Governor's Commission on Government Reform, Efficiency, and Performance

A Report to
Governor Scott Walker

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Any omissions are the fault of the Commission coordinator.

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Co-Chair Scott Neitzel

Senator Howard Marklein

Senator Janis Ringhand

Representative Adam Jarchow

Secretary Richard Chandler

Secretary Linda Seemeyer

Secretary Dave Ross

Medicaid Director
Michael Heifetz

County Executive
Bob Ziegelbauer

Robin Gates

Ara Cherchian

The Commission held 13 public meetings from November of 2015 to November of 2016. Six of these meetings were held across the state in some of the most populated areas of the state. The meetings were typically held at Technical Colleges or UW System campuses. All meetings were open to the public. The remaining meetings were in Madison at the Wisconsin State Capitol. These were also open to the public. A complete list of meeting dates and locations are available in appendix B. Meeting materials and minutes are available at https://walker.wi.gov/boards-and-commissions/commission-on-government-reform.

Commission Background

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On November 3, 2015, Governor Walker signed Executive Order #179 which established the Governor's Commission on Government Reform, Efficiency, and Performance. The Commission served the purpose of "advising and assisting the Governor in a coordinated government-wide effort to reduce the size of government, reduce spending and reduce the state tax burden, and deliver government services more efficiently." State government, as all levels of government, should engage in continuous improvement to deliver necessary efficient services at the lowest taxpayer cost. The Executive Order creating the commission is attached in appendix A.

Commission Structure

The Commission included members of the private and public sectors. It included both past and current state and local government leaders. The Commission also included current legislators of both political parties. All were appointed by the Governor and tasked with working together to reduce redundancies and improve efficiency in government. The Commission had a website to both transparently share its business and to incorporate comments and suggestions from Wisconsin residents.[i]

Co-Chair Neitzel and Shiely listen to a presentation on Shared Services in Wausau.

Commission Best Practices

The Commission took testimony during its first meeting from the Mercatus Center regarding government streamlining commissions in other states.[ii] This was in order to learn what did and didn't work in other states so the Commission could best position itself for success.

The Commission heard these suggestions and incorporated them in its structure and actions. The suggestions included items such as; whether the Commission should be nonpartisan or bipartisan in nature. It should be comprised of a relatively small number of members. Commissions should be comprised of representatives from both private and public sectors. A Commission should incorporate representatives with political, managerial, and policy expertise. Finally, the fifth characteristic of a Commission should be that it must develop recommendations for the Governor and/or state Legislature.[iii]

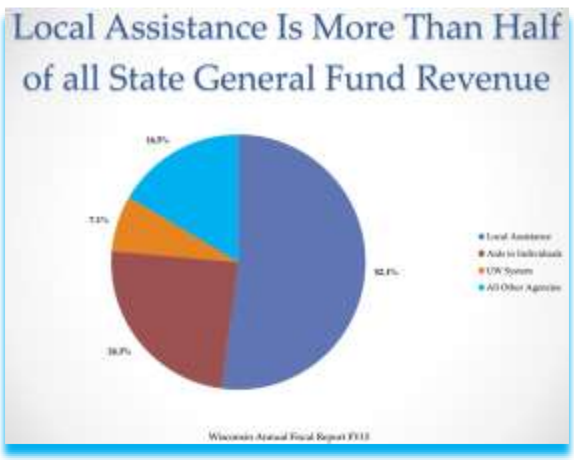
The committee drew upon the experiences and lessons learned from a number of other state reform initiatives to pursue an innovative and efficient Commission approach. The Commission evaluated the following case studies:

- The California 21st Century Commission
- The Colorado Pits and Peeves Roundtable Initiative
- The Louisiana Streamlining Government Initiative
- The Maine Initiative to Streamline and Prioritize Core Government Services
- The Michigan Commission on Governmental Efficiency

- The New Mexico Government Restructuring Task Force
- The Virginia SAGE Commission on Government Reform and Restructuring

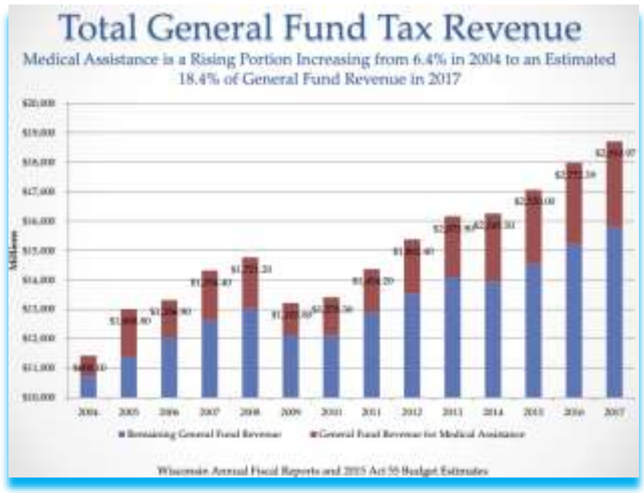
Motivation for Reform

The Commission heard testimony regarding the need for reform. Increasingly, federal mandates have resulted in economic and fiscal pressures. More and more state revenue is going to fund cost pressures that are largely out of the control of policy makers. In addition, half of all state revenue goes to local governments. This is an incentive for Wisconsin leadership at all levels of government to prioritize financial responsibility and look for ways to make government more efficient and cost less.



To put these pressures in even more of perspective, total state appropriations are on the rise in large part due to reasons out of the state's control. Medical assistance is a rising portion of state expenditures, increasing from 6.4 percent in 2004 to an estimated 18.4 percent of general fund revenue in 2017.

The state also spends tens of millions annually to maintain its facilities. This is another cost that is rising and our buildings are not getting any younger. Facility maintenance spending has risen to over $140 million from under $80 million in 2005. The portion from Corrections facilities alone has risen nearly 5 percent.[iv] These conditions and others make now an optimal time for reform.



Commission Website

The Commission maintained a website to be completely transparent with its activities and for citizens to be able to give suggestions. The Commission received 20 suggestions. All suggestions were replied to and shared with the Commission members for their consideration.

One example suggestion was to combine onsite retail inspections. The food safety and weights and measures inspector divisions at the Department of Agriculture, Trade, and Consumer Protection were the two suggested. At the time of this suggestion, there was $8.8 million in expenditures and 116 staff working in these two inspection types. The Commission took no position on this recommendation; however, this could be a topic reviewed as a part of other initiatives included in this report.

Executive Summary

Executive Summary

The Commission heard numerous different presentations on a wide variety of topics. We began by asking ourselves what government looks like, not just today, but 20 years from now. Commission members had an open mind, but also a healthy skepticism that reform is hard and change takes time, especially in government.

To this end, the focus of the Commission centered on how we identify strategies and approaches that can make government more efficient not just today, but decades into the future. As was discussed in the Commission background, the state isn't getting more resources and the public expects services to continue to be provided, and provided effectively. This means government needs to rethink the way it does business.

Some of the topics and strategies discussed were not new. Some have been implemented in other states and some have seen fits and starts even in Wisconsin. The concepts of sunsetting state programs or tax credits and implementing shared services have been discussed in the past. Even so, these concepts have not been fully implemented or in some cases not implemented at all. This gives us the advantage of learning from these experiences, but also can make it more challenging for them to gain support today.

The Commission's work and recommendations were very much the "blocking and tackling" of state government, as Co-Chair Neitzel often stated. The point being made was that the discussions and topics in front of the Commission likely wouldn't be front page news, but the topics discussed are very important to the everyday operations of government and the responsibility government has to the taxpayers of the state.

Much of the Commission recommendations base themselves on continuous improvement and identifying hidden capacity in government. This would be done through measuring progress and setting goals to achieve results. As Co-Chair John Shiely stated, "You can't effectively manage what you don't measure". Benchmarking, measuring, tracking, and goal setting are very much a part of the recommendations in this report.

Commission members Ara Cherchian, Robin Gates, Senator Ringhand, and the Co-Chairs listen to a presentation on Shared Services in Wausau.

Sunset

The Commission recommended creating a sunset review process for government agencies, programs, reports, and licenses, among other government functions. This process was one identified to be a part of the continuous improvement philosophy that the Commission operated with. Sunset does not mean that all of government suddenly ends. No one believed that programs such as Medicaid or departments such as Corrections would cease to exist or be needed. What was believed was that tough questions could be asked. Programs that were created decades ago may have outlived their usefulness and the savings from ending them could be used for other priorities or sent back to taxpayers.

Maybe certain state reports and/or licenses are no longer needed. There are over 650 statutorily required reports and 245 license types at our professional services agency alone. Some of these reports were created decades ago. Of the 245 state licenses, 31 had zero complaints filed against licensees and in FY16 fewer than 200 individuals were licensed in 103 license types. Does anyone really believe all these licenses and reports are needed? Do we really believe that there are no state programs that are no longer needed or in need of reforms?

A sunset process should help us identify the hidden capacity throughout state government in a structured way that improves government performance and reduces its burden on taxpayers. Surely some government programs have outlived their usefulness, some licenses aren't or never were necessary, and/or other functions of government could be ended or reformed. The Texas Sunset Commission testified to the Commission that since 1977 it has abolished 37 programs or agencies, consolidated 46 programs or agencies, and saved or increased revenue for taxpayers by $980 million. According to the Council of State Governments, 27 states have some form of sunset law.

As Co-Chair Shiely stated in regards to sunset reviews, "Information drives belief and belief drives behavior." With the information gleaned from a sunset process the reforms will be more readily available and recognizable to policy makers.

Tax Reform Considerations

Even after recent tax simplification changes, income tax modifications that include credits, deductions, and other tax exempt devices that reduce tax liability have grown from 39 in 2000 to 117 in 2015. This report explores a process to review these similar to sunset. Revenue gained by eliminating modifications could be used to reduce income tax rates overall. To put that in perspective, if all tax expenditures were eliminated Wisconsin could achieve a flat tax rate between 4 and 5 percent. Currently, we have four brackets rising to 7.65 percent.

Shared Services

The Commission recommended the state pursue shared services. Large private sector firms have been moving toward shared services for decades. The federal government has been aggressive in this regard as well. The Commission thought it was a "no brainer" for the state to pursue a shared services initiative to combine common functions across state government to become more efficient, streamline like functions, and save costs.

Shared services makes sense if Wisconsin is to operate more like a large enterprise and less like many small siloed companies with duplicative functions. The successful implementation of the state's new Enterprise Resource Planning IT System makes the time for shared services more ideal than ever. Public and private sector organizations have implemented shared services with cost savings of between 20 and 40 percent.

Office of Management and Budget

The Commission recommended the state explore creating an Office of Management and Budget or OMB. Similar to the way it works at the federal level and in other states, this OMB would have a clear mission to implement the Governor's priorities. Clear accountability and tools being given to one entity would help implement the recommendations in this report and can better coordinate initiatives that are important to the Governor and Legislature. Research by Katherine Barrett and Richard Greene indicate 13 states have OMB style structures.[v]

OMB IN THE STATES

- OMB or OBM structures: 13
- Office of Budget and Policy: 3
- Offices of Planning and Budget (or variations on that theme): 7
- Budget functions/office under a Dept. of Finance: 8
- Budget functions/office under Finance and Administration or under Administration: 12 (Wisconsin's structure)
- Stand-alone budget offices: 7

Barrett and Greene

The Commission heard testimony from Utah and Indiana regarding functions their OMB's are performing. Utah is implementing the SUCCESS Framework to achieve 25 percent efficiency across state government. Indiana is doing numerous initiatives to include the creation of the Performance and Management Hub to drive efficiency and performance through enhanced data analytics across state agencies.

An OMB would be central to the success or failure of any administration. As is done in other states and at the federal level, the OMB is tasked with implementing the executive's vision. The OMB could be the central and accountable entity to implement the Commission recommendations.

OFFICE OF MANAGEMENT AND BUDGET

- Clear mission
- Responsible for meeting goals
- One central point of contact for spending and performance goals
- Synchronize revenue and budgeting
- Increases accountability and transparency
- Create change faster
- Cooperative structure is already set up
- One voice of accountability to the Governor
- Fiscal notes review
- Rule review
- Contract review

Joint Agencies

The Wisconsin Counties Association presented to the Commission an innovative way for local governments to share functions to provide efficient government. Local government resources are scarce and populations are declining in many rural areas of the state. This approach could save on costs and continue vital services in areas of the state that need them.

Other Considerations

There are numerous other recommendations in this report that save money and provide for a more efficient and accountable government. These recommendations are worthy of further analysis and consideration. Some may not be implemented in the end. These recommendations cannot and should not be done at once. This will result in failures, delays, and likely apathy toward the reform process. The steps recommended in this document should be sequenced by priority to show success up front so that success can grow the buy in necessary for the complete set of recommendations to be implemented.

The Sunset Approach

The Sunset Commission Approach

The Commission heard testimony from the director of the Texas Sunset Commission. The Texas Commission, created in 1977, credited its efforts with eliminating 37 agencies or programs and consolidating 46 agencies or programs.[vi] It also claimed to have saved $980 million, returning $23 for every $1 invested in the Commission. In addition to the history of Sunset's success in Texas, Wisconsin's initiatives also shed light on the value of the approach.

Sunset efforts in Wisconsin, dating back almost 30 years, provide a valuable perspective for assessment and analysis. Wisconsin Sunset legislation began with 1977 Assembly bills 38, 105, and 366. In 1979, Wisconsin Sunset legislation included Senate Bill 259 and Assembly Bill 865. From 1995 to 1997, Sunset activity included the Study for Administrative Value and Efficiency (SAVE) Commission, as well as Budget Act 27 resulting in 12 agencies eliminated and 67 agency transfers or structure modifications. More recently, the 2015 budget eliminated 14 inactive boards and councils.

Sunset can be compared to zero-base budgeting. One big difference is that zero-base budgeting does not include termination of an agency as the incentive for change. As was pointed out in a 1977 bulletin from the Legislative Reference Bureau, "Both seek to promote greater government efficiency and responsiveness through close scrutiny of agency operations."[vii]

The Commission researched other state's experience with sunset. Along with Texas, the Commission looked at Delaware, Florida, Minnesota, and Nevada.[viii] There was varying levels of success across the states. Generally, it was found that the most successful states had formal processes with staff dedicated to sunset.

The Commission agreed to consider a proposal of how the sunset process could work in Wisconsin. The general discussion of creating a sunset commission in Wisconsin was positive. The results displayed how a similar approach could work in Wisconsin and incorporated feedback received and comments from interested Commission members.

At the time the Governor's Commission was created, Wisconsin possessed 177 boards, councils, and commissions on the Governor's website with over 400 vacancies or expired appointments to these boards. Wisconsin had 59 state agencies and 2,136 different appropriations and programs in the budget (Wis. Stat. Chapter 20 schedule) spending $36.9 billion. There existed no enterprise-wide process to evaluate the effectiveness of specific programs and appropriations, and no recurring audit on state agencies for evaluation of program effectiveness, duplication, or performance. In short, Wisconsin has no structured process to evaluate the potentially numerous duplicative and overlapping programs throughout state government. One caveat to this is the new requirement for agencies to submit budget requests achieving a 5 percent reduction in their standard operating budgets and a zero percent change.[ix] This new requirement allows agencies to decide how to determine what to reduce, can be circumvented by agencies, and its results are yet to be determined.

This recognition of inefficiency led the Governor's Commission to seek resolution through the following measures:

- Create an action requiring process to drive effective and transparent reform
- Use a data-driven model similar to PEW's Results First Initiative (discussed later) to rate and rank agency programs by effectiveness
- Delete and reform ineffective programs and agencies
- Save taxpayer dollars as well as improve state government performance and government program effectiveness

Although the elimination of unnecessary activities was a component of Sunset, it wasn't just about abolishing outdated programs. It was about continuous renewal and reform of programs that may have been created with good intentions but have lackluster results or outlived their usefulness. The intention was to create a process to continuously improve government services, programs, and agencies so as to deliver efficient government at the lowest taxpayer cost. This resulted in one Commission member recommending the process be called "Spotlight" instead of "Sunset." This was not formally recommended by the Commission.

Commission members listen to testimony in the State Capitol.

Some of the suggestions heard from Commission members and others in the process of considering the suitability of a Sunset program for Wisconsin were:

- Staff positions should be assigned solely to the Sunset Commission
- The review process should be similar to that of a Legislative Council study committee
- Fall or spring reviews should occur to reduce overlap with the budget process
- Maintain low initial expectations, with the intention to exceed and deliver results
- Establish an initial review selection that favors a probability for results to show the value of the process
- Ensure support from the Legislature
- Prevent overlap with activities of current auditors and inspectors
- Set a review process in place well in advance to follow for all agencies
- Promote follow-up processes to ensure agencies are complying with recommendations
- Maintain transparency and openness to ensure success
- Focus consideration on areas of overlap and streamlining to ensure success
- Minimize fear and threatened feelings of state employees
- Consider a name modification to "spotlight"

At the time of the Commission discussion, it was determined that the Wisconsin Sunset Commission could have its own Sunset in law after 12 years. If the savings and reforms resulting were deemed of value, the Legislature and Governor would be able to determine whether to continue the Commission or eliminate it. Additionally, the schedule of Sunset for agencies would be determined by prioritizing those with the most potential for reform first. This schedule would be reinforced in statute to ensure support and follow-through.

