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# *CORRESPONDENCE MEMORANDUM*

**DATE:** August 26, 2009

**TO:** Employee Trust Funds Board

**FROM:** Jon Kranz, Director
Office of Budget and Trust Finance

**SUBJECT:** 2009-2011 Department Biennial Budget Update

**This memo is for informational purposes only. No Board action is required.**

The attached document summarizes the status of the 2009-2011 biennial budget request for the Department of Employee Trust Funds (Department) through the final enacted budget. In addition, the document includes other provisions recommended by the Governor and provisions included by the Joint Committee on Finance (JCF) and State Assembly that could affect the Department.

The 2009-2011 biennial budget request for the Department was submitted to the Department of Administration on September 26, 2008. The period covered by the budget request is July 1, 2009 - June 30, 2011. The schedule for review and action by the Governor and Legislature was as follows:

| Stage | Schedule |
|---|---|
| Agency Budget Request Due | Submitted September 26, 2008 |
| Governor Issues Budget Recommendations | February 17, 2009 |
| Review and Action by the Joint Committee on Finance (JCF) | Completed May 29, 2009 |
| Action by Full Legislature | June 2009 |
| Final Enacted Budget | June 30, 2009 |

In addition to the biennial budget request, the Department also submitted a capital budget request for the authority to acquire a new headquarters facility. The Governor's capital budget recommendations submitted in March 2009 did not include this request.

Please contact me at (608) 267-0908 should you desire any additional information.

Attachment

Reviewed and approved by Robert Conlin, Deputy Secretary.

Signature ______________________ Date ____________

| Board | Mtg Date | Item # |
|---|---|---|
| ETF | 9/17/09 | 5 |

# Department of Employee Trust Funds
# Summary of Fiscal 2009-2011 Biennial Budget Request

Updated June 16, 2009

## Segregated Trust Fund Dollars Only

| | FY 2010 | | FY 2011 | |
|---|---|---|---|---|
| | **FTE** | **Funding** | **FTE** | **Funding** |
| **Base Budget (FY 2009)** | 220.8 | $26,030,300 | 220.8 | $26,030,300 |
| **ETF Request Over Base*** | 25.0 | $9,927,300 | 49.0 | $11,956,200 |
| **Governor's Recommendations** | (2.1) | $806,700 | 3.9 | $1,543,700 |
| **Joint Committee on Finance** | (2.1) | $129,500 | 3.9 | $866,500 |
| **Legislature** | | | | |
| **Final Enacted Budget** | | | | |

* Includes new initiatives and standard technical adjustments

## New Department Initiatives

### 1. Continuation of Critical Customer Service Functions

| | FY 2010 | | FY 2011 | |
|---|---|---|---|---|
| | **FTE** | **Funding** | **FTE** | **Funding** |
| **ETF Request** | 33.1 | $9,806,700 | 57.1 | $11,835,600 |
| **Governor's Recommendations** | 6.0 | $946,400 | 12.0 | $1,683,400 |
| **Joint Committee on Finance** | | | | |
| **Legislature** | | | | |
| **Final Enacted Budget** | | | | |

Funding and positions to address current work backlogs and anticipated workload growth due to the retirement of the "baby boom" generation. Addresses need to continue core customer service functions.

Included in this initiative were the following three statutory changes to increase the administrative flexibility available to the Department to more effectively meet the anticipated increased demand on customer service functions.

a) **Passive review process for the creation and deletion of positions**. This change would allow the Department to request changes in the authorized position level throughout the biennium based on workload metrics. To create or delete position authority, the Department would forward a request to the Joint Committee on Finance (JCF). During a 14 day review period, either the

Governor or a member of JCF could register an objection to the Department request. The JCF would schedule a meeting to discuss the request if either party registered an objection. If no action is taken by either the Governor or JCF member, the request would be considered approved after 14 days. As part of this change, the Department would need to seek Board approval for any position request that would increase the position authority over the peer system median of the ratio of participants to full-time equivalent staff. The Department would report quarterly on any positions created or deleted under this provision quarterly to the JCF, Governor, and Employee Trust Funds Board.

b) **Passive review process for the establishment of expenditure authority for the costs of administering benefit programs.** This change would allow the Secretary to establish the annual level of spending for administrative functions based on workload metrics, membership levels, and an analysis of expenditure levels of peer public systems. The Secretary would forward the annual expenditure authority recommendation to JCF and the Governor. A passive review process similar to the one described in the previous item would be utilized. The current "annual" appropriation used for administrative operations would be changed to a "continuing" appropriation allowing unused funds in one year to be carried over to subsequent years.

