

EMPLOYEE TRUST FUNDS

Budget Summary							
Fund	2004-05 Base Year Doubled	2005-07 Governor	2005-07 Jt. Finance	2005-07 Legislature	2005-07 Act 25	Act 25 Change Over Base Year Doubled	
						Amount	Percent
GPR	\$4,720,800	\$3,458,200	\$3,481,000	\$3,481,000	\$3,481,000	-\$1,239,800	- 26.3%
SEG	<u>40,705,400</u>	<u>40,846,800</u>	<u>41,146,800</u>	<u>41,146,800</u>	<u>41,146,800</u>	<u>441,400</u>	1.1
TOTAL	\$45,426,200	\$44,305,000	\$44,627,800	\$44,627,800	\$44,627,800	-\$798,400	- 1.8%

FTE Position Summary						
Fund	2004-05 Base	2006-07 Governor	2006-07 Jt. Finance	2006-07 Legislature	2006-07 Act 25	Act 25 Change
						Over 2004-05 Base
GPR	3.50	3.50	3.50	3.50	3.50	0.00
SEG	<u>194.85</u>	<u>192.10</u>	<u>193.10</u>	<u>193.10</u>	<u>193.10</u>	<u>- 1.75</u>
TOTAL	198.35	195.60	196.60	196.60	196.60	- 1.75

Budget Change Items

1. STANDARD BUDGET ADJUSTMENTS

Governor/Legislature: Provide standard adjustments to the base budget totaling -\$283,900 in 2005-06, and -\$309,200 in 2006-07, and -3.5 project positions annually. Adjustments are for: (a) turnover reduction (-\$271,400 annually); (b) removal of noncontinuing elements from the base (-\$1,042,200 in 2005-06, -\$1,067,500 in 2006-07, and -3.5 positions annually); (c) full funding of continuing salaries and fringe benefits (\$905,300 annually); (d) overtime (\$48,100 annually); and (e) night and weekend differential (\$76,300 annually).

Funding Positions		
SEG	-\$593,100	- 3.50

2. PARTICIPANT SERVICES STAFFING INCREASES [LFB Papers 275 and 276]

Governor: Provide \$185,100 in 2005-06 and \$202,000 in

Funding Positions		
SEG	\$387,100	4.00

2006-07 and 4.0 positions annually to address an increasing volume of retirement-related inquiries from Wisconsin Retirement System (WRS) participants. The request would provide resources for the agency's customer service call center and the Member Services Bureau, as follows:

Customer Service Call Center. Provide \$64,300 in 2005-06 and \$85,700 in 2006-07 and 1.5 four-year project positions annually for the agency's customer service call center. The call center provides a single telecommunications point of contact between WRS participants, annuitants and employers and the appropriate member services and administrative staff in ETF.

Member Services Bureau. Provide \$120,800 in 2005-06 and \$116,300 in 2006-07 and 2.5 positions annually for the Member Services Bureau to reduce backlogs and improve response time relating to participant requests. The Member Services Bureau provides information in response to inquiries by participants concerning WRS benefits.

Joint Finance/Legislature: Provide 1.5 permanent positions instead of 1.5 four-year project positions annually for the agency's customer service call center.

3. AUDIT AND APPEALS COST INCREASES

SEG	\$328,000
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Governor/Legislature: Provide \$192,700 in 2005-06 and \$135,300 in 2006-07 for required auditing and hearings and appeals costs, as follows: (a) one-time funding of \$65,000 in 2005-06 to fund the Legislative Audit Bureau's costs of contracting for a required independent actuarial audit of the WRS that must be performed at least once every five years; (b) \$19,800 in 2005-06 and \$21,400 in 2006-07 to increase base funding for required annual financial audits performed by the Legislative Audit Bureau; and (c) \$107,900 in 2005-06 and \$113,900 in 2006-07 for increased contract costs with the Division of Hearings and Appeals in DOA for processing a backlog of ETF benefit appeals cases. The Department does not have base funding for the required actuarial audit. Base level funding for annual financial audits is \$62,200 annually and for contracted appeals services from the Division of Hearings and Appeals is \$88,600 annually.