The Commission noted that Sunset should be indeterminate of fiscal impact. The efficacy of the commission would be determined by its reviews, recommendations, and potential for implementation by the Legislature and Governor. The Commission would require a director and staff. These staff could be created from repurposed vacancies throughout state government to ensure net position neutrality. In effect, the Commission would be a legislative service agency attached to the Legislature.

The example and framework provided by the Texas Commission resulted in an ultimate recommendation to create a Sunset Commission in Wisconsin state statute, based on the aforementioned parameters.

Statutorily Required Reports

There was a later addition to the sunset process. The Commission heard testimony from Megan Cramer of the Department of Administration. She spoke regarding statutorily required reports. Her research showed the state requires over 650 reports across state agencies. For example, the Departments of Natural Resources and Transportation have more than 100 reports each.

Texas passed legislation in 2011 requiring a review of the necessity of its reports. The Commission recommended adding these reports to the sunset process. This would free up staff time to focus on core agency functions and save costs. The reports that remain could also be aggregated on one transparent webpage so the public could easily find and review them.

Closer look into Texas Sunset

The Commission discussion and recommendations largely built-off of how the Texas commission was organized. More details on the Texas process are included here.

The Texas 12-person Commission was established to include 3 elected officials, 4 general public members, 1 local elected county executive, 3 cabinet secretaries, and 1 appointed state budget director. The Governor appointed the public members and commission members to serve staggered 4-year terms, limited to only 2 consecutive terms (see below).

The Texas commission provided a process framework, which began with agencies submitting information to the Commission by September 1 of each odd numbered year. The Commission's public hearings and review were suggested for every other September of the following, even numbered year. The report and recommendations submitted to the Governor and Legislature were planned for November of even years. The Commission report would be introduced as a legislative bill in the following odd numbered year to be considered by the Legislature and Governor. A bill would need to be passed to reauthorize the agency. Protections would be in place to continue an agency and/or its functions if required by federal law or court decision.

Recommendations from the Texas commission included whether agencies should be continued, abolished, or reorganized. Recommendations included considerations such as consolidations, efficiency measures, and elimination of duplicative functions. Fiscal impacts of each recommendation are also included.

In Texas the commission determines that any bill introduced in the Legislature to create a new agency, committee, or any license would need to be reviewed by the commission to evaluate its necessity. The goal is to prevent duplication of existing functions within other state agencies or committees. Changes made due to the sunset reviews need to be followed by the commission and reported periodically for effective evaluation and progress.

Functionally, in Texas each agency is required to submit information based on questions from the commission.[x] The following questions were used to guide the process among all agencies:

- How efficiently and effectively do the agency and its advisory committees operate?
- How successful has the agency been in achieving its mission, goals, and objectives?
- Does the agency perform any duties that are not statutorily authorized? If so, what is the authority for those activities and are they necessary?

- What authority does the agency have related to fees, inspections, enforcement, and penalties?
- In what ways could the agency's functions/operations be less burdensome or restrictive and still adequately protect and serve the public?
- How much do the agency's programs and jurisdiction duplicate those of other agencies and how well does the agency coordinate with those agencies?
- Does the agency promptly and effectively address complaints?
- To what extent does the agency encourage and use public participation when making rules and decisions?
- How has the agency complied with state and federal requirements regarding equal employment opportunity, the rights and privacy of individuals, and purchasing guidelines for historically underutilized businesses?
- How effectively does the agency enforce rules on potential conflicts of interest of its employees?
- How effectively and efficiently does the agency comply with the Public Information Act and the Open Meetings Act?
- Would abolishing the agency cause federal government intervention or loss of federal funds?
- Do the agency's statutory reporting requirements effectively fulfill a useful purpose?

The following questions are used to guide the process among Occupational Licensing Agencies:

- Does the agency's occupational licensing program serve a meaningful public interest and provide the least restrictive form of regulation needed to protect the public interest?
- Can the program's regulatory objective be achieved through market forces, private certification and accreditation programs, or enforcement of other law?
- Are the skill and training requirements for a license consistent with a public interest, or do they impede applicants, particularly those with moderate or low incomes, from entering the occupation?
- What is the impact of the regulation on competition, consumer choice, and the cost of services?

The Results First Initiative

Another program assessed for suitibility by the Commission was the Results First Initiative.[xi] Developed by Pew-MacArthur, the Results First Initiative partners with various states to operationalize a cost-benefit analysis approach to policy and program management. The initiative focuses on bringing systematic evidence into the budget process, ensuring the greatest probability of success.

The policy making process often relies on political inertia and anecdotal information instead of statistical data. Thus, governments typically have limited quantifiable information on what programs are funded, what each program costs, what is accomplished, and how to leverage quantitative and qualitative comparisons.

Due to the challenges presented to governments when assessing policy decisions, the Governor's Commission recognized the need for an evidenced-based approach, such as the Results First Initiative. In Wisconsin, PEW has been working with the Department of Corrections to inventory and rank for effectiveness our state reentry programs. The Commission heard testimony from PEW and Dr. Tartar II of the Department of Corrections. The Commission recommended strategies such as PEW's in the Sunset process to evaluate the need and effectiveness of state programs.

Produces Rankings of Programs by Evidence of Effectiveness

PEW | MacArthur Foundation

PROGRAM INFORMATION	BUDGET		EVIDENCE-BASED	
Program Name	Program Budget	% of Program Budget	Ratings	
Correctional industries	$125,000	6%	Highest rated	9%
Cognitive behavioral therapy	$50,000	3%	Highest rated	
Vocational education	$300,000	15%	Promising	24%
Drug courts	$180,000	9%	Promising	
Intensive supervision	$250,000	13%	Ineffective	13%
Veterans courts	$100,000	5%	Lacks evidence	54%
All others	$950,000	49%	Lacks evidence	

Special thanks to Ken Levine, Gary VanLandingham, Matt Moroney, Megan Cramer, and Joseph Tartar II for their contributions to the material in this section.

Shared Services

Shared Services

The Commission heard testimony from Deputy Secretary Cate Zeuske of the state Department of Administration regarding past and current efforts to implement shared services. Jean Mills-Barber spoke of the experience in Utah regarding their shared service experience. The Commission also heard testimony from a private consultant regarding shared services implementation in the public and private sectors. The Commission also benefitted from having numerous members who have implemented shared services in the private sector such as Robin Gates.

Shared Services is "centralization or consolidation of functions, activities, services, or resources into one stand-alone unit. The one unit then becomes the provider of the functions, activities, services, or resources to several other client units within the organization".[xii] This does not mean the centralization is provided by one central entity as far as physical location however. The functions could be performed by one entity, but in multiple locations. The most common functions include human resources, information technology, finance and budgeting, and procurement.

Shared services is very common. In the presentation to the Commission by Accenture they noted that 78 percent of private companies are using some form of shared services and realizing 20 to 40 percent in cost savings. The U.S. Postal Service saved $71.4 million and reduced its finance function by 16 to 18 percent.[xiii]

In the public sector, shared services is becoming a more often used tool to make government more efficient and cost less. The federal Office of Management and Budget is using shared services to become more efficient and states throughout the nation are as well.

According to an IBM research paper titled, "Success Factors for Implementing Shared Services in Government" the factors for successful implementation are strong project management skills, senior-level support, effective communication, strong change management, and a phased implementation approach.[xiv]

Wisconsin is uniquely positioned to implement shared services. With the implementation of the STAR Enterprise Resource Planning System, agencies are on a central IT platform for finance, procurement, and human resources. These common functions and others cost a significant amount of taxpayer dollars according to December 2015 data. Shared services was noted by Commission members as being an obvious strategy to save costs.

During the discussion on shared services it was noted that Wisconsin is a Fortune 500 company, but acting like a bunch of small companies. Also, to gain significant savings the state should focus on the large agencies.

Total Cost by Category

Category	Salary & Fringe	Supplies & Services	IT Consultants	Total
Finance	58,785,684.95	7,646,727.05		66,432,412.00
Budget	17,298,988.84	1,964,904.02		19,263,892.86
Legal	46,726,993.93	5,822,474.29		52,549,468.22
Economist	2,527,943.87	330,700.00		2,858,643.87
Fleet	7,735,979.48	1,334,437.00		9,070,416.48
Facilities	88,822,841.67	11,483,002.50		100,305,844.17
Information Technology	169,666,281.85	17,622,248.44	68,646,476.00	255,935,006.29
Procurement	18,851,358.21	2,670,159.00		21,521,517.21
Human Resources & Payroll	43,955,133.06	4,911,027.21		48,866,160.27
Communications	7,396,603.44	1,456,012.50		8,852,615.94
Printing	3,413,436.70	647,822.50		4,061,259.20
Records/Forms	3,150,019.51	529,740.00		3,679,759.51
	468,331,265.51	56,419,254.51	68,646,476.00	593,396,996.02

Why Shared Services?

Deputy Secretary Cate Zeuske shared these submitted comments with the Commission compiled through her research.

"State agencies face ever-increasing budget pressures, an aging workforce and an ongoing expectation that they do more with less. As agencies work to deal with those challenges, it has become increasingly clear that there are insufficient resources for individual agencies to staff as if they are completely independent and not part of the larger enterprise. When agencies maintain their own administrative services, they spend precious management time and resources developing their own policies, procedures and training; recruiting increasingly hard-to-find skill sets for these tasks that are common across the enterprise.

Many organizations provide enterprise-wide services – finance, budget, procurement, human resources, information technology, fleet and facility maintenance and support – through a shared services model. Shared services is a business model for the provision of cost-effective and responsive administrative services, which allow customers to focus resources and efforts on their core business missions. Shared services address common enterprise functions rather than what is agency specific.

Numerous examples from the public and private sectors show that administrative services provision is enhanced through economies of scale, standardization and technology. With proper coordination and communication with customers, shared services can improve service delivery, reduce fragmentation and overlap, and promote continuous business process improvement.

Deputy Secretary Cate Zeuske speaks to Commission members regarding shared services.

The State of Wisconsin already provides some degree of shared services to many state agencies. Often the smallest agencies are attached for administrative purposes to a larger agency – most often, the Department of Administration (DOA). In 2003-05, the State took this approach a step further with the ACE initiative and created specific units within DOA to provide procurement and human resources services to numerous agencies. In 2009, the Legislature authorized the DOA Secretary to pursue a consolidation of the state HR function within OSER by July 1, 2011. The HR Alignment report was created with significant involvement and input from agency HR personnel. While ultimately not implemented, the considerable time and thought that went into the development of that proposal can be utilized in the future.

- Currently, 21 agencies receive procurement services from the State Bureau of Procurement
- 23 agencies receive human resources services from the Division of Personnel Management (DPM)
- 12 agencies receive financial services through the Division of Administrative Services.
- In IT, DOA has gradually assumed responsibility for developing and maintaining IT infrastructure (email, network, servers, etc.) as well as security services for vast majority of state agencies

There are additional reasons why the time is right to build on this momentum and take shared services to the next level, including:

- Recent enterprise efforts – such as the implementation of an integrated enterprise resource planning (ERP) system and optimization of IT infrastructure assets – have highlighted the ability of agencies to work together productively, in this case through the IT Executive Steering Committee, to generate efficiencies and streamline processes.
- The ERP system, STAR, now gives us the ability to leverage an enterprise-level database and analytical functions to produce further efficiencies from HR, finance, and procurement.
- Act 150, the civil service reform legislation, has been signed into law. It envisions a more centralized approach to HR services in order to expedite hiring to help agencies manage turnover anticipated from an aging workforce.
- The law requires DPM by January 1, 2017 to study changes in the compensation plan, the Wisconsin HR Handbook, establish a new classification system, and create a uniform personnel evaluation system.
- It also requires DOA to submit plans to Joint Committee on Finance by March 1, 2017 regarding future responsibility for HR, finance, procurement, and IT.

Shared services is NOT a one-size-fits-all approach. The only way shared services produces an optimal result is when service providers are collaborating extensively with customers to ensure services are meeting business needs. This is true throughout the transition to a shared services model and on an ongoing basis after implementation. Service level agreements and performance measures ensure accountability."

Example of Shared Services in Utah

Jean Mills-Barber of the State of Utah spoke to the Commission so we could gain greater understanding of their experiences with shared services. Utah passed legislation to implement human resources in 2006. After that, their shared services entered a second phase in 2011 and achieved notable success.

In 2006, Utah passed legislation which consolidated all Human Resources staff and functions under the Department of Human Resources Management (DHRM). DHRM's mission was presented as an effort to "Develop, implement, and administer a statewide program of human resource management that: aids in the efficient execution of public policy, fosters careers in public service for qualified employees, and assists state agencies in the performance of their missions" (Utah Code, Section 67-19-6(1)(a)).

Once shared services was implemented, all HR positions, funding, and employees were transferred to DHRM. This transfer budgeted for employees whose primary work responsibility was HR and payroll as official HR positions. With a new organizational structure in place, service level agreements were signed with varying departments and statewide HR policies were implemented.

In 2011, Utah implemented their second phase of shared services. They created the Employee Resource Information Center (ERIC) and moved all HR technicians into the division. The ERIC began to handle all HR transactions such as payroll, transfers, onboarding, and terminations.

Utah began their shared services program to achieve a number goals. Shared services was created to establish a single point of accountability, as well as ensure compliance with and consistent application of law, rule, and policy. The program was established to create operational efficiencies and be adaptive to workload fluctuations. The shared services program would also establish an independent, objective, third-party to consult and advise state managers on HR issues.

The program was met with some challenges. Some department management resisted the transition to shared services for a number of reasons. Some feared the loss of autonomous control, maintaining a desire to have greater influence in the hiring and firing process. Others lacked a general understanding of budgetary adjustments or took issue with "paying someone else's HR costs."

Ultimately, Utah's shared services program led to a number of improvements and successes. Since the 2007 consolidation, Utah achieved all of its stated goals for implementing the shared services model. They employed 57 fewer HR employees, saved $31 million in personnel costs, improved the HR staff to employee ratio from 1:110 to 1:136, and achieved a significant improvement in service within smaller departments which had a history of minimal HR services. The resultant HR services costs were 67 percent lower while the payroll services cost also decreased by 24 percent. In 2015, the DHRM satisfaction rating was 94 percent and the ERIC satisfaction rating was 99 percent.

Commission Action

The Commission discussed a few questions to help inform Wisconsin's pursuit of shared services. These are listed below:

1. Would it be beneficial to use a consultant with experience to implement shared services?

2. Should the state create a shared services governance structure to develop, deliver, and implement a shared service platform to all types of state enterprise agencies?

3. Should the state standardize like processes across the state government enterprise with the goal of realizing efficiencies?

4. Along with standardization, should the state have a goal to identify hidden capacity to reduce costs and improve efficiency? Could shared services be a part of this goal?

5. Would implementing shared services allow state agencies to focus more on their core missions? Could this make their core mission functions more efficiently?

6. Should the state voluntarily offer shared services to local governments if mutually agreed upon?

7. Is there support for these principles for shared services?

   a) Focus on generating long-term, sustainable savings while maintaining appropriate staff levels
   b) Deliver efficient, timely, high-quality services
   c) Respect the core missions and individual needs of agencies
   d) Empower agencies through a shared governance model
   e) Emphasize consistent and bi-directional communications processes
   f) Enable data-driven decision-making
   g) Establish mechanisms for continuous improvement and accountability

The Commission ultimately recommended to pursue shared services. The specific question was, "Should the state initiate a shared services initiative based on the principles of saving money, delivering services more efficiently, and using data to drive decisions and pursue continuous improvement? This would include hiring a consultant to assist in implementation and the creation of a governance structure to deliver on the goals of shared services. Shared services would allow agencies to focus on their core missions by standardizing like processes and having them delivered in a coordinated way across the state government enterprise. After the state shared services initiative matures, it could offer services to local governments through mutual agreement." The vote was overwhelmingly yes.

Local Governments

The Commission only briefly talked about offering shared services to local governments. However, this could reap significant savings for them also. A quick look at human resource costs of a few select counties with available data show the varying levels of cost to provide this function.

Special thanks to Cate Zeuske, Dana Burmaster, Jean Mills-Barber, and Mark Howard for their contributions to the material in this section.

	HR Total Expenditures Per Capita	
Milwaukee	$	8.44
Jackson	$	6.54
Brown	$	6.27
Lafayette	$	5.78
Portage	$	5.37
Eau Claire	$	5.21
Sheboygan	$	4.81
Winnebago	$	4.75
Manitowoc	$	4.35
Marathon	$	4.06
Rock	$	3.40
Waukesha	$	2.78

2016 Data

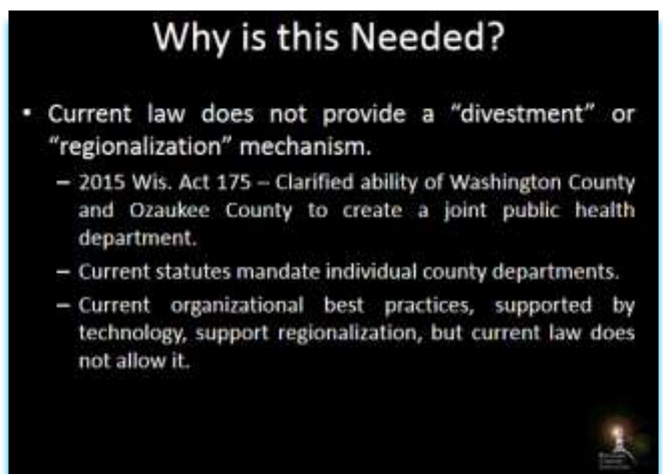
Joint Agencies

County Joint Agency Statute Proposal

The Commission heard testimony from the Wisconsin Counties Association (WCA). The proposal the WCA presented is creating "Joint Agencies" between county governments. The idea is to allow county governments to share certain services or functions each county is required to do under the law without losing each county's autonomy.