**c) Clarification of the ETF Board's procurement authority.** This change would clarify certain ambiguities regarding the Department's procurement authority. This change more clearly indicates that for the purposes of the Public Trust Fund, the Board is the procurement authority (as opposed to the Department of Administration).

**Governor's Recommendation**: Provides 6.0 FTE permanent positions and $946,400 in FY 2010 and 12.0 FTE permanent positions and $1,683,400 in FY 2011 to accommodate the additional workload.

Creates the passive review process for creating and deleting positions as described in item "a" of the administrative flexibility initiatives described above except that there is no requirement to obtain ETF Board approval prior to exceeding the participant to staff ratio of peer public systems.

The statutory changes related to expenditure authority (Item b) and clarification of procurement authority (Item c) were not included in the Governor's recommendations.

**Joint Committee on Finance:** Deleted the provisions that created a passive review process for creating and deleting positions as these provisions were deemed non-budget policy items that will be introduced as separate legislation. The Committee indicated that the Department could request additional resources via the s. 13.10 process should workload metrics indicate a need for additional positions or expenditure authority. Retained additional funding and positions as recommended by the Governor.

**2. Group Insurance Program Efficiencies**

Statutory changes to provide additional efficiencies for the administration of the group insurance programs.

a) **Wellness incentives for the Group Health Insurance Program.** This statutory change would allow the Group Insurance Board (GIB) to incorporate a wellness incentive component into the health plans without having to reduce another benefit as currently required by the statutes. This change will allow the GIB to better encourage member participation in wellness and disease management programs developed or sanctioned by the GIB.

b) **Expansion of GIB authority to contact for data collection and analysis services.** This change would expand the GIB's authority for obtaining consulting services related to insurance programs offered by the Board. The current authority under this provision is limited to contracting for data collection and analysis related to the health insurance programs.

c) **Elimination of the requirement for GIB approval of payroll deduction of optional insurance plans.** This change would eliminate the requirement that state agencies obtain GIB approval prior to offering payroll deduction for optional employee-pay-all insurance plans.

d) **Additional flexibility to determine long-term care insurance options.** This change would allow the GIB to limit the number of long-term care plans offered. Currently, the GIB must offer to employees any plan that meets the standards established by the GIB.

**Governor's Recommendation**: The wellness incentives (item a) and GIB contracting authority (item b) statutory changes are included in the Governor's recommendations.

**Joint Committee on Finance:** Both the wellness incentives (Item a) and the GIB contracting authority item (Item b) were deemed non-budget policy items and removed from the biennial budget bill. These items will be introduced as separate legislation.

**3. New Headquarters Facility**

Approval and expenditure authority for the design and construction/purchase of a new Department headquarters facility. Note that the majority of the request associated with this item will be handled via the Governor's Capital Budget request which is anticipated to be released sometime in March 2009.

This item includes a request for a sum sufficient appropriation to fund costs associated with the design and related pre-construction costs. The appropriation is requested so that the building related costs do not compete with the resource needs for day-to-day departmental operations.

**Governor's Recommendation**: Not included in the Governor's budget recommendations.

## Summary of Department FTE Positions by Fund Source

| | FY 2009 (Base) | FY 2009-11 Department Request | FY 2008-09 Governor and JCF | Change Base to Governor and JCF |
|---|---|---|---|---|
| SEG Permanent | 212.7 | 269.8 | 224.7 | 12.0 |
| SEG Project | 8.1 | - | - | (8.1) |
| ***SEG Total*** | **220.8** | **269.8** | **224.7** | **3.9** |

## Summary of Department Budget Request By Fund Source Through the Joint Committee on Finance and Assembly (6/13/09)

| | FY 2010 | FY 2011 |
|---|---|---|
| SEG Funding Adjusted Base (FY 2007) | $26,030,300 | $26,030,300 |
| Standard Technical Adjustments | 120,600 | 120,600 |
| ***New SEG Funded Initiatives*** | **8,900** | **745,900** |
| | | |
| ***Total SEG Funded Budget Request*** | **$26,159,800** | **$26,896,800** |
| | | |
| *GPR Funding Adjusted Base (FY 2007)* | 1,062,900 | 1,062,900 |
| Standard Technical Adjustments | (220,700) | (392,400) |
| | | |
| ***Total GPR Funded Budget Request**** | **$842,200** | **$670,500** |
| | | |
| ***All Funds Total*** | **$27,002,000** | **$27,567,300** |

* GPR includes $30,000 per year for BadgerRx Gold advances (a program that allows non-WRS individuals to purchase prescription drugs from the State prescription drug plan at discounted prices). It does not include the $5,000 proposed by the Assembly to fund an actuarial study described in Item 7 under the State Legislature Initiatives section.