4. BASE BUDGET REDUCTIONS

	Funding Positions	
SEG	- \$138,200	- 1.60

Governor/Legislature: Delete \$69,100 and 1.6 positions annually in the Department's appropriation for general program operations. The provision would reduce administrative staffing.

5. HEALTH INSURANCE INFORMATION PRIVACY AND SECURITY OFFICER

	Funding Positions	
SEG	\$110,800	1.00

Governor/Legislature: Provide \$36,900 in 2005-06 and \$73,900 in 2006-07 and 1.0 position annually in the Division of Management Services for a privacy and security officer position related to the Department's responsibilities under the

federal Health Insurance Portability and Accountability Act (HIPAA). The permanent position authorization would replace a project position that is scheduled to expire in December, 2005. The current project position is dedicated to HIPAA compliance issues. HIPAA requires ETF to designate an employee to be responsible for privacy and security functions relating to HIPAA regulations.

6. LIMITED-TERM EMPLOYEE FUNDING TO EVALUATE VALUE-BASED HEALTH CARE PURCHASING INITIATIVES [LFB Paper 277]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	\$46,800	\$300,000	\$346,800

Governor: Provide \$23,400 annually for LTE salary costs for analytical and evaluation assistance associated with the assessment of the long-term value, effectiveness, and quality of current and potential health care cost containment initiatives for state and local government employees and annuitants. The LTEs would assist in on-site data collection related to such projects. The Department anticipates undertaking two or three projects annually.

Joint Finance/Legislature: Provide one-time funding of \$150,000 annually under ETF's administrative general program operations appropriation to conduct ongoing evaluations of the long-term value, effectiveness, and quality of existing and proposed health care cost-containment initiatives.

7. INFORMATION TECHNOLOGY SERVER AND NETWORK CONSOLIDATION [LFB Paper 111]

	Positions
SEG	- 1.65

Governor/Legislature: Reallocate \$139,900 from salaries and fringe benefits to unallotted reserve and delete 1.65 positions in 2006-07 associated with the consolidation of information technology server and network infrastructure support in the Department of Administration. [See "Administration -- Transfers to the Department."]

8. CONSOLIDATION OF EXECUTIVE BRANCH ATTORNEYS AND LEGAL STAFF UNDER DOA [LFB Paper 110]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
SEG	- 1.00	1.00	0.00

Governor: Delete 1.0 position annually to reflect the consolidation of the agency's attorney staff under DOA, effective January 1, 2006. Reallocate \$60,400 in 2005-06 and \$120,700 in 2006-07 from budgeted salaries and fringe benefits to the agency's supplies and services

budget to pay for legal services supplied by DOA. Under the Governor's recommendation, 1.0 SEG existing classified attorney position and associated base level funding would be retained in ETF. The Secretary of DOA would be authorized to designate this attorney position as ETF's lead attorney.

Specify that all transferred attorneys and legal staff would have the same rights and status as in the agency in which they originated. Specify that attorneys and legal staff that have obtained permanent status would not have to undergo a probationary period in DOA. Provide that all equipment, supplies, and furniture related to the duties of the transferred employees, as specified by the Secretary of DOA, must be transferred to DOA on January 1, 2006. [See "Administration -- Transfers to the Department."]

Joint Finance: Delete provision. Direct the Secretary of DOA to delete 13.0 FTE executive branch agency attorney positions, other than attorney positions at the University of Wisconsin System, that become vacant before June 30, 2007, and lapse or transfer at least \$724,900 from associated non-FED salary and fringe benefits amounts to the general fund in 2006-07. If fewer than 13.0 FTE agency attorney positions are vacant on June 30, 2007, authorize the Secretary of DOA to delete sufficient additional state agency attorney positions, other than at the University of Wisconsin System, to ensure the elimination of a total of 13.0 FTE state agency attorney positions.

Senate/Legislature: Add ETF and the Investment Board to the executive branch agencies that would be exempted from the attorney position deletion and lapse or transfer of funds requirements.