As background, WCA presented about how county governments today are expected to fullfill a wide range of commitments to their citizens including being the local presence of both state and local government services. As of 2016, county functions included law enforcement, land record management, taxation, transportation infrastructure, human services (mental health, protective placement, et al.), judicial system court proceedings, public health assurance, recreation, land use, and many more.[xv]

At the same time counties must perform these functions they must realize that according to WCA, counties will not see a measurable increase in state aid for the foreseeable future. Counties will not see a measurable relaxation of levy limits for the foreseeable future while state and county residents will continue to demand services from counties for the foreseeable future. In short, "Counties have to learn to do more with less."[xvi] Because of this, counties suggested a needed vehicle to create efficiencies in the delivery of services such that elimination or reduction of services is not the only budgetary option. The method proposed by the Wisconsin Counties Association was a "Joint Agency" approach.



The Joint Agency Statute Proposal

The proposal allows counties to voluntarily "divest" responsibility for a department or function to a multi-county agency. Effectually, this move creates a new agency that is responsible for the joint department or function. This allows for regional service delivery, but maintains local accountability. The WCA outlined a number of nuanced areas for consideration when creating and maintaining a Joint Agency.

Examples of where this could be used include human service functions. As an example, 2015 Act 175 was necessary for Ozaukee and Washington Counties to create a joint public health department. Ozaukee County Executive Thomas Meaux spoke to the Commission. He spoke about how if this law were in place the legislation would have been unnecessary. He also commented on other functions that could be options for a Joint Agency.

Other county examples include county highway departments, statutorily required county committees, human services, regional record keeping and data warehouse functions, and multi-county administration. The Commission even discussed opening up the joint agency idea to school districts and other municipal governments.

One current example involves the counties of Chippewa, Taylor, Pepin, and Monroe. They are exploring the option of providing joint child protective services. The work they are doing with the Department of Children and Families has been halted because it was determined state law would not allow this joint function. If they could do so, it could provide the service more effectively, with consistent reporting, and one stop access. This has the potential to save on cost and deliver better services. A joint agency statute could allow this with state approval and oversight.

Joint Agency Details

The way it would work is any two or more counties may enter into an agreement to form a joint agency to assume and perform the duties of any department or office within the counties forming the joint agency. A county entering into an agreement to form a joint agency shall specify by resolution the particular duties being delegated and transferred to the Joint Agency.

A Joint Agency created would be governed by a board, the members of which shall be appointed under the terms of the agreement. A joint agency board shall be only a policy-making body determining the broad outlines and principles governing administration of the Joint Agency. All members of the board shall be appointed by the counties entering into the agreement forming the joint agency in accordance with the terms of the agreement. In the event that an agreement made pursuant to this section relates in whole or in part to the provision of services or facilities with regard to which an officer or agency of the state has constitutional or statutory powers of control, the agreement shall, as a condition precedent to its becoming effective, be submitted for approval to the state officer or agency having such power of control.

Any agreement creating a Joint Agency would provide a plan for administration of the duties, including without limitation the proration of the expenses involved, deposit and disbursement of funds appropriated, submission and approval of budgets, selection and removal of board members and formation and letting of contracts. In addition, agreements would include:

- Its duration, which may be perpetual;
- The organization, composition and governance of the joint agency created

thereby together with the powers and responsibilities delegated thereto;

- The purpose or purposes of the joint agency created thereby;
- The manner of financing the joint agency and of establishing and maintaining a budget therefore; and
- Any other necessary and proper matters.

Any Joint Agency would possess no power to tax, give flexibility on joining, modifying and exiting a joint agency to the counties involved, and maintain local accountability through local elected official participation, as well as create a mechanism for state recognition of the Joint Agency.

Conclusion

County Executive Meaux talked about how he thought counties would take advantage of this tool. Commission members shared their experiences in local government. County Executive Meaux said the joint health department was saving money for both Ozaukee and Washington counties.

Commission members talked about how this type of tool was necessary for less populated counties to continue to survive and provide services. This is a way to break down divisions and encourage cooperation.

The Commission overwhelmingly recommended the state give local governments this tool.

Special thanks to Tom Meaux, Andrew Phillips, and Kyle Christianson for their contributions to the material in this section.

Office of Management and Budget

Office of Management and Budget

The Commission heard testimony from two directors of state's Office of Management and Budget or OMBs. Kristen Cox, Director from the State of Utah spoke about the SUCCESS Framework. This is the approach being used by Utah Governor Herbert's administration to improve government operations and services by at least 25 percent efficiency in all government agencies. The Commission also heard testimony from Micah Vincent, Director from the State of Indiana. Director Vincent spoke about the history and achievements of the Indiana OMB since its creation by Governor Daniels in 2005.

> **HIGH PERFORMING ORGANIZATIONS AREN'T CREATED BY ACCIDENT.**
>
> Rather, they have certain infrastructure, expertise, and systems in place that allow them to continually deliver better and better results. While no organization ever has all fundamentals perfectly designed and implemented, a high performing organization has a set of core fundamentals in place and is actively and continually improving on each. Before diverting resources or time to other efforts, a high performing organization focuses on these **7 fundamentals** with the requisite expertise.

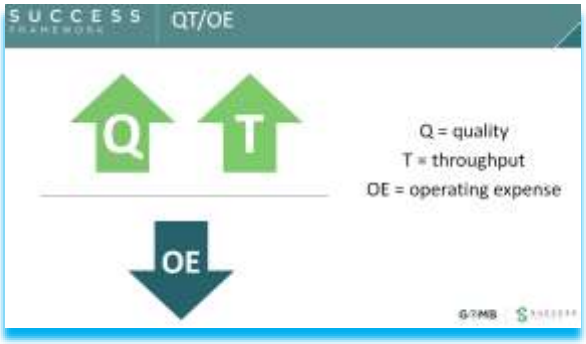
The Commission considered the creation of an OMB in Wisconsin. Indiana Director Vincent recommended that if an OMB is created there needs to be a direct link to the Governor, the authority should be well defined, a large umbrella of agencies should be folded in, buy-in is needed on performance metrics, and must break down data siloes to harness analytical power of integrated data analysis. [xvii] The Commission recommended the state consider creating an OMB structure in Wisconsin.

The successes of Indiana after Governor Daniels created his OMB were chronicled in an article submitted by the former Indiana OMB Director, Christopher Ruhl.[xviii] In the article, former Director Ruhl discusses reduced spending, improved credit ratings, and the better financial standing of the state as successes of the OMB. Interestingly, Governor Daniels is a former White House OMB Director to President George W. Bush where he served from 2001-03. The White House OMB has a long history and clear mission to "serve the President of the United States in implementing his vision across the Executive Branch."[xix]

The White House OMB has a clear and detailed mission. The focus is development of the executive budget; however, they also include management of agency performance, procurement, finance, and information technology. It serves the President and includes the offices necessary to effectively manage government and implement his or her priorities.[xx]

Utah's SUCCESS Framework

The SUCCESS Framework builds upon seven fundamentals of a high performing organization.[xxi] These are listed in the "SUCCESS for Organizations" graphic on the next page. In short, the framework is made up of principles and tools to drive efficiency, savings, and better service in state operations. Utah uses a measure, quality throughput divided by operating expense (QT/OE) to benchmark and drive efficiency. According to Utah's website, the framework has three phases for state agencies. [xxii] These are basically identifying major systems and goals, creating a one-page improvement strategy, and applying tools or processes to get results measured by QT/OE.



An example of this from Utah is in their Employee Resource Information Center where they are on track to process 20 percent more transactions per year since 2014 and are doing so with 25 percent fewer staff.[xxiii] This has realized $900,000 in savings according to Utah.

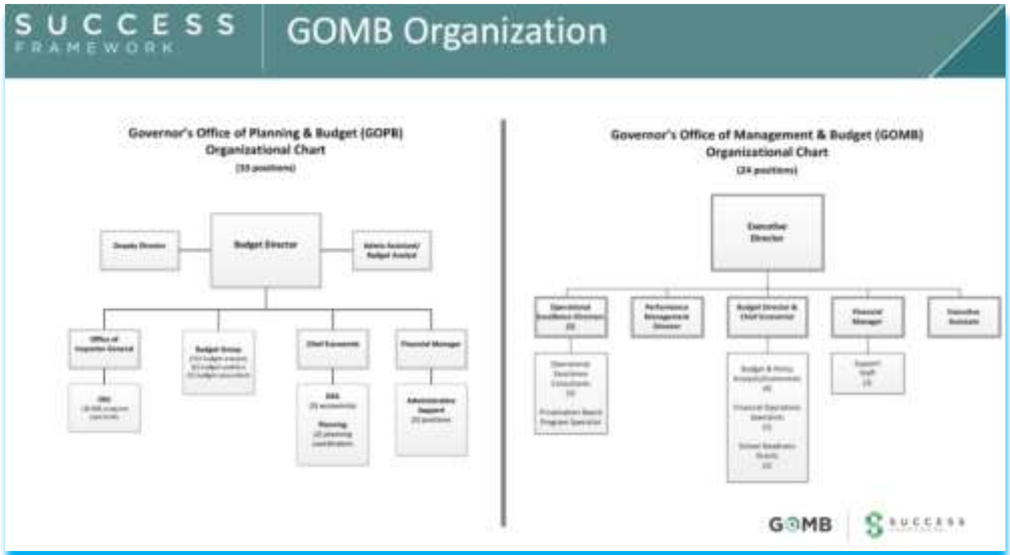
The Commission recommended the state consider implementing the SUCCESS Framework as one of numerous reform processes to drive efficiency. An OMB could be assigned and accountable to implement this.

Indiana's Performance and Management Hub

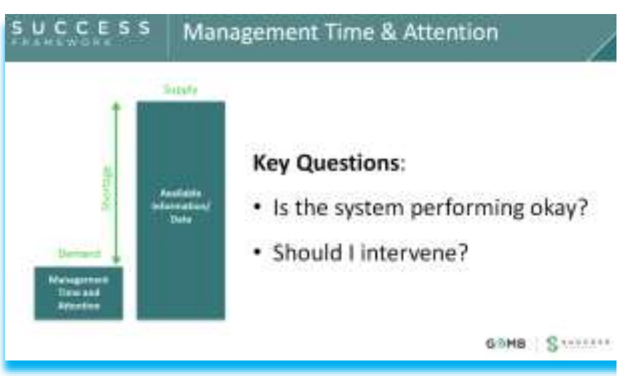
Indiana's OMB was created by Governor Mitch Daniels in 2005 in order to improve the state's finances. It linked all finance related agencies and functions under one OMB Director acting as the state Chief Financial Officer or CFO. The OMB Director was to strengthen oversight and management of the state's fiscal policy, coordinate activities in financial agencies, and link spending and budgeting to performance metrics. The OMB credited Indiana's improved reserves and credit rating to the actions taken.

One of the more recent actions by Governor Pence was the creation of a Management and Performance Hub for agency data sharing. The vision is to "have the most effective, efficient, and transparent state government in the country."[xxiv] The idea is to use state data to better enact policies that will improve things such as employment, graduation rates, and quality of life.

In the process of hearing from the OMBs of these states, the Commission reviewed the current structure in the

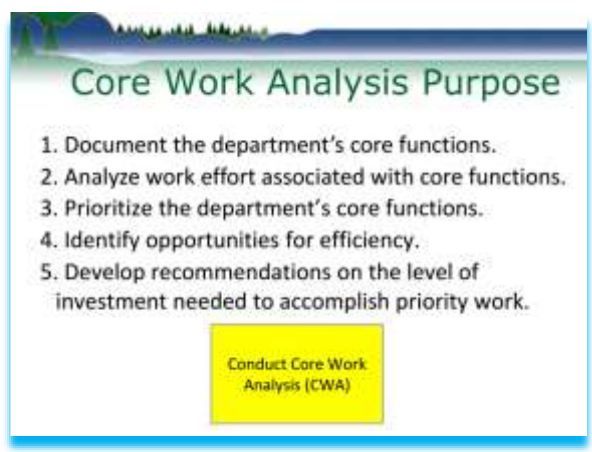


State of Wisconsin and how it compares to these and other states. Utah and Indiana have clear and detailed missions of what their OMBs are to achieve and executive orders outlining its duties.[xxv] Wisconsin's equivalent, the Department of Administration which includes the State Budget Office, has grown over time to include functions that may not be viewed as 'core' or a part of its mission to "lead state government." Its mission is one line and some may conclude if its mission were focused and defined with an executive's priorities, it would be better set up for success. One of the topics discussed by Utah officials to the Commission was how better focusing management's time and attention, by using data, greater and improved results could be achieved. In short, if you are focused on everything, are you really focused on anything?



Core Work Analysis

The Commission heard testimony from the Department of Natural Resources (DNR) regarding its "core work analysis." The DNR embarked on a review of all its programs and structures. The purpose was to document the core functions of the DNR, prioritize these functions, and identify opportunities for efficiency and reprioritization of resources. The effort would increase alignment and efficiency, as well as, improve consistency and accountability among other goals.



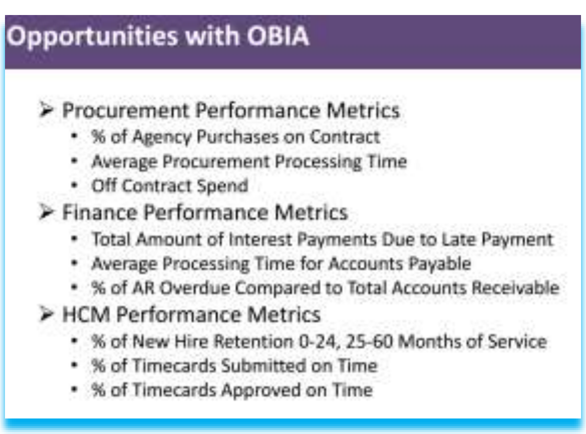
In this review the DNR asked provocative questions and thought outside the box. They identified functions such as vehicle and trailer registration that may fit better in the Department of

Transportation. They identified properties that may be managed by other entities because they do not fall within the agency's mission. They also identified numerous service delivery improvements. The DNR asked questions that pushed staff to think about what they would do with fewer resources which helped facilitate ideas.

The Commission recommended all agencies undertake a core work analysis. This is an initiative that must be coordinated and agencies must be held accountable. This is something that could be incorporated into the mission of an OMB.

STAR

The Commission heard testimony from the STAR Program Office. STAR is the new state enterprise resource management system. The scope of the system includes state finances, procurement, human resources and payroll, budget, and business intelligence. STAR is replacing more than 140 obsolete and expensive software programs and will save costs largely through strategic sourcing and other improvements. The net savings over ten years was estimated to be approximately $100 million.



STAR also has Business Intelligence applications. These are data analytic tools to help manage finances, control spending, and save costs through greater efficiency. These are the types of tools that will benefit the state. They could also be used by an OMB as a way to measure performance, maintain dashboards, and drive efficiency. The Commission recommended using STAR and its business intelligence tools to eliminate inefficiencies and realize savings.

Free Market Board

The Commission heard testimony from the Utah Free Market Protection and Privatization Board. The board is attached to the Utah OMB. It has a mission to study, "privatization issues related to state agencies and local entities."[xxvi] The board looks at not only privatizing government functions and whether or not this makes financial sense, but also whether or not government is encroaching on a function or service that would be better performed by private business. The board may also hear complaints from private businesses.

The idea of creating a privatization board is not new in Wisconsin. In the 1995-97 budget, the Governor Thompson proposed creating a Wisconsin Competitive Enterprise board to perform similar functions as the Utah board.[xxvii] The budget proposal also created a Privatization Commission that was to review and recommend privatization options to the board for consideration. The Legislature changed the proposal to only create the commission and to have the commission issue a report to the Governor and Legislature. This Privatization Commission did issue a report in June of 1998 with recommendations and examples of opportunities for privatization. Some were pursued and some were not.