**FY = Fiscal Year** - the state fiscal year begins July 1 and ends June 30.

**FTE =** Full-time Equivalent position

**GPR = General Purpose Revenues** – represents appropriations from the general fund; these are primarily funds derived from income and sales taxes.

**SEG = Segregated Funds** – for ETF, this represents appropriations from the Public Employee Trust Fund; the source of funds included employer/employee contributions and investment earnings.

# Governor's Initiatives

## 1. Across-the-Board One Percent Reductions

| | FY 2010 | | FY 2011 | |
|---|---|---|---|---|
| | FTE | Funding | FTE | Funding |
| **ETF Request** | | | | |
| **Governor's Recommendations** | - | ($260,300) | - | ($260,300) |
| **Joint Committee on Finance** | | | | |
| **Legislature** | | | | |
| **Final Enacted Budget** | | | | |

**Governor's Recommendation**: Reduce most non-federal state agency state operations appropriations by one percent to create additional efficiencies and balance the state budget. This cut is applied equally to the three Department administrative appropriations.

## 2. Domestic Partner Status For Certain WRS Benefit Programs

**Governor's Recommendation**: Modify the definition of a dependent for the purposes of certain WRS programs including health insurance, duty disability, accumulated sick leave conversion credits, joint survivor annuity options, long-term care insurance, division of a WRS or WDC account due to a domestic relations order, death benefits, and beneficiary designations to include a domestic partner. A domestic partner is defined as an individual who is in a relationship with another individual where both individuals are at least 18 years of age, neither individual is married or in another domestic partner relationship, the two individuals are not related by blood in any way that would prohibit marriage, the two individuals consider themselves to be members of each other's immediate family, and the two individuals agree to be responsible for each other's basic living expenses. This provision would be effective for insurance coverage that begins on or after 1/1/2011 and immediately upon enactment into law for other provisions.

**Joint Committee on Finance:** Included the Governor's recommendations with the following modifications: changed the effective date for all provisions to 1/1/2010 (if the budget is not enacted into law by August 1, 2009, the insurance coverage provisions will be effective on 1/1/2011); requires an affidavit to attest that individuals meet the requirements of a domestic partnership (also applies to changes and dissolution of a domestic partnership); requires a six-month waiting period between the termination of a domestic partnership and any subsequent domestic partnership; and includes a requirement that both parties to a domestic partnership share a common residence.

Note: The above provisions apply to domestic partnerships only for the purposes of benefits provided under Chapter 40 of the statutes.

### 3. WRS Benefits for Certain Part-time Staff

**Governor's Recommendation**: Modify WRS eligibility standards for educational support staff to use the teacher definition of full-time (440 hours per year) when determining if individuals meet the one third time requirement for WRS participation. Under current law, education support staff must meet the one third time requirement used for non-teacher participants (600 hours per year). In addition, for the purposes of calculating the actuarial reduction for certain early retirement participants with part-time service in at least five of the 10 years immediately preceding termination, creditable service shall be calculated using the full-time definition of a year for teacher participants (full-time = 1320 hours per year). Under current law, creditable service for the purposes of determining the actuarial reduction is calculated using the equivalent of 1904 hours as one year of service for non-teacher participants. These provisions would be effective immediately upon enactment into law.

**Joint Committee on Finance:** Included the Governor's recommendations with a clarification that the change in WRS eligibility standards only applies to service earned after the effective date of the bill (participants will not be eligible to receive service credits for work prior to the effective date of the bill).

### 4. Transfer of the BadgerRx Gold Program to the Department of Health Services

**Governor's Recommendation**: Transfer the administration of the BadgerRx Gold program from the Department of Employee Trust Funds to the Department of Health Services. The BadgerRx Gold program allows Wisconsin residents with prescription drug coverage to purchase prescription drugs included on the formulary for the Group Insurance Board administered health plans at discounted prices. The transfer is effective on 1/1/2011.

**Joint Committee on Finance:** Included the Governor's recommendations.

### 5. Consolidation of Human Resource Staff Into the Office Of State Employment Relations

**Governor's Recommendation**: The Secretary of Administration along with the Director of the Office of State Employment (OSER) relations will identify and abolish all positions used for human resource functions in executive branch agencies other than the University of Wisconsin by July 1, 2011. Some of the affected individuals would be transferred to OSER. Human resource functions currently performed by agencies would be performed by the OSER. OSER would be authorized to bill executive branch agencies for all human resource services.

**Joint Committee on Finance:** Deleted the provisions and included a provision to allow the OSER and the Department of Administration to forward a request to the Committee to consolidate human resources functions of agencies into OSER when a detailed analysis is completed. ETF was included as an agency that would be exempt from consolidation.