Vetoed by Governor [A-4, E-1, and E-5]: Delete: (a) the specific requirement that the Secretary of DOA lapse or transfer \$724,900 from non-FED salary and fringe benefits amounts related to the net reduction of 13.0 FTE executive branch attorney positions in 2006-07; and (b) the University of Wisconsin System from the enumeration of executive branch state agencies that would be exempt from any reduction of attorney positions. The Governor's veto message indicates that the Secretary of DOA would lapse \$724,900 as part of a larger lapse or transfer requirement totaling \$71,234,500.

[Act 25 Sections: 9155(1w)&(2)]

[Act 25 Vetoed Sections: 9155(1w)&(2)]

9. RETIRED EMPLOYEES BENEFIT SUPPLEMENT REESTIMATE [LFB Paper 278]

	Governor (Chg. to Base)	Jt. Finance/Leg. (Chg. to Gov)	Net Change
GPR	-\$1,262,600	\$22,800	-\$1,239,800

Governor: Reduce base level funding by \$451,400 in 2005-06 and \$811,200 in 2006-07 to reflect decreased amounts necessary to pay benefit supplements for retirees who first began

receiving annuities before October 1, 1974. These supplements were authorized primarily by Chapter 337, Laws of 1973, 1983 Wisconsin Act 394, and 1997 Wisconsin Act 26. The reestimate is due to a declining number of retirees eligible for these supplements due to deaths. Current base level funding for the appropriation is \$2,360,200.

Joint Finance/Legislature: Provide \$12,500 in 2005-06 and \$10,300 in 2006-07 to reestimate the benefit supplements for retirees.

10. HEALTH INSURANCE COVERAGE FOR DOMESTIC PARTNERS OF STATE EMPLOYEES AND STATE ANNUITANTS [LFB Paper 281]

Governor: For the purpose of group health insurance coverage offered to state employees or to WRS annuitants who were employed by a state agency on the date of termination of covered employment, specify that the definition of "dependent" would include a domestic partner, a domestic partner's minor children dependent on the employee for support and maintenance, or the domestic partner's children (and stepchildren) of any age, if handicapped to an extent requiring continued dependence. The provision would permit state employees and state annuitants to purchase family health insurance coverage for their domestic partners. [As drafted, the intent of the provision would appear to also include coverage of a domestic partner's minor children dependent on an annuitant for support and maintenance; however, reference to "an annuitant" is not specifically included.]

Define "domestic partner" as an individual in a domestic partnership. Provide that a "domestic partnership" would mean a relationship between two individuals that satisfies all of the following: (a) each individual is at least 18 years old and otherwise competent to enter into a contract; (b) neither individual is married to, or in a domestic partnership with, another individual; (c) the two individuals are not related by blood in any way that would prohibit marriage under state law; (d) the two individuals consider themselves to be members of each other's immediate family; and (e) the two individuals agree to be responsible for each other's basic living expenses. Specify that these provisions would first apply to coverage under the group insurance plans offered by the Group Insurance Board on January 1, 2006.

Under current law, a dependent is defined as the spouse, minor child, including stepchildren of the current marriage dependent on the employee for support and maintenance, or child of any age, including stepchildren of the current marriage, if handicapped, to an extent requiring continued dependence. For group insurance purposes only, ETF may promulgate rules with a different definition of "dependent" than the one otherwise provided in statute for each group insurance plan.

To the extent that domestic partners of current state employees obtained health care coverage under the Governor's recommendation, the additional costs of that coverage would be funded from the amounts budgeted for agency fringe benefits. However, in the case of the University of Wisconsin System, the Governor has recommended providing an additional \$500,000 GPR annually to support the costs of extending domestic partner benefits to UW

faculty and staff. [See "University of Wisconsin System" for more information on this item.] For health care coverage of domestic partners of annuitants who were former state employees, the costs of coverage would be funded either from the available balances in amounts reserved in the annuitant's accumulated sick leave conversion credit account, or (if no such balances existed) out-of-pocket of the covered individual.

Under the Governor's recommendation, the state would also incur new fringe benefits costs due to federal tax provisions concerning this type of benefit. Under federal law, the value of employee health insurance, including family coverage for dependents of the employee, is excluded from taxable income. However, this exclusion would not apply to a domestic partner unless the domestic partner qualifies as a dependent of the employee under federal law. Therefore, the value of the health insurance premiums relating to domestic partners could be subject to federal taxation. In this case, the state, as employer, and the recipient of the benefit would both be subject to a rate of 7.65% of the premium value for FICA-related taxes. Also, the recipient of the domestic partner benefit could be required to include the value of the insurance as additional income subject to federal and state income taxes. Any administrative expense associated with tracking and reporting additional taxable benefits for state employees would also accrue to the state.