Fleet Management

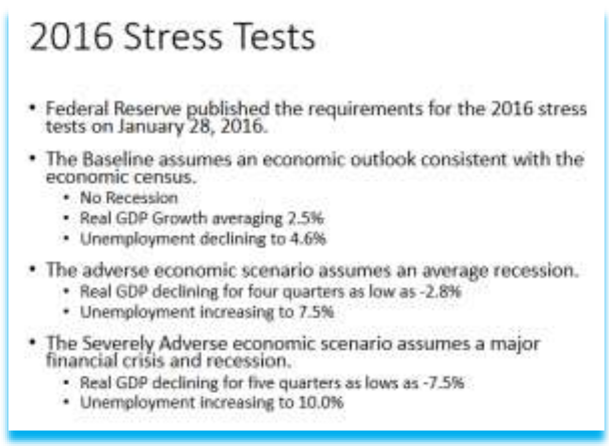
If a board such as this were to be created in Wisconsin, it could be given a list of state functions to review and make recommendations. One such function is the enterprise fleet. The Commission heard testimony from Enterprise Rent A Car regarding privatizing certain functions of the state's fleet.

Using general data from the state, Enterprise presented to the Commission information estimating millions in savings to the state on travel reimbursements. This is potentially something that could be reviewed by a Privatization Board.

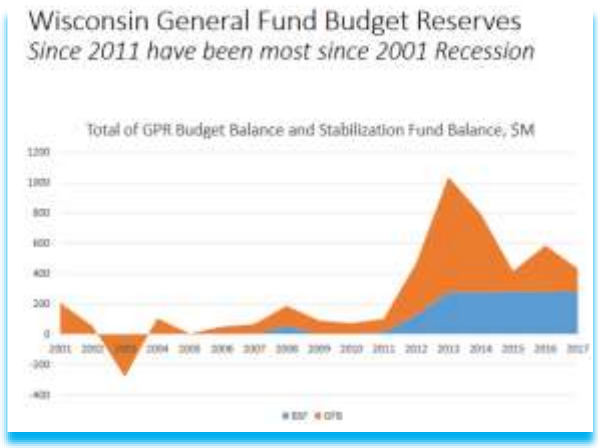
The Commission was neutral in its recommendation to create a board similar to Utah's that is attached to an OMB.

Budget Stress Test

The Commission heard testimony regarding a function performed by the Utah OMB. The Utah OMB includes their state's chief economist. They perform a state budget "stress test" similar to the test conducted on banks by the Federal Reserve in response to the Great Recession and required under the Dodd-Frank Act of Congress.[xxviii] The Utah test estimates what impact a consensus forecast, typical, or major recession would have on the state budget.



Utah's test takes into account revenues and expenditures. Utah's 2015 test concluded they could withstand a typical recession scenario. The Commission asked the Department of Revenue to replicate a stress test for Wisconsin looking at the impact the three scenarios would have on revenues. The test found revenue losses from mild to severe recessions ranging from $1 billion to $2.1 billion over a biennium.



Rating agencies view this process positively. Standard and Poors viewed this as a "strong practice." [xxix] The Commission recommended that the State of Wisconsin conduct budget stress tests to help inform policy makers as well as to increase its budget reserves in anticipation of economic downturns.

Various Savings Options/Goals

An OMB could be put in charge of various initiatives to improve efficiency and savings across the state government enterprise. The Commission reviewed the cost of various functions across state government and ways to reduce their costs. The following data synopsizes what the state spends on various functions and activities. The Governor's Commission considered strategies to reduce these costs.

State and UW Vehicle Purchasing[xxx]

Fiscal Year 2016	$13,401,822
Fiscal Year 2015	$14,345,651
Fiscal Year 2014	$10,697,382
Fiscal Year 2013	$15,678,913

The Department of Natural Resources became an "Enterprise Agency" which included vehicle purchasing flexibilities. They used these tools and new strategies to drop their purchasing by -16.4 percent in the first year and maintained an additional -4.8% drop in the second.[xxxi]

Mailing, Advertising, and Printing[xxxii]

	FY14	**FY15**
Postage	$34,392,400	$33,010,200
Freight and Handling	$11,269,400	$10,546,300
Advertising & Promotions	$33,902,900	$32,943,500
Printing – State Agency Operations	$13,903,900	$13,473,300
Printing – Commercial Vendors	$10,780,000	$10,126,300
Total	$104,248,600 (UW $40,709,900)	$100,099,600 (UW $42,139,300)

Wisconsin Statutes Chapter 35 mandates printing of the Laws of Wisconsin. This includes Wisconsin Statutes and Wisconsin Blue Books. Also, statutes provide for the printing of the biennial reports of nearly all agencies. There are 79 other statutory printing requirements, of which 8 are optional.[xxxiii]

In regards to publishing, there are 88 publishing requirements in state law for state and local governments.[xxxiv] In regards to mailing, there are 389 required mailing requirements and 487 total in state statute.[xxxv]

Travel Expenses[xxxvi]

Fiscal Year 2015	$158,574,271.13 (UW $104,136,094.89)
Fiscal Year 2014	$155,941,805.73 (UW $101,216,583.68)
Fiscal Year 2013	$145,931,634 (UW $93,717,979)

There are approaches to saving on travel and fleet management as well as printing and mailing savings in other sections of the report.

The Commission agreed the state should review savings approaches to these various functional categories, set savings goals, and put processes and plans in place to achieve these goals. This is something an OMB could coordinate and implement.

Total state all funds spending, excluding UW System for the above functional categories was $112,398,476.24 in fiscal year 2015. Estimates of annual savings if various goals are established and met are below:

Goal	Savings
10%	$11,239,847.62
20%	$22,479,695.25
30%	$33,719,542.87

Contract Staffing Review

The Commission reviewed the cost and benefit of having state staff vs. contract staff. Across state government there was $564.9 million spent on contractual services in fiscal year (FY) 2014.[xxxvii] In FY15 this total increased to $607.1 million.[xxxviii] This total does not include interagency or municipal spending. It also doesn't include conservation, fellowships, scholarships, or services provided for building or road construction projects, research or instructional services. The total has varied from as low as $417.2 million in FY2010 to where it is today over the last decade.

Some of these contracted services are for staff. Contract staff is different than full-time state personnel (FTE). Contract staff do not get state benefits and depending on the occupation may cost more or less than a state FTE. Contract staff can also have higher turnover than state FTE.

As an example, the Medicaid Claims Section within the Department of Health Services (DHS) has 12 contract staff and 6 state FTE. The contract staff are on a temporary contract and do not work full-time. They oversee Medicaid claims processing to provide numerous checks on Medicaid claims to reduce inappropriate claims payments. They also maintain the data warehouse, review provider updates and instructions, oversee the Medicaid Management Information System (MMIS), and provide direction to Wisconsin's Medicaid fiscal agent, HP. If just 5 of the 12 contract staff were converted to state FTE, $1,044,900 in all funds and $261,200 in state general purpose revenue (GPR) would be saved annually.

Another example from DHS is in the Medicaid Electronic Health Records (EHR) Incentive program. This program provides incentives to hospitals to upgrade electronic health records technology. Since 2011, $193.3 million has been distributed to 91 hospitals and 1,139 professionals. DHS currently relies on contract staff to administer and oversee the program. This costs $2.2 million for 5 contract staff. Using state staff would save $1.4 million annually of which $142,000 is state GPR.

The Department of Health Services has 497 contract staff and contracted for $190 million in services in FY15, although not all of these costs are for staff. In a 2011 Legislative Audit Bureau report, the growth in use of contract staff by DHS was mentioned as something to monitor.[xxxix]

Savings may also be realized through mandatory renegotiations of contracted services. This was highlighted as a strategy by the Department of

Administration in 2010 for enterprise-wide contracts. Between FY09 and FY10, total contracted services cost dropped $20 million or 4.8 percent.[xl] For state agencies alone excluding UW System, the drop was even more dramatic. The reduction was $29 million or 9 percent year over year.

Fiscal Impact

The two examples mentioned above would save $2.5 million all funds of which $400,000 would be state GPR. An analysis of how this same approach could be extended to all agencies could result in much higher savings. This doesn't necessarily mean more net state FTE. For example, DHS currently has 670 vacancies and potentially some of these positions could be repurposed.

The Commission recommended setting a goal to reduce contracted service costs to the state. Renegotiations of contracts as well as other efficiency ideas related to contracted services could be included. An OMB could be charged with this along with other initiatives in this report.

Conclusion

The Commission reached out to numerous experts with experience in different government structures and reform initiatives. The Commission found that in the 1997-99 budget the state created a Performance Evaluation Unit in the Division of Executive Budget and Finance.[xli] Former staff members of this unit, and those that worked with it, talked positively about creating an OMB in Wisconsin.

The Commission reached out to Don Kettl. Mr. Kettl concluded in a statement he submitted to the Commission in regards to creating an OMB in Wisconsin with:

"First, creating an OMB could help Wisconsin deal with each of these challenges far more effectively. It would not need to be a large agency. Indeed, it shouldn't be—the most effective agencies of its kind are small and agile. But Wisconsin is likely to be able to manage its future challenges far more effectively if it has a strong and effective OMB.

Second, the best-managed governments in the world have gone down this road. There's a vast supply of evidence not only from state and local governments in the United States but also from the Interamerican Development Bank, the Organization for Economic Cooperation and Development, the World Bank, and international experts to support this proposition.

This is an opportunity for Wisconsin to learn from the best-in-class strategies that governments are using—and, in the best of Wisconsin traditions, to enhance its ability to deliver the best service to taxpayers in exchange for their hard-earned dollars."

An OMB could be helpful in implementing numerous initiatives discussed in this report. Everything from sunset, to shared services, and savings targets could be supervised by an OMB. This is why the Commission recommended the state explore this option.

Special thanks to Katherine Barrett, Richard Greene, Micah Vincent, Kristen Cox, Cliff Strachan, John Koskinen, Mark Aquino, John Hogan, Dana Burmaster, and Don Kettl for their contributions to the materials in this section.

Select Data Source and Select Rankings for OMB States

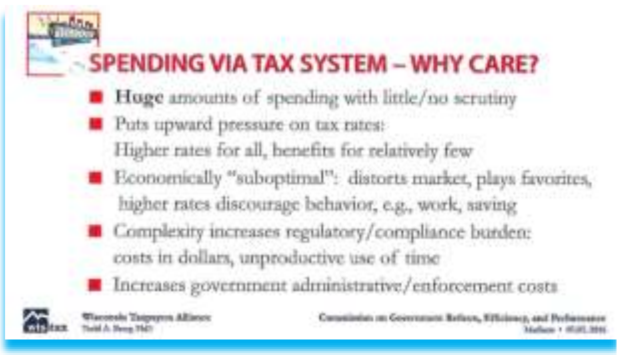
	Total Expenditures	Ending Balance	Rainy Day Fund	Total Balances as Percent of Expenditures	Ranking	State Fiscal Condition Ranking**	Best and Worst Run States/Wall Street Journal***	Credit Rating (S&P/Moody's)
Alaska	$ 5,448	$ (3,612)	$ 6,881	60.0%	1	1	18	AAA/Aaa
Deleware	$ 3,936	$ 640	$ 215	16.3%	6	38	12	AAA/Aaa
North Dakota	$ 3,652	$ -	$ 573	15.7%	8	4	1	AAA/Aa1
Indiana	$ 15,099	$ 960	$ 1,317	15.1%	10	17	31	AAA/Aaa
Minnesota	$ 20,414	$ 2,560	$ 1,947	12.5%	12	26	5	AA+/Aa1
Iowa	$ 7,168	$ 173	$ 719	12.4%	13	25	3	AAA/Aaa
Utah	$ 6,297	$ 180	$ 491	10.6%	15	7	6	AAA/Aaa
Maryland	$ 16,613	$ 502	$ 832	8.0%	26	41	20	AAA/Aaa
Ohio	$ 35,623	$ 826	$ 2,005	7.9%	27	11	28	AA+/Aa1
Rhode Island	$ 3,577	$ 82	$ 188	7.5%	29	37	47	AA/Aa2
North Carolina	$ 21,735	$ 176	$ 1,102	5.9%	35	21	24	AAA/Aaa
Wisconsin	$ 15,896	$ 284	$ 280	3.5%	42	29	26	AA/Aa2
New Jersey	$ 33,805	$ 785	$ -	2.3%	44	48	44	A/A2
Illinois	$ 31,469	$ 128	$ 276	1.3%	47	47	49	A-/Baa1
National Average				8.9%	23	25	22	

Sources: NASBO Fiscal Survey of the States Fiscal Year 2016 General Fund
*FY13, Mercatus, Ranking the States by Fiscal Condition
**FY14, Mercatus, Ranking the States by Fiscal Condition
Mercatus uses service, long-term, budget, trust fund, and cash solvency.
***Calculated using debt per capita, credit rating, UI rate, household income, and poverty rate.

Tax Reform Considerations

Tax Exemptions, Expenditures, and Other Preferences

The Commission considered the review and possible sunset of tax exemption, expenditure, and preferences during the reform process. The Commission heard testimony from Todd Berry of the Wisconsin Taxpayers Alliance, Angela Gullickson of the Iowa Department of Revenue, and numerous CPAs. The Commission recommended to create a sunset review process for tax exempt devices.

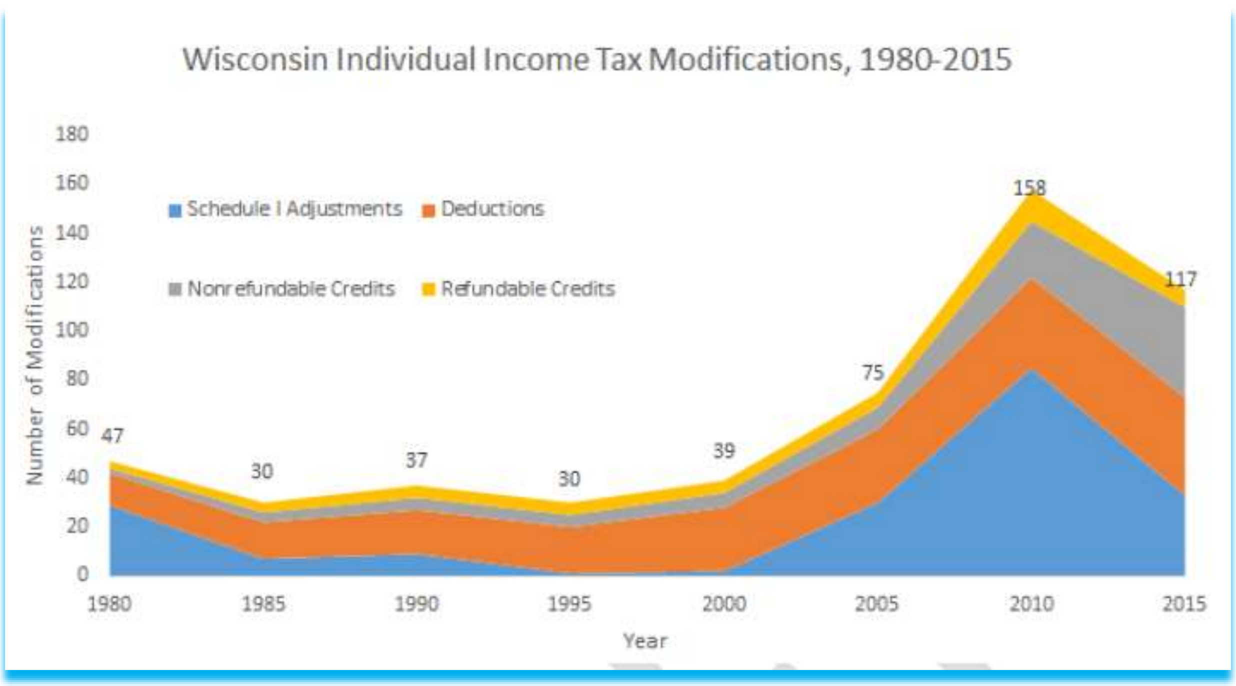


A slide from Todd Berry's presentation to the Commission in regards to "The Spending No One Sees."

Across tax types, Wisconsin tax law provides a myriad of exemptions, exclusions, deductions, credits, and direct payments for individuals and businesses. These items are referred to by the collective term, tax exemption devices.

The Department of Revenue's (DOR) Research and Policy Division biennially publishes the Summary of Tax Exemption Devices report, which details the numerous devices and their associated fiscal effects. The Wisconsin Taxpayer (WISTAX) published in its April 2015 edition entitled, "The Spending No One Sees," stated that taxpayers must make more than 75 additions and subtractions before arriving at Wisconsin Adjusted Gross Income (WAGI).

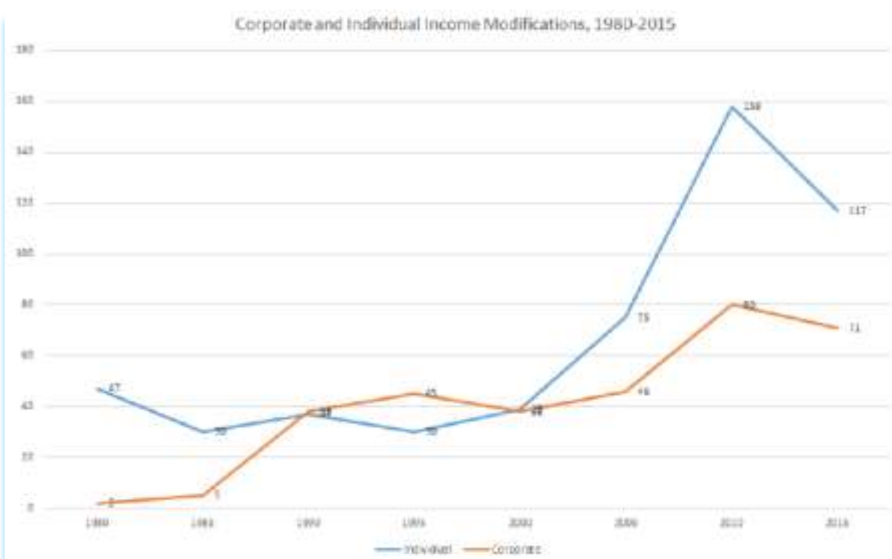
The numerous additions and subtractions reflect differences in state and federal tax law, and most but not all of the adjustments reflect additional tax exemption devices that state tax law provides beyond what federal tax law provides. The WISTAX report focused on the various types of tax exemption devices, more specifically, exclusions, credits, deductions, and exemptions.