6. **Health Insurance Coverage of Children to age 27**

**Governor's Recommendation**: Requires the Group Insurance Board administered health plans to provide coverage for children up to age 27 unless that child is married, has other health coverage, or is working full-time and is eligible for employer sponsored health coverage. This provision would be effective for the 2011 plan year.

**Joint Committee on Finance:** Included the Governor's recommendation.

7. **Consolidation of Various State Agency Functions**

**Governor's Recommendation**: This provision allows the Secretary of Administration to consolidate various state agency functions such as call centers, payroll functions, customer service functions, and legal services. The Secretary is authorized to reassign employees to other agencies to effect these consolidations.

**Joint Committee on Finance:** Deleted these provisions as they were deemed non-budget policy and will be introduced as separate legislation.

8. **Elimination of Positions that Have Been Vacant for One Year or More**

**Governor's Recommendation**: Authorizes the Secretary of Administration to eliminate any state agency position that has been vacant for at least one year. The associated funding would lapse to the underlying fund source.

**Joint Committee on Finance:** Deleted this provision.

9. **Includes Proposed Regional Transit Authorities As Eligible WRS Employers**

**Governor's Recommendation**: Modifies the definition of a state agency for the purposes of the WRS to include the proposed regional transit authorities.

**Joint Committee on Finance:** Included the Governor's recommendation.

## State Legislature Initiatives

### 1. Annuity Deduction for Dues for Retiree Organizations

**Joint Committee on Finance:** Allows annuitants to require ETF to withhold dues from their monthly annuity payment and to transmit those amounts to retiree organizations that are affiliated with an employee organization. This provision would be effective on 1/1/2010.

**Assembly:** Deleted this provision.

### 2. Sharing of Annuitant Mailing List with Retiree and Employee Organizations

**Joint Committee on Finance:** Requires ETF to provide a list of names and addresses of all annuitants, at the request of a retiree organization or employee organization, to vendor (selected by ETF) for the purposes of sending mailing. The requesting organization would provide the printed information and pay the vendor directly for the costs associated with the mailing. The vendor would be prohibited from sharing the mailing list and would be required to return the list to ETF upon completion of the mailing. This provision would be effective on 1/1/2010.

**Assembly:** Deleted this provision.

### 3. Reporting of Survivor Benefits

**Joint Committee on Finance:** Requires ETF to gather sufficient information to determine the non-taxability of survivor benefits and ensure that this information is reported to the Internal Revenue Service (IRS) in a manner that would not result in an erroneous tax liability for the recipient.

**Assembly:** Deleted this provision.

### 4. Additional Reductions to the ETF Operating Budget

| | FY 2010 | | FY 2011 | |
|---|---|---|---|---|
| | FTE | Funding | FTE | Funding |
| **ETF Request** | | - | | - |
| **Governor's Recommendations** | | | | |
| **Joint Committee on Finance** | | (677,200) | | (677,200) |
| **Legislature** | | | | |
| **Final Enacted Budget** | | | | |

**<u>Joint Committee on Finance</u>:** Reduces the ETF operating budget by $677,200 annually. These amounts are associated with the 2% general wage adjustment that is effective for all state employees in June 2009 ($267,400 annually) and the executive action requiring all employees to be furloughed for eight days per year during the FY 2009 – 2011 biennium ($409,800 annually). The increase was eliminated for non-represented employees as part of the modifications to the non-represented employee compensation plan approved in May 2009. While the modifications only affect non-represented employees (24% of ETF staff), the budget action reduces the entire salary base by 2%.

5. **Coverage of Autism and Autism Related Disorders in ETF Administered Health Plans**

**<u>Joint Committee on Finance</u>:** Requires health plans administered by ETF to include coverage for autism and autism related disorders for coverage effective 1/1/2010. The provisions would be similar to those contained in Substitute Amendment 1 to 2009 Senate Bill 3 except for the change of definition of "post-intensive-level services" to "non-intensive level services."

6. **Coverage of Services Provided by Licensed Mental Health Professionals**

**<u>Joint Committee on Finance</u>:** Modifies the coverage of mental health services provided by certain licensed mental health professionals. These provisions are similar to those contained in 2007 Senate Bill 246 as amended by Amendment 1. These provisions would be effective for coverage under the ETF administered plans on or after 1/1/2010.

7. **<u>Actuarial Analysis of Increasing the Maximum Formula Benefit For Protective Occupation Employees With Social Security To 70%</u>**

**<u>Assembly</u>:** Requires the Department to contract for an actuarial analysis of the cost associated with increasing the maximum formula benefit for protective occupation employees with social security coverage to 70% of the final average earnings from the current statutory maximum of 65%. Provides $5,000 GPR in FY 2010 and creates a new GPR appropriation for this purpose. The GPR appropriation would be repealed at the end of FY 2010.