Joint Finance/Legislature: Delete provision.

11. PAYMENT OF LEGAL COUNSEL COSTS [LFB Paper 279]

Governor: Provide that the costs of any legal representation retained by the ETF Board under s. 40.03(1)(c) of the statutes for the administration of the Public Employee Trust Fund would be paid from an off-budget benefits and coverage payments account.

Under current law, the ETF Board may contract for legal counsel under s. 40.03(1)(c) of the statutes with the approval of the Governor. (Except under limited conditions, no state executive branch agency may contract for an attorney until the Governor has approved the action.) In some of these actions or proceedings, the Attorney General represents ETF. The costs for this legal work are paid from budgeted amounts under agency's annual administrative appropriation for general program operations. The Governor's recommendation would permit the payment of such costs without budget limitation from the investment income or reserve accounts of the appropriate benefit plan or of the Wisconsin Retirement System.

In cases where the Attorney General is in any way interested adversely to the ETF position, the Governor may employ special counsel under s. 14.11(2) of the statutes to act instead of the Attorney General, if the Governor believes that the public interest requires such action. Compensation of the special counsel appointed under s. 14.11(2) of the statutes is funded from a GPR sum sufficient appropriation under the Department of Justice. Under Governor's recommendation, if the appointment of special counsel would be made by the ETF Board with the Governor's approval under s. 40.03(1)(c) of the statutes, rather than by the Governor under s. 14.11(2) of the statutes, the costs of the special counsel would be paid

through the benefits and coverage payments account from the appropriate benefit plan or the Wisconsin Retirement System.

Joint Finance/Legislature: Delete provision.

12. REPEAL REQUIREMENT TO MAINTAIN A BRANCH OFFICE IN MILWAUKEE [LFB Paper 280]

Governor/Legislature: Delete the statutory requirement that the Department maintain at least a branch office in Milwaukee. The requirement that ETF maintain a branch office in Milwaukee was established in 1981 when the Milwaukee-based former Milwaukee Teachers Retirement System was merged with the former State Teachers Retirement System and the former Wisconsin Retirement Fund to create the current Wisconsin Retirement System. The Department currently has 6.4 FTE positions assigned to its Milwaukee office.

[Act 25 Sections: 52 and 737]

13. STATE HEALTH CARE COVERAGE FOR CERTAIN EMPLOYEES OF THE WISCONSIN HISTORICAL FOUNDATION, INC. [LFB Paper 445]

Governor: Stipulate that if the Wisconsin Historical Society (WHS) enters into a contract with the Wisconsin Historical Foundation, Inc., for certain statutorily authorized purposes, any employee of the Foundation who had previously worked for the WHS would be eligible for the health care coverage plans offered to state employees by ETF's Group Insurance Board. Specify that such eligibility would be subject to enrolling in the plans during any applicable enrollment period and to meeting any conditions established by contract or by rule. Authorize the Group Insurance Board to establish the procedures and provisions pertaining to the coverage of such Foundation employees by contract or by rule. Require the Foundation, if it enters into a contract with the WHS for any statutorily authorized purpose, to provide state health insurance coverage to its employees who were previously employed by the WHS. Create a PR continuing appropriation under ETF to which moneys from the Foundation would be credited for the payment of the health care coverage benefits provided to eligible Foundation employees and for ETF's costs of administering these benefits.

Under current law, the WHS may contract with the Foundation to administer the agency's membership program, solicit and accept contributions, gifts, grants, and bequests, market the agency's goods and services, provide support for the operation and management of the agency's programs, and perform other functions approved by the WHS Board of Curators. [See "Historical Society" for more information on this item.]

Joint Finance/Legislature: Delete provision.