Exclusions refer to income that the state does not tax. Among the most significant exclusions cited by WISTAX, included the full exemption of social security income from state income tax and the more generous state exclusions provided on capital gains. Largely driven by these two examples, exclusions reduced collections by about 9 percent or $641.7 million in Tax Year 2014 according to WISTAX estimates. Various exclusions identified in the corporate income tax provided another $50 million reduction in state tax revenues in the same year.

Credits are direct reductions to income taxes owed. In 2014, WISTAX stated there were 41 tax credits worth $1.6 billion, or 22.6 percent of total income tax collections. Notable credits taken by individual taxpayers include the School Property Tax Credit, Itemized Deduction Credit, and the Married Couple Credit. Popular credits that are taken by businesses or passed-through to individual shareholders of businesses include the Manufacturing and Agriculture Credit and the Historic Rehabilitation Credit. DOR estimates these two credits will provide, respectively, $283.9 million and $44.8 million in Fiscal Year 2017 alone.

Deductions allow taxpayers to reduce their income that is subject to taxes, usually by subtracting expenditures or losses. In addition to specific deductions, Wisconsin also provides a standard deduction that declines as income rises. WISTAX estimated the cost of the standard deduction was $796 million in 2014.



Exemptions are designated areas by the Legislature that are not subject to tax. Exemptions primarily occur in the sales and use tax, although personal exemptions also exist to provide individual income tax relief. Services are generally exempt from the sales and use tax unless specifically enumerated in law. Everything from haircuts to accounting services are exempt from the sales and use tax. Goods are generally subject to tax unless specifically exempted in statute. However, numerous exemptions exist, from food staples to content purchased by jukebox operators.

The buyer of goods and services may also have a sales and use tax exemption, which statutes provide to nonprofits and governments and those making purchases for specific purposes including farming and for manufacturing businesses. The cost of exemptions provided generally to government and nonprofit buyers cost $359 million and $160 million, respectively, in Fiscal Year 2014 according to WISTAX. Some of the more notable sales and use tax exemptions and associated costs on specific goods (not customers) include food ($579 million), motor fuels ($571 million), prescription drugs ($162 million), and water sold through mains ($26 million). Additionally, WISTAX estimated the cost of exempted services in 2014 cost the state $1.6 billion.

The Governor and Legislature over the past two budgets has eliminated several tax credits that had minimal utilization, and the Legislature has also consolidated other credits. However, on the whole, the Legislature has significantly increased tax exemption devices over the past two decades. Exemptions are rarely repealed and the list of exemptions continues to expand every session. As stated earlier, DOR's Summary of Tax Exemption Devices report is available to serve as a reference for public policy makers to scrutinize the litany of tax exemption devices currently in effect.

The Exemption Devices report considers each item in isolation and does not factor the interaction of the devices and the associated fiscal effect of the interactions. The report is instructive when considering the relative magnitude of individual tax exemption devices.

Compliance Costs

Taxpayers and DOR have compliance costs. Taxpayers must often calculate credit amounts and may have to file additional schedules or certifications with their tax returns when claiming credits. Similarly, DOR must likewise process and review the additional schedules and certifications submitted by the taxpayers. If DOR audits a return, both the taxpayer and DOR face associated audit costs, including costs related to reviewing credits. Compliance costs for both the taxpayer and DOR would be less if fewer tax exemption devices existed.

The IRS estimates the average taxpayer compliance burden in the federal Form 1040 instructions. The current cost estimate to file is 13 hours/$200 per return. Since the basis of Wisconsin's individual income tax and forms is the taxpayer's federally adjusted gross income, the compliance cost for Wisconsin taxpayers filing Wisconsin tax returns is likely less than the federal burden. While the exact compliance cost for taxpayers is unknown, an estimate of 2-5 percent of income taxes collected is not unreasonable.

Furthermore, the cost of administering property tax exemptions, sales and use tax exemptions, the retailer's discount (compensation for retailers for filing their sales and use tax returns), sales and use tax exemption certificates, and similar compliance demands are not considered in the 2-5 percent range provided above.

Review of Tax Expenditures

The Legislature does not routinely conduct a formal review of tax exemption devices. Historically, and especially in recent budgets, the tax package considered by the Joint Finance Committee usually involves a review of some existing devices, usually credits, by a member or members of the Committee.

DOR pursues technical legislation each session and regularly recommends adoption of federal tax changes for state purposes, but DOR generally does not promote specific tax policies via stand-alone bills. DOR's Division of Research and Policy issues fiscal estimates on tax legislation, including bills that involve tax expenditure devices.

Other states have established formal processes for review. The Federation of Tax Administrators recently conducted a listserv inquiry that asked states if they have formalized review processes. Eighteen states responded. Of those, 13 indicated they issue a report detailing the cost of tax incentives/expenditures, which appear to be equivalent to DOR's Summary of Tax Exemption Devices report. Of those 13 states, three (Iowa, Oklahoma, and Washington) conduct periodic reviews of the effectiveness of the credits/expenditures and whether the costs are worth the benefits. Two other states (Arizona and Rhode Island) conduct periodic review of some, but not all, of their tax preference items.

A growing but not preeminent trend among state legislatures is to pair automatic sunsets (expirations) with new tax credits/expenditures. The sunsets mandate legislative review of the effectiveness of the credits/expenditures and require explicit reauthorization of the preference in order to prevent the otherwise automatic sunset.

Considerations and Examples

Wisconsin limits a few credits, such as the Development Opportunity Zone Credit, to a certain number of zones or claimants. However, these limitations generally do not have a sunset other than additional credit awards becoming unavailable once issued credits meet the predetermined caps.

Tax Exemption Devices of Lesser Value

While the Legislature has eliminated several credits and deductions with minimal value or few claimants, several tax exemption devices still exist that have few claimants or primarily benefit out-of-state taxpayers or businesses.

The Engine and Energy-Efficient Products Research Credits have limited and declining claimants. The eligible taxpayers for these credits are generally eligible for the more impactful Manufacturing and Agriculture Credit. Claimants of the Engine Research Credit have declined by over 50 percent since 2009 to just a handful. However, even with a very small group of claimants, the amount of the Engine Research Credit claimed has increased from $7.2 million in 2009 to $19.7 million in 2013 because claimants generally do not have enough tax liability to use the credits, and unused credits carry forward.

Of note, the state will experience the fiscal effect of the outstanding claims (the $19.7 million figure) at some point in the future when claimants have sufficient liability to offset. The short-term fiscal effect of the credit is about $300,000-$450,000 annually. DOR does not have record of any corporate claimants of the Energy-Efficient Products Research Credit in recent years. The credit was newly available to individuals beginning in 2013, but only a handful of claimants have claimed the credit. The fiscal effect of the credit is in the range of $80,000 - $240,000 annually.

The Working Families Credit is now effectively only available to nonresident married couples, despite their incomes making them ineligible for the credit if both were residents of the state. Due to inflation adjustments, full-time Wisconsin residents generally cannot benefit from this credit since their liability is eliminated via other means. This credit reduces state revenues by $209,000 annually.

Certain high-earning individuals are able to claim the Homestead and Earned Income Tax Credits by reducing their income with large losses. These individuals would not normally be considered as "lower income" by most. If limited, this would increase state revenues by $1.1 million annually.

The "retailer's discount" incentive, which is generally available to all retailers filing sales tax returns, allows claimants to keep a portion of the sales tax they collect in order to fund associated administrative expenses. The benefit is available to all retailers, so very large multi-state retailers and small retailers alike receive compensation. Reimbursing a portion of administrative expenses is more questionable for retailers who must collect sales tax in most states. Wisconsin provides this incentive, but several other states do not, including Iowa and Minnesota. The retailer's discount has a fiscal effect of $19.1 million annually.

Interaction Effects and Exemption Device Parameters

In addition to tax exemption devices of lesser value, the way devices interact with each other and also the how the devices are constructed are worthwhile areas for the Legislature to explore. For example, the same income can generate both a Manufacturing and Agriculture (M&A) Credit and a Credit for Taxes Paid to Other States.

The following simplified scenario is an example of how the same income can produce two credits: a Wisconsin manufacturer derives income from manufacturing products in Wisconsin. The income generated from this manufacturing determines the manufacturer's M&A Credit amount. That same manufacturer sells the goods made in Wisconsin to customers in several other states. Since the manufacturer is making sales into other states, it then has a tax liability in those other states and pays taxes to the other states based on its apportioned income to each of those other states. Wisconsin provides a full credit for taxes paid to other states. That means all of those income taxes the manufacturer is paying to other states results in a Wisconsin credit that can be used to offset Wisconsin tax liability. The manufacturer already has M&A Credit for making those products in Wisconsin. The same income produces two different credits to offset it, and the manufacturer is eligible to claim both.

This interaction/double-dip could be eliminated without repealing either credit. The Legislature could also review numerous phase-outs, caps, and inflation adjustments to address similar scenarios.

Another example of reforming rather than repealing a credit is the more advantageous calculation method of the Itemized Deduction Credit for non-state filers compared to Wisconsin residents. Non-state filers have a more advantageous baseline calculation that they multiply against their percentage of Wisconsin income than a Wisconsin resident only filing in Wisconsin. The Legislature could change the calculation of the credit to remove the advantage for non-state filers and save the state between $500,000 and $600,000 annually, while continuing to offer the Itemized Deduction Credit to all taxpayers using a more equitable calculation method.

Utilization

The elimination and merger of tax credits and the repeal of certain deductions, almost exclusively in the last two biennial budgets (2013 Wisconsin Act 32 and 2015 Wisconsin Act 55), have reduced tax exemption devices by over 20. The impact is most profound in the area of credits, and as a result, Wisconsin will offer roughly half of the amount of credits in Tax Year 2016 than it did in Tax Year 2013. The vast majority of credits eliminated had few claimants and their elimination resulted in minimal outcry or even discussion from taxpayers and preparers.

The table on the following page reflects tax year credit claims for 2012, which is the most recent year that full corporate and individual income tax data are available. Note, in Tax Year 2012, the Manufacturing and Agriculture credit did not yet exist nor did WEDC's new Business Development Credit, which first takes effect in Tax Year 2016. Since the Business Development Credit merged the refundable Jobs Tax Credit and the Economic Development Credit, those credits do not appear in the table below even though they were in effect in Tax Year 2012. Also, note that the Historic Rehabilitation Credit was much less valuable in 2012 than it is today (5% vs. 20% of project costs), which means that its relative popularity in 2012 is likely much less than in more recent tax years.

The next table summarizes individual income tax deductions utilized by 500 or fewer returns in Tax Year 2013. Compared to eliminating credits, revenue savings to the state are less for eliminated deductions. The reason why is that deductions reduce income subject to income taxes, whereas, credits subtract directly from the total tax due.

Tax Year 2012 Credit Claims

Credit	Corporate		Individual		Total		Claimant
	Count	Amount	Count	Amount	Count	Amount	
Non-refundable Credits							
Energy Efficient Research Expense	0	0	NA	NA	0	0	None
Engine Research Expense	≤ 10	32,424,435	NA	NA	≤ 10	32,424,435	Corporation
Community Rehabilitation	14	32,790	56	15,230	70	48,020	Business
Historic Preservation	≤ 10	2,351,346	378	2,255,495	≥ 378	4,606,841	Individual
Early Stage Seed	≤ 10	1,055	388	3,884,025	≥ 388	3,885,080	Individual
Research and Development Expense	488	240,456,395	NA	NA	488	240,456,395	Corporation
Angel Investment Credit	NA	NA	540	9,199,237	540	9,199,237	Individual
Working Family Credit	NA	NA	700	207,638	700	207,638	Individual
Armed Forces Credit	NA	NA	5,481	1,661,380	5,481	1,661,380	Individual
Tax Paid to Other States	NA	NA	71,727	289,692,458	71,727	289,692,458	Individual
Itemized Deduction Credit	NA	NA	675,346	366,091,995	675,346	366,091,995	Individual
Married Couple Credit	NA	NA	690,236	265,745,144	690,236	265,745,144	Individual
School Property Tax Credit	NA	NA	1,989,270	467,599,016	1,989,270	467,599,016	Individual
Refundable Credits							
Earned Income Tax Credit	NA	NA	264,831	99,550,073	264,831	99,550,073	Individual
Repayment Credit	NA	NA	160	82,524	160	82,524	Individual
Homestead Credit	NA	NA	222,356	115,877,180	222,356	115,877,180	Individual
Veterans and Surviving Spouses Property Tax Credit	NA	NA	6,634	19,287,913	6,634	19,287,913	Individual
Enterprise Zones Jobs	≤ 10	28,470,658	≤ 10	5,063	≤ 10	28,475,721	Business
Farmland Preservation Credit	32	36,713	2,928	1,985,488	2,960	2,022,201	Farm/Farmer
Farmland Preservation 2010 and Beyond	223	619,491	11,576	16,485,192	11,799	17,104,683	Farm/Farmer

Note, the ATV Corridors and Job Creation Deductions are no longer in effect in Tax Year 2016 but were in effect for Tax Year 2013. Also note that the counts reflect the number of taxpayers claiming the deductions for Tax Year 2013 does not reflect any post-audit deduction disallowances.

Tax Year 2013 Deduction Claims		
Deduction	Count	Amount
Recapture Of Development Zones Investment Credit	0	0
Combat Zone Related Death	0	0
ATV Corridors	20	35,938
Legislator's Per Diem	22	114,553
Human Organ Donation	51	196,105
Sales Of Certain Insurance Policies	56	175,241
Differences In Federal And Wisconsin Reporting Of Marital Property Income	66	3,655,531
Farm Loss Carryover	98	4,041,644
Recoveries Of Federal Itemized Deduction	184	1,355,995
Disability Income Exclusion	225	1,125,459
Differences In Federal And Wisconsin Basis Of Partnership Interest	297	831,442
Job Creation	299	2,487,970
Adoption Expenses	422	1,788,483
Repayment Of Income Previously Taxed	467	3,098,277

Adopt NCSL Best Practices on Tax Expenditures

The commission identified that Wisconsin's weaknesses, compared to the National Conference on State Legislature's Best Practices report, include the state not reviewing the following items: if the tax expenditure worked as designed; if the tax expenditure affected choices made by taxpayers; who was affected by the tax expenditure; whether the expenditure achieved its purpose; and if the benefits of the tax expenditure outweighed the cost of implementing it.

Evaluation of tax credits is better undertaken by the Legislature, rather than DOR, since explicit policy goals are not detailed in the vast majority of legislative proposals. However, DOR is able to provide ad hoc information regarding the attributes of those claiming tax credits or other tax expenditure devices.

Identifying or sunsetting certain tax exemption devices would force legislative review and discussion of longstanding exemption devices, which has largely not been a routine activity for the Legislature.

Cutting Down on Tax Fraud

Tax fraud schemes are expanding. As such, the Governor's Commission realized the Internal Revenue Service (IRS) and states continue to need mechanisms to combat fraud through innovation and adaptation of internal processes. While identifying the costs of fraud is inherently difficult, prevention can be relatively affordable when compared to the costs that fraud rings or identity theft has upon taxpayers. In 2013, the IRS estimates that identity theft affected nearly 1 million tax filers, with 480,000 fraudulent refund claims using Social Security numbers of Puerto Rican citizens alone. One-and-a-half million falsified tax returns resulted in over $5 billion in refund claims, with criminal indictments increasing seven-fold over a two-year period. Altogether, the IRS estimated at least $30 billion in fraudulent identity theft, or approximately 10 percent of its total refunds issued.

Fraudsters exploit weaknesses in systems. Early claims for refunds can exploit a system where reconciliation of wage information trails individual tax filing; and early refunds enable identity theft, as the real taxpayer only finds after a falsified return is already processed.

The Department of Revenue (DOR) has seen its own cases of identity theft grow. In tax year 2014, over 1,400 cases of ID theft were reported to the DOR, more than 75 percent higher than the previous tax year alone and more than ten times the total in tax year 2012 when 121 cases were reported. It should be noted that DOR aggressively implemented its ID verification program and enhanced business rules for identity protection beginning in 2013. Additionally, it provided an application that allowed filers to check on status of their filing last year.

DOR now has 23 employees and invests over $2 million annually to prevent fraud, an effort that has more than doubled since 2011, resulting from past budget and allocation increases. Total refunds issued to taxpayers in tax year 2014 were $1.55 billion.

