card payments for subscriptions and donations.

In order to support the crime network, Act 358 created the crime information alerts continuing appropriation. The appropriation receives funding from the following sources: (a) fees charged to private individuals who receive information from the crime network on known or suspected criminal activity, crime prevention, and missing or endangered persons; and (b) gifts, grants, and donations. In 2012-13, the crime alert network generated \$15,800 of revenue, while in 2013-14 the network generated \$8,500 of revenue.

The crime information alerts appropriation concluded 2012-13 with a deficit of \$255,500, and concluded 2013-14 with a deficit of \$334,000. [During 2013-14, the deficit increased \$78,500.]

According to the s. 16.513 plan, "The department does not plan to incur further expenses or revenues in this appropriation." The Department has expressed that it does not anticipate future revenues as DOJ will no longer charge private individuals for participating in the crime network. Furthermore, future expenses related to the crime network will be funded through the Department's law enforcement services' general program operations appropriation. Finally, in order to eliminate the deficit that existed at the end of 2013-14, the s. 16.513 plan indicates that, "On September 10, 2014, the department transferred \$334,045 from the Attorney General's discretionary account to eliminate the deficit."

Grants for Substance Abuse Treatment Programs for Criminal Offenders. With the elimination of the Office of Justice Assistance under 2013 Act 20, the grants for substance abuse treatment programs for criminal offenders appropriation was transferred to DOJ. The appropriation is utilized to provide partial support for the treatment, alternatives, and diversion (TAD) program. The TAD program provides grants to counties to establish and operate programs which provide alternatives to prosecution and incarceration for criminal offenders who abuse drugs or alcohol.

Funding for this appropriation is generated from the following sources: (a) a portion of the drug abuse program improvement surcharge (DAPIS), a 75% surcharge on fines for violations of the uniform controlled substances act (Chapter 961 of the statutes); and (b) a \$10 drug offender diversion surcharge that is imposed on individuals who are convicted of a property crime under Chapter 943 of the statutes. In 2012-13, the appropriation received \$46,300 of revenue from the DAPIS and drug offender diversion surcharge. In 2013-14, the appropriation received \$44,900 of revenue from these surcharges.

Under 2009 Act 28, annual expenditure authority for this 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 a portion of the JIS surcharge be provided to support the TAD program, and created a separate appropriation for receipt and expenditure for JIS revenues for TAD. Since 2009 Act 28, annual expenditure authority for the grants for substance abuse treatment programs appropriation has remained at \$7,500.

The appropriation concluded 2012-13 with a deficit of \$1,919,100. The appropriation concluded 2013-14 with a deficit of \$1,877,000. [During 2013-14, the deficit was reduced by \$42,100]. The Department indicates that at the current rate of revenue and expenditures, it will take

approximately 45 years to eliminate the appropriation's deficit. The s. 16.513 plan recommends that DOJ's plan be modified to include a, "...review of fund balances within the department for potential reallocation to address the deficit."

Military Affairs

REACT Center. The Regional Emergency All-Climate Training (REACT) Center is an exercise and training facility for emergency and disaster response that is utilized by local, state, and federal officers and first responders. The REACT Center provides training to fire-fighters, law enforcement, emergency medical technicians, military organizations and students in the following areas: technical rescue; hazardous materials response; urban search and rescue; U.S. Department of Defense chemical, biological, radiological, nuclear, and high explosive (CBRNE) response; fire officer, fire inspector, and fire instructors activities; and medical response.

The REACT Center appropriation concluded 2012-13 with a deficit of \$408,100. The appropriation concluded 2013-14 with a deficit of \$345,500. [The deficit was reduced by \$62,600 in 2013-14.]

In order to reduce expenditures at the Center, DMA indicates that it has instituted cost saving measures, such as staff restructuring and the practice of sharing specialized equipment with Camp Williams, Volk Field, and Fort McCoy. The Department has also instituted measures to increase revenues from the REACT Center. According to DMA, "... The department is in the second year of a five-year contract with the Wisconsin United States Property Fiscal Office to provide technical rescue training, exercise planning and support."

According to the s. 16.513 plan, "the department believes that its efforts to reduce costs and increase revenues at the REACT Center will eliminate the deficit in the program."

Natural Resources

Administration and Technology Program Operations. The Department reported an unsupported overdraft of \$55,800 in fiscal year 2013-14 in the Administration and Technology Program's continuing program revenue appropriation used for the deposit of moneys for the provision of administrative facilities, materials, or services. The appropriation incurs the full costs of expenditures (\$3.5 million in 2013-14), with the exception of geographic information system (GIS) expenditures which are incurred by a separate appropriation, and charges these costs back to DNR programs that utilize the services. The Department indicates that the overdraft is primarily related to delayed chargeback revenue associated with a Microsoft software licensing agreement. DNR is billed on an annual basis with the invoice received in May, 2014, covering the period from May 1, 2014 through April 30, 2015. Due to federal restrictions, the Department may not recover the costs of the agreement upfront. As a result, DNR pays the full annual amount of the invoice in May from the program revenue appropriation and recovers the costs from the programs on a monthly basis over the following twelve months. The fiscal year 2013-14 costs will be fully recovered in monthly charges from May, 2014 through April, 2015. The appropriation would be expected to have an unsupported overdraft on an annual basis as a result of this process (unless

other service funds in the appropriation are running a sufficient positive balance).