14. CREATION OF GIFTS AND GRANTS AND FEDERAL AID APPROPRIATIONS

Governor/Legislature: Create the following appropriations under the agency: (a) a PR continuing gifts and grants appropriation to carry out the purposes for which the gifts and grants are made; (b) a FED continuing appropriation for federal aid received for departmental operations and for benefit programs under Chapter 40 of the statutes; and (c) a SEG continuing gifts and grants appropriation to carry out the purposes for which the gifts and grants are made if they are required to be deposited in the Public Employee Trust Fund.

[Act 25 Sections: 433, 434, and 436]

15. EXECUTIVE SALARY GROUP OF THE DEPARTMENTAL SECRETARY

Joint Finance/Legislature: Assign the Secretary of ETF to Executive Salary Group (ESG) 7.

The Secretary is currently assigned to ESG 5, with an annual salary range between \$73,744 and \$114,303, under the pay schedules of the 2003-2005 state compensation plan. The ESG 7 annual salary range is \$86,017 to \$133,327. The actual salary of the Secretary would be established by the ETF Board within the salary range associated with the position's assigned ESG level.

The Deputy Secretary of ETF is currently assigned to the executive salary group one group below that of the Secretary, and the Department's Executive Assistant is currently assigned to the executive salary group two groups below that of the Secretary. As a result of the Secretary's ESG reassignment, the Deputy Secretary would move from ESG 4 to ESG 6 (with an annual salary range of \$79,645 to \$123,451), and the Executive Assistant would move from ESG 3 to ESG 5.

[Act 25 Sections: 487e and 487r]

16. REQUIRED RETIREMENT CONTRIBUTIONS FOR NON-REPRESENTED STATE EMPLOYEES

GPR-Lapse	\$19,100,000
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Senate/Legislature: Provide that the state may not pay the first 1.5% of earnings that its nonrepresented classified and unclassified state employees, including University of Wisconsin faculty and academic staff, are required to pay as employee contributions to the WRS. The provision would first apply to earnings paid on September 1, 2005. State savings of budgeted fringe benefit amounts are estimated at \$19.2 million in 2005-06 (\$8.7 million GPR and \$10.5 million other funds) and \$23.0 million in 2006-07 (\$10.4 million GPR and \$12.6 million other funds).

Require that the GPR-funded fringe benefits amounts budgeted for such contributions but offset by these employee contributions would lapse to the general fund. Specify that

comparable program revenue funds offset by these employee contributions would lapse to the appropriate program revenue appropriation account and that comparable segregated funds offset by these employee contributions would lapse to the appropriate segregated fund.

Direct the Secretary of DOA to determine for each state agency the amount that the agency is not required to spend as a result of this provision during the period that begins on September 1, 2005, and ends on June 30, 2007, and the amount from each appropriation from which the moneys would have been expended during that period, other than for FED appropriations.

Under current law, statutory employee-required contribution rates for WRS participants, expressed as a percent of gross earnings, have been established but with different rates depending on the participant's employment classification. These classifications and the statutory employee-required contribution rates are as follows: (1) general employees [5.0% of gross earnings]; (2) elected officials and state executives [5.5%]; (3) protective employees under Social Security [6.0%]; and (4) protective employees not under Social Security [8.0%].

The ETF Board may adjust the statutory rates, on recommendation of the Board's consulting actuary, under certain circumstances. Over time, such adjustments have been made and the adjusted employee-required contribution rates in 2005 are as follows: (1) general employees [5.0% of gross earnings]; (2) elected officials and state executives [2.8%]; (3) protective employees under Social Security [4.9%]; and (4) protective employees not under social Security [3.3%].

The statutes also authorize an employer to pay on behalf of the employee all or a part of any employee-required contributions. Over time, state employee groups have negotiated, or have been provided under the compensation plan for nonrepresented employees, an employer "pickup" of almost all employee-required WRS contributions.

The provision would not affect state employees represented by a collective bargaining unit unless a similar required employee contribution provision was negotiated in future collective bargaining agreements.

Veto by Governor [E-13]: Delete provision. The Governor indicates in his veto message that he will request the DOA Secretary to use the allotment authority granted under s. 16.50 of the statutes "to prudently manage the allotment of funds in order to produce offsetting lapses during budget implementation."

[Act 25 Vetoed Sections: 737e, 737r, 9101(7k), and 9414(1k)]