In Governor Walker administration's five years, the Wisconsin Department of Revenue (DOR) has stopped $192 million in refunds related to fraud and adjustments, compared to $71 million for the five prior tax seasons, an increase of 170 percent or an additional $121 million.

Wisconsin DOR has been aggressive in utilizing data analytics to issue identity quizzes to a portion of taxpayers deemed at-risk. The quiz is similar to those used in private industry and can be taken online or via the phone. Documentation is sometimes required for parties that fail the online quiz. Failure by the taxpayer to

Bad Refunds Adjusted/Stopped	Fraud Detection With Analytics	Processing Fraud - CIS	Processing Fraud - Tax Ops	Earned Income Credit	Homestead Credit	Total for Specific Initiatives
FY15	$11,050,119	$7,335,531	$6,889,513	$16,682,990	$15,828,093	$57,786,246
FY14	$3,550,473	$4,904,089	$8,195,222	$17,710,656	$15,299,425	$49,659,865
FY13		$3,434,613		$14,257,838	$12,480,794	$30,173,245
FY12		$1,702,300		$9,341,511	$14,694,458	$25,738,269
FY11		$3,324,200		$13,510,224	$12,219,984	$29,054,408
Total						$192,412,033
FY10		$2,178,100		$5,643,983	$10,782,502	$18,604,585
FY09		$2,268,500		$7,055,040	$8,760,778	$18,084,318
FY08				$5,127,036	$8,754,920	$13,881,956
FY07				$2,370,394	$7,766,914	$10,137,308
FY06				$2,112,412	$8,254,244	$10,366,656
Total						$71,074,823

take the quiz results in no refund ultimately being issued, after an appeal process. In tax year 2014, this resulted in denying refunds to over 25,000 claimants.

Tax Year 2015 will mark the third year of implementing this verify identification quiz. To remain vigilant in stopping tax fraud, DOR is also adding a new PIN process for persons impacted by reported IRS breaches or ID theft.

Combating fraud demands ongoing reviews to how we process tax returns. DOR has also looked at other states and their processes. Most notably, falsifying income to qualify for refunds is seen as a haven for fraudsters. Reconciling wage information with tax filing can be difficult under current processes and laws, given timelines and capacity.

Establishing new filing demands on taxpayers and restricting refunds accordingly will inevitably increase the turnaround time for tax refunds. Currently, over 80 percent of tax refunds are generally processed within a week, creating taxpayer expectations about how quickly refunds are issued. Adding new requirements will slow down the processes for many taxpayers, even as it will reduce fraud. Tax filing starts in late January and many taxpayer's file returns requesting refunds, and depend on the refunds to manage their finances. Subjecting more taxpayers to an ID verification process will inevitably increase demands on the department's customer service bureau while also extending the time to process refunds. Communicating why changes are happening alleviate these demands and inquiries.

Overall, the Governor's Commission estimates potential savings from minimizing tax fraud between $1 million and $4 million. The commission recommended a reduction in threshold at which employers must electronically file W-2s and information returns, either administratively or through legislation:

- Due date is currently January 31 of each year while many states are later, which opens the possibility for future date modification
- Currently e-file is required at 50 W-2's or more wage statements/information returns; propose requiring e-file at more than 10
- E-file modification would affect about 8,000 employers/payers and 188,500 paper W-2s or information returns
- Advantage: W-2s available when returns are filed; matching can occur to verify identity, wages and withholding
- Disadvantage: New burdens on employers and payers (DOR does provide free My Tax Account to file W-2s and information returns)
- The only costs will occur when penalty bills are issued for failing to meet e-file requirements; the system and postage costs unknown, but could be absorbed.

The commission also recommended the prohibition of the DOR from issuing any income tax refund before March 1 unless both the employer and employee have filed all required returns and forms. This same initiative was recently enacted by Utah. The following considerations were considered during analysis:

- Could be done administratively, but legislative support was deemed extraordinarily helpful in Utah

- Advantage: May encourage employers to file their W-2s electronically and earlier
- Advantage: May reduce early filing fraud because filers will know that we have to have employer reporting to us too before refund can be issued
- Disadvantage: Certain employees are at the mercy of their employer (e.g., UW and federal agencies, including military, are known for not filing W-2s on time)
- Costs would be new system matching requirements. This can be complicated for persons and married couples who have multiple W-2s. Costs unknown, but could be absorbed in annual system update, preferably in late 2016.

Special thanks to Mike Wagner, Richard Chandler, Todd Berry, Angela Gullickson, Andy Komisar, Tiffany Davister, Bill Nolan, Henry Jasper, and the Department of Revenue staff for their contributions to the materials in this section.

Other Considerations

Local Government Dashboards

The Commission heard testimony from Michael Konecny regarding local government dashboards and their use in Michigan.[xlii] He is a CPA consultant who has performed work for local governments for many years. He testified there is an increased demand for efficient services throughout government. He also said dashboards provide accountability, easy access for the public, and increase the skill level of government managers.

In Mr. Konecny's example from Michigan, in 2011 they changed their laws to require local government performance dashboards to be made available in order to receive their equivalent of shared revenue funds. He talked about what is and isn't working in Michigan to recommend improvements if this were to be implemented in Wisconsin. He suggested that the format be consistent, local governments give input, and that local governments set performance goals.

Another addition to transparency could be local government fund balances. There has been much attention given to the UW System fund balances in recent years. Little attention has been given to municipal governments and other local governments. K-12 public schools have reported as much as $2 billion in general fund balances and the technical colleges had $300 million as late as the close of fiscal year 2014. Maybe fund balances could be included along with other spending measures the Commission discussed.

Why should dashboards be used?

- Increased demand for government accountability and delivery of efficient services with decreasing resources
- Increased skill level of government managers
- Designed to open data and provide meaningful information for easy review
- To provide greater public awareness and demand for visibility and accountability
- To build trust with citizens and stakeholders

He provided an example with actual data from anonymous counties in Wisconsin. The Commission recommended that the state implement such a local government dashboard in Wisconsin.

Possible Information to Include in Dashboard for Wisconsin Counties

	County #1	County #2	County #3	County #4	County #5
Population	25,000	28,000	42,000	81,000	87,000
Per Capita Information - from Statement of Activities for Governmental Activities					
General Government					
Total Expenses	4,318,399.00	7,489,596.00	4,827,573.00	7,877,572.00	8,551,632.00
Per Capita	172.74	267.49	114.94	97.25	98.29
Net Expenses	2,614,590.00	6,224,222.00	2,891,929.00	5,507,139.00	5,563,377.00
Per Capita	104.58	222.29	68.86	67.99	63.95
Public Safety					
Total Expenses	9,055,503.00	9,892,437.00	10,721,629.00	13,559,752.00	11,963,498.00
Per Capita	362.22	353.30	255.28	167.40	137.51
Net Expenses	6,692,130.00	8,059,770.00	9,599,946.00	12,374,411.00	10,569,106.00
Per Capita	267.69	287.85	228.57	152.77	121.48
Public Works					
Total Expenses	4,439,388.00	6,994,925.00	4,123,134.00	6,856,993.00	8,872,377.00
Per Capita	177.58	249.82	98.17	84.64	101.98
Net Expenses	3,516,148.00	5,257,298.00	2,613,135.00	3,624,961.00	5,469,374.00
Per Capita	140.65	187.76	62.22	44.75	62.87
Health and Human Services					
Total Expenses	10,465,895.00	16,511,996.00	19,009,949.00	21,712,409.00	14,067,337.00
Per Capita	418.64	589.71	452.62	268.05	161.69
Net Expenses	4,059,454.00	4,807,064.00	1,332,032.00	7,448,305.00	6,598,607.00
Per Capita	162.38	171.68	31.72	91.95	75.85
Culture, Education & Recreation					
Total Expenses	1,193,480.00	3,217,598.00	1,884,321.00	2,569,701.00	1,058,580.00
Per Capita	47.74	114.91	44.86	31.72	12.17
Net Expenses	1,071,799.00	2,771,017.00	1,165,489.00	1,728,692.00	617,698.00
Per Capita	42.87	98.96	27.75	21.34	7.10
Conservation and Development					
Total Expenses	1,304,357.00	2,025,567.00	1,397,189.00	1,431,048.00	2,397,925.00
Per Capita	52.17	72.34	33.27	17.67	27.56
Net Expenses	648,554.00	842,751.00	930,733.00	538,549.00	1,635,505.00
Per Capita	25.94	30.10	22.16	6.65	18.80
Interest on Debt					
Total Expenses	145,038.00	617,262.00	136,318.00	916,485.00	363,742.00
Per Capita	5.80	22.05	3.25	11.31	4.18
Net Expenses	145,038.00	617,262.00	91,988.00	730,243.00	363,742.00
Per Capita	5.80	22.05	2.19	9.02	4.18

Economic Value Added Incentives

The Commission heard testimony from Joel Stern of Stern Value Management. Mr. Stern wrote a book with Co-Chair John Shiely titled "The EVA Challenge: Implementing Value-Added Change in an Organization." In one section of the book, they discuss employee compensation incentives that improve efficiency and value in an organization. In short, it is a compensation model that has the employee sharing in the improved value of an organization. For example, if employees reduce energy costs by turning the lights off or are coming up with ways to save costs that add profitability to the organization the employees share in that value through a bonus compensation system.

Co-Chair Shiely talked about how he implemented the approach at Briggs and Stratton. He commented that it takes a good CFO to implement and that line employees on the shop floor can do more to improve an organization than all the MBAs combined. Mr. Stern said he would offer to pilot the approach at two agencies and that it would take up to one year to implement.

A bill passed the Legislature that included $6 million annually for merit pay beginning in the current fiscal year. Wisconsin spent $9.74 million on merit and equity payments in fiscal year 2016. From 2013 to 2015, the state spent between $4.2 and $4.7 million per year on salary increases based on transfers from one agency to another.

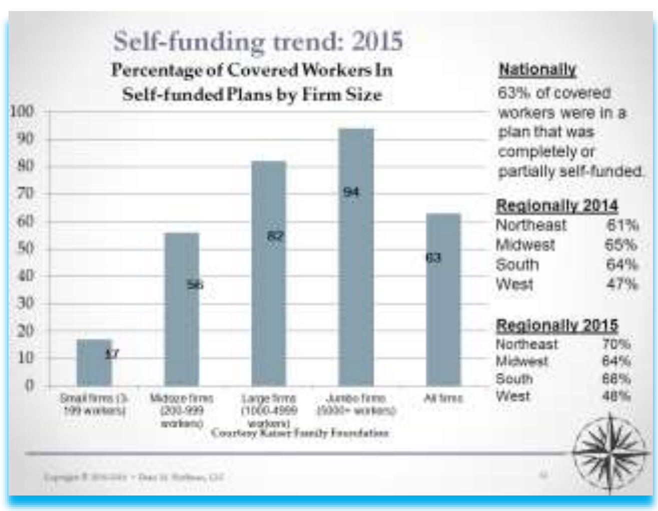
These numbers don't include other payments such as overtime and other salary adjustments. The state is clearly spending money on compensation. Maybe there is a better way to do compensation and Mr. Stern's ideas may be able to be incorporated.

The Commission recommended the state should explore piloting the approach at some select state agencies.

Self-Insurance

The Commission heard testimony from Dean Hoffman regarding self-insurance and from the Department of Employee Trust Funds (ETF) regarding the process the state is following to explore offering its employees' health insurance through a self-insured vs. a fully-insured model.

ETF walked through the process the state is following to explore self-insurance. The state has roughly 270,000 covered lives and spends $1.4 billion annually on total premiums. The state also has 270 local governments in the local government health plan. They too could benefit from a move to self-insurance.



Mr. Hoffman spoke about how nationally 63 percent of covered workers were in a self-funded health plan and that large firms with 500+ employees are 94 percent self-funded. Mr. Hoffman commented on the advantages and disadvantages of the state going self-insured. Advantages include having better access to employee health data to drive wellness initiatives and better health management. Disadvantages include the state having to budget for higher than anticipated claims costs.

Members of the Commission commented that 45 states already self-insure. Members who worked at both local governments and private sector businesses that moved to self-insurance saved cost. The Commission overwhelmingly recommended the state pursue exploring a move to self-insurance.

Gov2Go Services Platform

The Commission heard testimony from Wisconsin Interactive Network regarding Gov2Go. This is a mobile platform for helping citizens more efficiently interact with their government. The concept was related to an idea from Commission member, Representative Jarchow. The concept is to stop issuing different permits, IDs, and licenses from multiple agencies with multiple payment accounts and instead create one ID for businesses and residents to do all their business with the state.

The platform presents a citizen-centric view of government, personalized to the user rather than the traditional focus on government hierarchy and process. Gov2Go anticipates the citizen's needs by sending notifications of upcoming deadlines or even offering to act on the citizen's behalf. The Gov2Go application would become the users' primary interface to government. Citizens can utilize it to navigate government services, ensure timely results, and explore new services as they become available.

Under the State of Wisconsin's self-funded web Portal enterprise contract with Wisconsin Interactive Network, LLC (WIN), agencies can implement new services or utilize applications and platforms to interact with citizens and businesses online or through mobile devices. Implementing Gov2Go citizen centric mobile platform through the state's self-funded portal contract in Wisconsin will allow citizens to more easily engage with their government. Instead of having dozens of online services and mobile applications on constituents' devices – one for each agency they need to interact with – they will have a single application that gives them one, simplified view of their interactions with government. Gov2Go prompts users to complete a transaction, such as a vehicle registration renewal, tax payment, annual business filing, or share hunting season dates, then uses stored information to speed up the transaction process creating the possibility to even cut steps out by having the app do things for them.

In 2015, Arkansas was the first state in the nation to launch a citizen-centric mobile platform such as Gov2Go. The platform currently connects to services allowing for vehicle registration renewals well as multiple counties property tax payments, franchise payments, and property assessments.

The Gov2Go platform would have no cost to the State of Wisconsin. The platform itself would be provided for free under the self-funded model. Some services connecting to Gov2Go would have a small efficiency fee added of $1-$5 per transaction to users. This fee would flow back to WIN under the state of Wisconsin's enterprise contract with a portion of the money getting reinvested back into building more e-government services and websites for the citizens and businesses in the state. Wisconsin could be within the top five states in the nation to launch this type of service.

Most e-government services see anywhere from a 30-60 percent adoption rate in their first year of service. Allowing citizens to conduct business online creates efficiencies within a government agency. Agencies are able to assign staff to more pressing tasks and meet statutory requirements for delivery when other services are made available to citizens online. The state agencies also see fewer errors in manual data entry as citizens do the data entry for the state. Agencies also experience a reduction in postage and printing costs for paper forms and mailing.

Special thanks to Sandi Miller for her contributions to this section.

Data Sharing for Unemployment Insurance Benefits

The Commission also identified potential for greater efficiency in Wisconsin's Unemployment Insurance (UI) policies. Under current law, if an individual is claiming UI benefits against Wisconsin, but living in another state, they must complete the same weekly actions as Wisconsin claimants. One requirement is all claimants must be registered on a state labor exchange. Out of state claimants are required to register with that state's labor market exchange (Job Center). Under the current system, Wisconsin cannot verify this requirement is being met.

Giving the Department of Workforce Development (DWD) the statutory authority to enter into data sharing agreements with other states to allow for the exchange of labor market registration information would reduce this fraud. The purpose of the agreements would be to:

- Quickly and efficiently identify unemployment benefits recipients who do not register for work or do not register for work in the proper state
- Prevent unauthorized unemployment benefits expenditures
- Help identify and provide work search services to unemployment insurance recipients to facilitate quicker return to work, creating a stronger workforce
- Support the integrity of the Wisconsin UI trust fund

A similar initiative has been successfully employed already in other states, one of which was Texas. In March 2011, the Texas Workforce Commission (TWC) determined that certain individuals with a Texas liable claim who are located in another state were not registering for work as required. At that time TWC did not have procedures for verifying claimants living in other states, which permitted Texas claimants to receive benefits even though they had not properly registered in their new state of residence. The goal of their project was to eliminate or reduce certain improper UI payments by automating the process to verify that claimants register for work in the state they are located.

Fiscal Impact of Data Sharing for UI

In 2014, 7,743 claims ($32.5 million) were filed in Wisconsin by claimants living in other states. The most frequent state of residence for these claimants was Illinois followed by Texas. Texas found it saved $38 million when it implemented this program with Louisiana which saved Louisiana $5.6 million by verifying with Texas. DWD estimates an approximate savings in benefit payments of 10 percent for Wisconsin, or $3.25 million annually. The Commission recommended approval of this option.

Expedited Corporate Filing

The Commission considered policies aimed to expedite corporate filing. The Commission found the Department of Financial Institutions (DFI) could make changes to allow the addition of enhanced expedited service to our current Next-Business-Day Expedited Service. The proposal would create new expedited services options to include a One Hour Service (for a $500 fee); a Four Hour Service (for a $250 fee); and 24-hour/next day Service (already in place for a $25 fee). This would be a new service for DFI customers.