Safety and Professional Services

Indirect Cost Reimbursement. The indirect cost reimbursement appropriation, s. 20.165(1)(pz), is a federal appropriation into which the Department of Safety and Professional Services (DSPS) deposits a portion of grants received from federal government agencies. Base funding is \$250,400 FED with 3.0 full-time equivalent (FTE) positions. Under 2011 Act 32, a former Department of Commerce appropriation was renumbered to be a DSPS appropriation when many Commerce programs were transferred to DSPS (renamed from the Department of Regulation and Licensing). Under s. 16.54 (9) of the statutes, state agencies are authorized to receive a portion of federal grants for the reimbursement of indirect costs of administration of the grant or contract for which no specific use is mandated by the federal government. An indirect cost reimbursement may be used for administrative, staff, or other program costs.

When the indirect cost reimbursement appropriation was created in DSPS, the 2011-12 opening balance was \$0. The appropriation had a negative balance of \$102,100 at the end of 2011-12, and \$292,300 at the end of 2012-13. In 2013-14, the appropriation received revenue of \$153,300, expenditures totaled \$3,600, and the ending deficit was reduced to \$142,600. The DSPS submission under s. 16.513 (3) indicates that the three authorized positions were vacant in 2013-14.

The DSPS submission indicates the reason for the deficit in the indirect cost reimbursement appropriation is that two programs that received funding from the U.S. Environmental Protection Agency (EPA) were transferred to the Department of Agriculture, Trade and Consumer Protection (DATCP) and the Department of Natural Resources (DNR) effective in 2013-14. Prior to 2013-14, DSPS received grants from EPA for the: (a) underground storage tank (UST) program for regulation of the installation, maintenance, and removal of federally-regulated tanks that store petroleum substances; and (b) leaking underground storage tank (LUST) program for administration of cleanup of contamination from leaking federally-regulated tanks. Under 2013 Act 20, the DSPS UST program responsibilities were transferred to DATCP and the DSPS LUST program responsibilities were transferred to DNR. The federal grants for the programs were transferred to DATCP and DNR.

DSPS received separate EPA grants related to the UST and LUST programs for deposit in the indirect cost reimbursement appropriation during 2011-12 through 2013-14. DSPS indicates that grants were received from the U.S. Department of Labor for mine safety and were deposited in the appropriation. In 2013-14, of the \$153,300 in revenue to the appropriation, \$137,800 related to final EPA reimbursements for UST and LUST program expenditures from 2012-13 before the programs were transferred to DATCP and DNR, and \$15,500 related to the mine safety program. DSPS officials indicate the Department did not realize the extent of the deficit in the indirect cost reimbursement appropriation until it began to close out the DSPS portion of the EPA grants and transfer the grants and programs to DATCP and DNR.

The DSPS submission indicates the Department plans to correct the unsupported overdrafts

by transferring expenditures from the indirect cost reimbursement appropriation to two other DSPS appropriations. First, DSPS would transfer \$132,240 in expenses to the PR appropriation for regulation of industry, safety and buildings. The DSPS Division of Industry Services administers building code, plan review, and inspection activities related to construction such as commercial buildings, multi-family dwellings, one- and two-family dwellings, plumbing, private sewage systems, electrical and heating systems, boilers, elevators, electrical wiring, fire safety codes, and amusement rides. The program also issues credentials for persons who perform related activities. The program is primarily funded from a program revenue general operations appropriation which receives revenues from plan review, inspection, and credentialing activities. In 2013-14, DSPS received \$16.0 million in program revenue to the industry services appropriation, expended \$12.9 million, and transferred \$1,855,600 from the appropriation account to the general fund as part of the obligation of agencies to transfer from PR and GPR accounts to improve the balance of the general fund. At the beginning of 2014-15, the appropriation had an unencumbered balance of \$5,718,300. In 2014-15, the appropriation has expenditure authority of \$14.3 million PR with 120.14 PR positions. As of January, 2015, 18 of the 120.14 positions are vacant.

Second, DSPS intends to transfer \$10,323 in expenses to the PR appropriation for the agency's general program operations related to professional regulation and administrative services. This appropriation is supported by program revenue collected from initial licensing and renewal fees (except fees paid by medical professions regulated under the Medical Examining Board and the affiliated credentialing boards attached to the Medical Examining Board) and statutory transfers of revenue DSPS collects from fees for preparing, administering, and grading examinations. The appropriation supports the licensing, rulemaking, and regulatory functions of DSPS, except expenses related to regulating professions under the Medical Examining Board and the affiliated credentialing boards attached to the Medical Examining Board (which are supported from another PR appropriation), and expenses related to preparing, administering, and grading examinations. In 2013-14, DSPS received \$15.7 million in program revenue to the professional regulation appropriation, expended \$9.4 million, and transferred \$3,935,300 from the appropriation account to the general fund. At the beginning of 2014-15, the appropriation had an unencumbered balance of \$7,980,500. In 2014-15, the appropriation has expenditure authority of \$10.4 million PR with 94.64 PR positions. As of January, 2015, 11 of the 94.64 positions are vacant.

DSPS officials indicate that the three incumbent employees who formerly occupied the three positions authorized in the indirect cost reimbursement appropriation were transferred to previously vacant positions in appropriations supported by the revenues described earlier related to industry services and professional regulation. DSPS determined that most of the services provided by a technical services specialist support the Division of Industry Services and should be paid from the PR industry services appropriation. Further, DSPS determined that the costs of a budget analyst and a shipping and mailing associate should be allocated between the industry services and professional regulation appropriations in proportion to the services they provide.

Under AB 21/SB 21, the 3.0 authorized positions and associated expenditure authority in the indirect cost reimbursement appropriation would be deleted.

ALTERNATIVES

1. Approve the 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/sas