Offering enhanced expedited service options provides a frequently requested service to corporate customers. These customers desire an option to file their corporate documents quickly in order to meet business needs. The implementation in other states provides insight on what expectations Wisconsin can have. Delaware offers 1 Hour Service for $1,000.00 per document/request; 2-Hour Service for $500.00; Same-Day $100.00 - $200.00; 24-Hour $50.00 - $100.00. All fees are in addition to the regular document fee. Illinois offers 24-Hour expedited services for additional fees between $10.00 and $200.

Fiscal Impact of Expedited Corporate Filing

The new services would generate additional departmental revenues. Revenue from the current Expedited Services program was $545,000 in Fiscal Year 2014. Proposed fees, established by rule, would increase revenue by $1,635,000. The Commission estimated this revenue increase based on the following:

- Current Expedited: 21,800 x $25 = $545,000
- Assume 30 percent (6,540) Expedite using a new option:
  - Of the 6,540, if 90 percent use the 4-Hour service at $250 = 5,886 x $250 = $1,471,500
  - Of the 6,540, if 10 percent use the 1-Hour service at $500 = 654 x $500 = $327,000

- Net revenue increase $1,635,000

- New total revenue $2,180,000

The Commission supported this option.

Records of Administrative Proceedings

Another area identified as adequate for potential reform by the Commission was in the manner of keeping records within administrative proceedings. Under current law that governs the review of agency actions, other than rule making, an agency must transmit to the court the record of the agency's administrative proceedings. This requirement is required to take place within 30 days after service of a petition, or within such further time as the court allows. Current law only allows this record to be typewritten or printed.

This law does provide an alternative option that presents potential for efficiency. In the case of a record of administrative proceeding in the possession of the Division of Hearings and Appeals (DHA), the DHA may transmit an audio or video recording of the proceeding in lieu of preparing a written transcript. This option is available unless the court orders the preparation of a typewritten or printed transcript.

The requirement to provide a typewritten or printed transcript requires transcription of the audio or video record of a hearing, which is labor intensive for DHA staff. Assembling a transcript of a hearing usually takes longer than the statutorily required 30 day limit, and as a result DHA generally has to request an extension that must be either granted or denied by the court. Allowing audio or video recordings will create efficiencies in two ways DHA staff will no longer be required to create a typewritten or printed transcript for every hearing, and the court will be able to review the record more quickly.

Further, DHA has already begun supplying audio or video recordings for non-Chapter 227 cases, while still completing a written record if requested by the court. Approximately half of courts accept a digital recording and the other half still require a written record. DHA has already realized staff efficiencies and savings from these changes to non-Chapter 227 cases. These savings have already been invested in the appropriate equipment for recordings. It would be consistent to allow DHA to use this practice for Chapter 227 cases.

The Commission identified that removing the printed transcript requirement will create efficiencies for DHA staff who currently produce the transcripts and for the circuit court docket. The court would no longer have to consistently process requests for extensions, as is done under current practices. Cases before DHA will move with more speed. Digital recordings are as effective as the typed transcripts. The proceedings are easily recorded, stored, and searched for, when necessary.

The Commission also noted this legislation only covers DHA. The commission recognized it may be prudent to explore this change for other agency proceedings to see if savings and efficiencies could be realized across the enterprise.

Records of Proceedings Fiscal Impact

Written transcripts cost $4.00 a page to produce. In FY14, DHA was required to produce 3,070 pages of transcripts at a cost of $12,280. Further, a one-hour hearing would typically take support staff three to four weeks to produce, with 15 minutes of testimony requiring one hour to transcribe. This change could save as much as 2,080 staff hours or 1 full-time employee equating to roughly $50,000 annually.

Print and Mail Service Efficiencies

The Commission recognized potential for improvement within the state's print and mail service. Within DOA, two bureaus in two separate divisions perform printing and mail services. Publishing and distribution services (print-to-mail) are performed by the Bureau of Publishing and Distribution (BPAD) in the Department of Administration's, Division of Enterprise Technology (DET). Services are provided by 14.0 FTE positions and approximately 28 contractors.

In addition, Document Sales and Distribution as well as Mail Transportation Services Units are located in the Department of Administration's Division of Enterprise Operations, Bureau of Enterprise Fleet. The Document Sales and Distribution Unit is responsible for processing and fulfilling orders for various state publications, including information or fact sheets, bid specifications and drawings, official state publications, and state court system publications. The unit is staffed by 3.0 FTE positions and 1.0 FTE supervisor responsible for managing both units. Document Sales expenses for fiscal year 2014-15 totaled $327,614. Staff expenses accounted for $170,574 of the unit's total expenses, and mailing costs represented the highest supplies and services cost at $37,088.

The Mail Transportation Services Unit sorts incoming USPS and agency interdepartmental mail and distributes mail to recipient agencies throughout the City of Madison. In addition to state agencies, the unit is also connected to mailing systems at UW Hospital and Clinics, City of Madison and Dane County government, the South Central Library System, Milwaukee State Office Building, the Central Wisconsin Center for the Developmentally Disabled, and the Mendota Mental Health Institution. The unit is staffed by 6.0 FTE positions and incurred fiscal year 2014-15 expenses totaling $583,204.

Potential to Combine Two Bureaus

The Governor's Commission asked the question, why seemingly similar functions are not performed within a single unit of a single division. The commission proposed that further evaluation of state-run operations could determine potential savings or efficiencies to be gained from consolidating publishing and mail transportation services currently performed by DOA's Division of Enterprise Operations and print-to-mail services provided by DET.

Consolidate Print and Mail Functions

State agencies such as DATCP, DHS, DMA, DNR, DOR, DOT, DWD, and ETF, all currently have print and/or mail production capabilities. In order to optimize the shared service model and take full advantage of economies of scale, the Governor's Commission realized that all production print and mail must be housed at BPAD. Print and mail production environments that exist throughout other state agencies are redundant in labor dollars spent, equipment expenditures and service contract financial obligations to what BPAD currently provides.

The State of Wisconsin currently maintains a massive fleet of office copiers/printers. Were the state and all of its agencies to take full advantage of the Central Services of BPAD and Inter-D mail, that fleet could be greatly reduced. Rules based printing can route the lion's share of this output to BPAD and can be delivered timely by Inter-D which is presently delivering to these agencies daily.

State of Wisconsin BPAD/UW Print and Mail

Looking into the future the Governor's Commission considered a merger between BPAD and UW Print and Mail. Due to a conversion to digital media, the print and mail workload contract over the next decade makes the potential for merger attractive.

The State of Wisconsin DOA, DET Bureau of Publishing and Distribution (BPAD) has a limited partnership with the UW DoIT Publishing & Printing Services (DPPS) and UW Extension Mail Services (UWEX). Jobs that require equipment or capabilities unavailable to BPAD the first option is to utilize DPPS and UWEX for this production work. BPAD is always available to assist DPPS and UWEX in the same regard.

BPAD has far more capacity and capability in regards to monochrome (black and white) print and mail by comparison. The volume and variety of work is not matched by the DPPS and UWEX. To the contrary DPPS/UWEX have greater capacity and capability with static color, large format and inkjet. While there is overlap in several areas the overall relationship is more complimentary than competitive.

BPAD has state of the art automated intelligent Inserting equipment while UWEX has outdated equipment without intelligence. UWEX has three inkjet machines (2 newer models) and BPAD has a single inkjet machine that is less capable.

DPPS currently maintains a wide array of offset presses, wide format and color printers. While BPAD does have color and wide format capacity, the State of Wisconsin does not have offset presses. Offset presses allow for a cost effective way to run large volume static color print jobs. BPAD has far greater capacity for variable print which presses, by nature, do not allow.

Currently the State of Wisconsin is in the procurement process for Web to Print Software. The product, RSA WebCRD, provided by the vendor, Ricoh, on contract is the same product and vendor that UW is looking to purchase. This is a completely redundant purchase and could instantly save the taxpayer more than $30,000 in upfront cost and more than $15,000 annually were the UW and state to utilize the same software platform. Both the State of Wisconsin and UW DPPS are also looking to purchase a New Horizon Smart Slitter, sticker price $100,000 + service costs. These are examples of unnecessary dual spending that are a direct result of UW and BPAD operating as two separate entities.

The Commission recommended merging print and mail operations throughout state agencies to realize savings and efficiencies.

Special thanks to Joe Patterson for his contributions to this section.

State Debt Collection Best Practices

During the course of reform analysis, the Governor's Commission also looked at the State Debt Collection (SDC) process. The Department of Revenue (DOR) operates the SDC Program, which utilizes DOR's extensive collection tools, including bank levies, wage attachments, and refund intercepts, among others, to collect delinquent debt for other units of state and local government.[xliii] DOR has operated SDC since 2010, and collections have grown from $374,000 in FY 2011 to $15,009,000 in FY 2015. The program was created in 2009 Act 28. Over 150 different state and local government entities participate in the program.

The program is offered at no cost to other units of government and is entirely funded by a surcharge added to delinquent debts, which the debtor pays and DOR collects. The surcharge is 5 percent lower than what is charged in Minnesota which operates a similar program. The surcharge is enough to fund the positions and supplies for the entire program, and the program is able to remit excess revenues to the state's general fund, up to a projected $11 million over the current biennium.

Essential to the ongoing effectiveness of the program is the continual growth in government partners signing up for SDC. State agencies, including UW system schools, are required to participate in SDC per sec. 71.93(8) (b) 1, Wis. Stats. County, municipal, and other units of local government are allowed to join the program, but are not mandated to do so.

Given the program's effectiveness and growing popularity, the Legislature approved an additional 11.0 positions in the 2015-2017 biennial budget to handle the increased workload, adding to the existing 6.0 positions.

While participation is mandated by statute for state agencies and University of Wisconsin institutions, the University of Wisconsin-Madison has not participated in the program extensively. DOR staff have conducted outreach efforts to UW-Madison over the years. Although statutes mandate participation for state agencies and the UW System, statutes do not provide any penalty for non participation.

University debt is likely the most collectable type of delinquent debt, and SDC's record of collecting university debt is 36 percent, notably higher than the 28 percent collection rate of the program overall. In fact, UW-Milwaukee is SDC's top partner and has historically had a rolling balance between $11.5 million - $12.0 million with annual SDC collections of over $3 million. UW-Madison's delinquent debt roll is likely similar or greater than Milwaukee's; yet UW-Madison chooses to either collect debt via private debt collectors, who retain a portion of what they collect on the university's behalf, or not collect their delinquent debt. The result is that UW-Madison is foregoing millions in revenue that the university could otherwise use to fund its extensive operations and mitigate financial pressures.

All other UW-System campuses are either actively participating in SDC or are in active cooperation with DOR to enable them to refer significant delinquent debts to SDC.

SDC growth with voluntary partners is largely a factor of DOR performing outreach to new potential partners and organic growth among existing partners. When the program began in 2010, DOR focused recruitment and enrollment efforts on mandated state partners. Only in recent years has SDC had the capacity and staff resources to begin recruiting to local units of government. Municipal governments continue to sign up for the program, and SDC has seen growth from county participants, usually in the form of specific county department such as health and human services and housing authorities. Thanks to technical language included in the 2015-2017 biennial budget, 2015 Wisconsin Act 55, municipal and county circuit courts have become much more willing to enroll in the program, and most of the program's outreach efforts and growth since Act 55's passage this summer have focused on court enrollment.

County, municipal, and court participation is geographically diverse and includes multiple participants from all regions of the state. However, some of the most populous cities, counties, and courts have not shown interest in participating in the SDC program. SDC has a proven track record of superior collection tools and ability compared to private debt collection firms. Additionally, SDC participation is a no-cost option for local governments since they receive the entire collected debt they refer to the program.

The largest municipality significantly enrolled in SDC is Manitowoc, although the City of Appleton Housing Authority is a participant. Similarly, the largest county significantly enrolled in the program is Sheboygan County, although Walworth, Racine, Manitowoc, and Kenosha Counties have some individual departments participating. Meetings with Milwaukee County's Treasurer and Clerk of Courts in recent months were largely positive, but have not led to demonstrable efforts toward enrollment from either. Dane County has showed little interest in enrolling in the program after numerous outreach attempts over the years, and Waukesha County has declined DOR's recent overtures.

Unpaid delinquent debt means that taxpayers who pay their liabilities to local units of government must pay heavier burdens to compensate for others' unpaid, delinquent amounts. Generally, the larger the population the local unit of government represents, the larger its delinquent debt balance is. While DOR anticipates enrolling additional, larger municipalities and counties in the coming months due to our recently-increased recruitment and collection capacity, the very largest units of local government seem unlikely to voluntarily join the program.

The Commission recognizes the SDC program has the capacity to enroll additional partners with large debt balances given our increased resources. DOR is also very eager to assist UW-Madison in complying with its statutory obligation to participate in the program. Similarly, DOR is enthusiastic about enrolling larger units of government into the program, which will provide additional revenue sources for new partners and ultimately reduce pressures on local governments to increase levies and fees.

Fiscal Impact of SDC

For every additional $10 million in debt referred to DOR the state is estimated to collect roughly $1 million in general fund revenue.

Adding Milwaukee, Dane, and Waukesha County, we could collect $37.3 in total collections and $5.6 million in fees. The lapse from the fees would approach $4 million.

The addition of Brown County would result in the inclusion of all counties over 200,000 people. The commission assesses, with the inclusion of Brown County, potential to adjust the estimate to $43 million in collections and $6.5 in fees, leading to a lapse of $4.55 million. These numbers reflect the first year after enrollment; a time when collections are very small prior to an anticipated increase.

A conservative approach to adding UW-Madison would be about 15 percent more than what is collected with UW-Milwaukee. That would mean $3.5 million in annual SDC collections. The lapse would be about $375,000 annually. However, the total could escalate upward quickly.

The Commission determined that the state could explore ways to continue to improve the program's already effective operation. The commission also advised that the state should more aggressively market the program to incentivise local governments use of it; especially the larger ones and ensure the mandated participants are actively involved as well.

Claim's Board Minimum

Under current law, the Department of Administration (DOA) may refer any claim that is over $10 to the Claims Board for review. The Claims Board is required to investigate any claim that is referred to it by DOA, and then recommends if the claim should or should not be paid by the state. The Commission supported raising the minimum amount of a claim to be referred to the Claims Board from $10 to $100.

The Claims Board is a five-member board, representing the Department of Justice, the Department of Administration, the Governor's Office, the State Senate and the State Assembly, tasked with processing claims made against a state agency. Generally, the board is seen as a forum of last resort for claims. Anyone who has a claim for monetary damages against a state agency may file a claim with the Claims Board. You do not need to be a Wisconsin resident to file a claim.

The board considers a wide variety of claims such as automobile damage, contract disputes, property loss, personal injury, and taxes. The board also accepts requests for the replacement of stale-dated state checks. Under current policies, the state does not accept claims under the minimum amount. If a claim under the current minimum is received, a rejection letter is sent to the claimant and no further action is taken.

The current minimum amount for the Claims Board of $10 was last changed in 1987. On average, it requires three to four hours of processing time for staff at the Department of Administration to process each claim that is referred to the Claims Board. Staff must review the claim, gather the relevant written precedent, correspond with the claimant and responsive state agency, prepare the claims materials for review and hearing by the Claims Board, and draft the final written decision on the claim. The cost of DOA staff (salary and fringe) for each claim processed ranges from approximately $107 to $143. Further, it is likely that each responsive state agency is spending a minimum of two hours responding to each claim, costing an additional two hours of staff time per claim at the agency.

Based on a review of claims under $100 over the past 10 years, there have been 40 claims processed and considered before the Claims Board, 30 of which were prisoner claims against the Department of Corrections. Overall, the Claims Board has processed a total of 763 claims in the same time period - claims under $100 make up 5 percent of the total claims processed in the last 10 years.

Increasing the minimum amount to $100 will more accurately reflect the staff cost of reviewing and processing claims and increase efficiency of staff and the Claims Board, while still ensuring proper review by the Claims Board on substantial claims against the state. Further, since the Claims Board is considered more of a last resort option for claims, individuals will have other opportunities to file a claim for under $100.

This proposal does not affect any other Claims Board policies, including the statutory requirement that payments over $10,000 must be passed into law by the legislature if payment is recommended by the Claims Board. The Commission supported this change.

Fiscal Impact

Savings from this legislation would come in the form of staff efficiency. Staff time that is currently used to process claims under $100 can be moved towards fulfilling other job duties. This change could have saved as many as 200 staff hours over the last ten years and between $4,280 and $5,720 for DOA. Other agencies would have savings as well.

Asset Sales Enhancements

The Departments of Administration (DOA), Transportation (DOT), and Natural Resources (DNR) operate programs to sell state property. Currently, these programs function separately, yet have similar characteristics.

Asset Sales Program

DOA operates the Asset Sales Program or ASP. In the 2013-15 budget, the State of Wisconsin created the ASP. The ASP specifically sought to facilitate the sale of state-owned real property. Thus far, this program has sold two properties netting $13.1 million in the City of Madison.

The Departments of Transportation and Natural Resources operate land sale programs. Average annual proceeds from surplus land sales for DOT from FY12 to FY15 were $4.7 million. The department utilizes state employees and consultants to sell surplus lands. In FY16, the equivalents of 5.75 FTE were devoted to surplus land sales. Total consultant costs in FY16 for land sales were $318,000. The DOT Surplus Land Program (SLP) acquires land in order to make highway improvements and, in some cases, there is land left over at the conclusion of a project. Today, there are more than 1,400 surplus parcels in WisDOT's inventory. The majority of sales activity involves smaller transactions for less than $10,000, although there are very limited opportunities for six- and even seven-figure sales, depending on location and marketability. During the FY of 2015, the WisDOT's SLP generated more than $7.3 million in revenue.

The DNR land sales from 2008 to 2016 generated $2,930,698 in revenue from 3,295 acres sold over 511 transactions.

DNR Real Estate Program (REP) maintains 33 authorized full-time employment positions, 21 (64 percent) dedicated to land sales and 9 (26 percent) handle land acquisitions. The DNR purchases land to manage and protect natural resources and to provide recreational opportunities to all the people of the state.

As per 2013 Wisconsin Act 20 as well as policy and procedures approved by the Natural Resources Board (NRB) at their December 2013 meeting, the DNR has made available for sale at least 10,000 acres of land per the law.

The sale of state-owned real property at DOA, DOT, and the DNR are implemented in a compartmentalized fashion. Currently, each respective agency with land assets independently manages the complexities of executing sales of their excess property and maintains staff positions which are dedicated to the sale of state-owned real property. Additionally, each of these departments utilizes private sector vendors and partners in order to manage the nuanced complexities that accompany the sale of state-owned land. Currently, the DNR doesn't make enough in revenue from land sales to fund the staff used to sell land. The two sales through the ASP brought in more revenue than the DNR has in the last 9 years. DOT sales have a better return, but even those sales from multiple deals need a number of years to total just the first two sales under the ASP program. The ASP program currently has the equivalent contract staff assisting with no staff dedicating 100 percent of his or her time to the program.

The Commission supports enhancing the ASP program by using the expertise of these other agencies.

Fleet Vehicle Efficiencies

The Commission heard testimony from Jim Langdon of the Department of Administration Division of Enterprise Operations. Mr. Langdon talked about efficiencies in fleet vehicle usage. As previously discussed, the state could save money by reducing the number of replacement cars it purchases each year. This is included in the OMB section of this report. Mr. Langdon talked about other ways to save on fleet.

Agencies owned or operated 6,306 vehicles in 2015.[xliv] In 2015, vehicle purchases totaled $15.9 million.

Light Truck (less than one ton)	1,991	32%
Cargo or Passenger Van	1,480	23%
Passenger Sedan or SUV	1,328	21%
Medium and Heavy Truck (one ton or greater)	904	14%
Law Enforcement	477	8%
Other	126	2%
Total	6,306	100%

TOTAL COST OF VEHICLES PURCHASED, BY FISCAL YEAR

Agency	2010	2011	2012	2013	2014	2015
DOA	$5,484,373	$1,257,305	$5,476,177	$4,243,223	$1,831,390	$5,579,302
DOT	$5,632,446	$3,854,797	$1,134,996	$7,856,595	$4,141,768	$4,321,042
DNR	$6,317,669	$2,236,800	$3,682,496	$5,841,167	$2,901,100	$1,796,158
DOC	$924,542	$1,876,398	$1,426,125	$1,736,450	$1,671,633	$1,130,466
UW-Madison	$4,267,298	$3,302,271	$3,942,890	$4,694,199	$4,162,381	$3,069,893
Total	$22,626,327	$12,527,570	$15,662,684	$24,371,634	$14,708,269	$15,896,861

Langdon talked about numerous ways to save money on fleet management. These range from aligning vehicle purchases with manufacturing cycles to adding municipal vehicle purchases to the state to gain greater savings on purchasing. He also discussed changing vehicle replacement criteria to update them for more efficient modern vehicles.

He also talked about creating a mechanism to help agencies choose the least costly travel option for staff. As an example, it costs $144.40 for a staff to drive from Madison to Superior for a meeting in a state car, but that same trip in a personal vehicle would cost $229.50, a 45.5 percent difference.

Langdon also talked about improvements to vehicle diagnostics to reduce maintenance costs as well as eliminating the higher reimbursement for state employees if they have a OWI because they cannot drive a state vehicle.

The Commission voted overwhelmingly to support the recommendations from Mr. Langdon.

Government Efficiency Firms

The Commission heard from numerous firms with ideas to save the state money and drive efficiency. The state heard from Alvarez and Marsal. They have performed work in states such as Louisiana and Kansas. In Louisiana, they identified $2.7 billion in savings over 5 years.[xlv] In Kansas, they issued a report identifying 105 recommendations with $2.04 billion in benefits over 5 years.[xlvi]

Knowledge Services is another firm based in Indianapolis since 1994. They spoke about workforce management services. Examples include mobile case management that could be used to reduce desk time for state employees. This is most prominently used for social service case workers, inspectors, and auditors as examples.

Deloitte spoke to the Commission regarding their government efficiency and savings services. In North Carolina they identified $675 million in savings opportunities. In Minnesota under Governor Pawlenty, they identified $580 million in documented savings.

After listening to these presentations, the Commission recommended for the state to pursue contracting with a firm such as these to do similar functions in Wisconsin.

Real Estate Management Reforms

The Commission heard testimony from Cindy Torstveit of the Department of Administration. She is responsible for building maintenance and management. She oversees the real estate program for the state. The state has approximately 480 leases covering 2.5 million square feet and costs the state $48.4 million annually. State owned and managed property is roughly 4 million square feet in 30 buildings.

The state works to save on lease costs. Through 12 requests for information or proposals and in negotiating over 75 leases through renewals and amendments $3.8 million in annual savings has been achieved. Examples include consolidating two workforce development call centers and purchasing of the state data center for $1 million in annual operating savings.

Ongoing initiatives to save costs are exploring consolidations of office space in areas such as Madison and Milwaukee where the potential for savings is the greatest. LEAN initiatives are also being used to save on costs.

The Commission recommended that the state continue to consolidate its footprint, reduce its vacancy rate to save on underutilized space, and to evaluate whether leasing or owning is more cost effective to the state.

Reforms to the Abilities of the Board of Commissioners of Public Lands

The Commission heard testimony from the State Treasurer Matt Adamczyk. He spoke about his role on the Board of Commissioners of Public Lands, or BCPL. He spoke about how the state has, in the past, negotiated and locked in lease contracts that were not prudent for state taxpayers. He proposed using trust funds held by BCPL to buy buildings for state agencies in some cases where it makes financial sense for the state and BCPL.

Some of the pros for doing this according to him were to avoid bonding expenses, interest paid to BCPL goes to K-12 public schools, and BCPL has excess cash to use for this purpose. An example given of when this may have made sense was in the lease for the state data center. This was a lease entered into in 2006. Another example was the current state Department of Correction's office building. The Treasurer spoke about how the lease deal will cost the state potentially 5 times more than the building is worth by the end of the lease term.

The Treasurer proposed to the Commission that BCPL be given the opportunity to purchase state agency buildings if it makes sense to state taxpayers. This could provide more money for K-12 schools, avoids bonding, and could save state taxpayer dollars. The Commission did not endorse the proposal, but comments from members indicated the idea should be explored further and on a case-by-case basis this may make good fiscal sense.

Appendices

Appendix A

The State of Wisconsin

OFFICE OF THE GOVERNOR

EXECUTIVE ORDER #179

Relating to the Creation of the Governor's Commission on Government Reform, Efficiency, and Performance

WHEREAS, all levels of government should engage in a continuous improvement process in order to deliver services more efficiently, to be more accountable, and to operate at lower cost to taxpayers; and

WHEREAS, even though state revenues have risen in recent years federal mandates, cost pressures, and increased demand for services will continue to consume these revenues, putting stress on the state budget; and

WHEREAS, more than half of all state general purpose revenue is returned to local governments, and ensuring these funds are used efficiently is the responsibility of both state and local governments; and

WHEREAS, government programs and services should be periodically reviewed and adjusted to maximize their effectiveness and determine their continued need; and

WHEREAS, enterprise-wide state government operates and maintains millions of square feet of facilities across the state;

NOW, THEREFORE, I, SCOTT WALKER, Governor of the State of Wisconsin, by the authority vested in me by the Constitution and the laws of this State, including Section 14.019 of the Wisconsin Statutes, do hereby create the **Governor's Commission on Government Reform, Efficiency, and Performance** and order as follows:

1. The Governor's Commission on Government Reform, Efficiency, and Performance shall operate as a nonstatutory committee under Section 14.019 of the Wisconsin Statutes, for the purpose of advising and assisting the Governor in a coordinated government-wide effort to reduce the size of government, reduce spending and reduce the state tax burden, and deliver government services more efficiently.

2. The Commission shall include the following members, who shall serve ex officio:

   a. The Secretary of the Department of Administration.

   b. The State Budget Director or his or her designee.

   c. The Secretary of the Department of Revenue or his or her designee.

   d. The Secretary of the Department of Safety and Professional Services or his or her designee.

3. The Commission shall also include the following members appointed by the Governor:

   a. A private-sector member who has executive experience.

b. A member who has a background managing local government operations.

c. Members of the Legislature representing both parties.

d. One or more members of the public.

4. The Commission shall be co-chaired by the Secretary of the Department of Administration and the private sector member with executive experience.

5. The co-chairs are empowered to appoint additional members to the Commission, provided that both co-chairs are in agreement as to each appointment.

6. The Commission shall have the following mission:

    a. Identify areas of state government where spending can be reduced;

    b. Review and recommend ways to reduce the cost to maintain state facilities;

    c. Identify areas of government where there is service duplication and recommend consolidations;

    d. Identify waste, fraud, and abuse in state government and recommend improvements;

    e. Recommend ways to improve service delivery in state government;

    f. Recommend ways to reorganize government to improve its focus and allow it to operate more efficiently and effectively;

    g. Identify ways to incentivize work and reduce fraud in state public assistance programs and in the state tax code;

    h. Review performance informed budgeting to ensure tax dollars spent are producing results and budgets reflect that;

    i. Review the core missions of agencies and recommend ways to more efficiently and effectively deliver on these core missions while at the same time removing non-core functions;

    j. Review the sharing of services between state agencies to improve efficiency, provide consistency, and save costs across the enterprise;

    k. Review the sharing of services between state and local governments to improve efficiency, provide consistency, and save costs;

    l. Analyze government operated programs and services that may have the potential to be delivered at a lower cost and more efficiently by a private entity; and

    m. Identify immediate and long-term savings that can be repurposed or returned to taxpayers.

7. The Department of Administration, with assistance from other state agencies as requested by the Governor, shall provide staff support to the Commission to accomplish its mission.

8. The Department of Administration, with assistance from other state agencies, shall produce a final report containing the Commission's findings and recommendations and shall submit the final report to the Governor prior to introduction of the 2017-19 biennial budget.

9. The Commission shall dissolve following the submission of its final report.

IN TESTIMONY WHEREOF, I have hereunto set my hand and caused the Great Seal of the State of Wisconsin to be affixed. Done at the Capitol in the City of Madison this third day of November, in the year two thousand fifteen.

SCOTT WALKER
Governor

By the Governor:

DOUGLAS LA FOLLETTE
Secretary of State

Appendix B
Meeting Schedule

November 5, 2015
State Capitol

December 3, 2015
Moraine Park Technical College
Fond du Lac

January 7, 2016
Wisconsin Center District
Milwaukee

February 5, 2016
State Capitol

March 4, 2016
State Capitol

April 1, 2016
UW-River Falls

May 5, 2016
State Capitol

June 10, 2016
Northcentral Technical College
Wausau

July 8, 2016
State Capitol

August 12, 2016
Northeast Wisconsin Technical College
Green Bay

September 9, 2016
State Capitol

October 6, 2016
Western Technical College
La Crosse

November 4, 2016
State Capitol

Appendix C
Commission Recommendations

	Yes	No	Abstained
Should the Department of Financial Institutions offer expedited corporate filing? This would offer an enhanced service to the customer and increase revenue to the state.	12	0	0
Should we allow the Division of Hearings and Appeals the ability to transmit audio and video recordings of administrative proceedings, unless the court orders written transcripts. Current law only allows printed and typewritten transcripts. This change would save on printing costs and save staff time.	12	0	0
Should we increase the Claims Board minimum threshold from $10 to $100? This would save staff time.	12	0	0
Should the Department of Workforce Development enter into a data sharing agreements with other states to review whether unemployment insurance claimants are collecting benefits from multiple states? This would reduce fraudulent payments and improve the solvency of the Unemployment Insurance Trust Fund.	12	0	0
The Department of Revenue should explore ways to improve the state debt collection program's already effective operation. The state should also more aggressively market the program so more local governments use it, especially the larger ones. The state should also ensure that the mandated participants are actively involved in the program. This would increase compliance and revenue owed to state and local governments.	10	2	0
The Department of Revenue should reduce the threshold at which employers must electronically file W-2s. The Department of Revenue should not issue income tax refunds until March 1 or later unless both the employer and employee have filed all required returns and forms. This would reduce fraudulent tax return payments protecting legitimate taxpayers.	10	2	0
Wisconsin should create a sunset commission similar to the Texas Sunset Commission. The SUCCESS Framework, Core Work analysis, and PEW Results First Initiative are all tools that could be used to conduct the sunset commission reviews.	8	4	0
Should Wisconsin set a goal to reduce its cost of contracted services? The tools to reduce costs could be using less contract staff where it makes sense, renegotiating contracts, and/or consolidating contracts among other options. Setting a goal and having the new enterprise resource planning system, STAR could assist in achieving this goal.	11	1	0

Should all state agencies be required to conduct a core work analysis to identify what programs and/or functions are obsolete, better administered in another agency, and/or can be administered more efficiently? This is what the Department of Natural Resources presented to the Commission about and what they are currently doing.	9	3	0
We received a presentation regarding the state's new enterprise resource planning system, STAR. The state should use this new system and its business intelligence tools to realize savings and eliminate inefficiencies?	12	0	0
Should the state implement a "Gov2Go" style platform that allows users of government services a one-stop shop for all their interactions with state agencies? This was discussed as a way to save both state residents money and the state while delivering government services more efficiently and effectively.	11	1	0
Should the state create a free market protection and privatization type board similar to Utah's that is attached to their Office of Management and Budget?	6	6	0
Should the state explore piloting "Value-Added Incentives" in some select state agencies to determine if this adds value, efficiency, and saves cost? This was presented as part of the Economic Value-Added or EVA presentation.	8	4	0
Should the state pass laws that require periodic reviews of tax expenditures? This is similar to the "Sunset" idea we discussed only for tax expenditures and similar to what occurs in Iowa.	10	2	0
Should the state pursue self-insuring its employees and extend that option to local governments if it is determined the state can deliver quality benefits at a reduced cost?	10	1	1
Should the state set savings targets for spending on light vehicle purchasing, mailing, advertising, printing, and travel? Total annual spending on these items exceeds $100 million annually.	10	1	1
Should the state complete an old initiative to consolidate all printing and mailing services at the Department of Administration's printing center?	7	5	0
Should the state initiate a shared services initiative based on the principles of saving money, delivering services more efficiently, and using data to drive decisions and pursue continuous improvement? This would include hiring a consultant to assist in implementation and the creation of a governance structure to deliver on the goals of shared services. Shared services would allow agencies to focus on their core missions by standardizing like processes and having them delivered in a coordinated way across the state government enterprise. After the state shared services initiative matures, it could offer services to local governments through mutual agreement.	11	1	0

Should the state change state law to allow for "Joint Agencies" among counties and other local governments where it makes sense? This would allow them to share the administration of certain functions to save costs and deliver services efficiently without pursuing difficult consolidations. This was a proposal from the Wisconsin Counties Association.	12	0	0
Should the state change fleet vehicle purchasing and operational policies and statutes suggested by James Langdon from the Department of Administration? These are included in the white paper distributed to the Commission. The goal is to reduce inefficiency and save costs.	11	1	0
Should the state explore whether a private operator could save the state money on fleet vehicle usage and purchasing while maintaining quality? We heard about this from Enterprise Rent A Car of Wisconsin.	12	0	0
In regards to the real estate services presentation given by Cindy Torstveit of the Department of Administration, Division of Facilities Management, should the use lean tools, technology, and further analysis to reduce our facilities management costs through consolidations and operational efficiencies?	12	0	0
Should the state provide greater transparency regarding local government budgets by implementing a website that compares per capita spending on various common local government services? This was part of a presentation by Mike Konecny when he talked about a similar program in Michigan.	7	5	0
Should the state change its policies in response to an idea provided by Matt Adamczyk, State Treasurer that would have the state review if the Board of Commissioners of Public Lands buying buildings would save taxpayer costs?	4	8	0
Should the state explore whether, as a part of shared services and other reforms discussed by the Commission, if reforming the Department of Administration's structure to more closely mirror an Office of Management and Budget structure as is done in Utah, Indiana, other states, and the White House would improve efficiency, performance, and assist in the sequenced implementation of the Commission's recommendations?	8	2	2
Should the state explore contracting with a private firm such as Alvarez and Marsal, Deloitte, Knowledge Services and/or another organization to review, recommend, and implement efficiency ideas in select areas?	7	4	1
Should the state enhance our asset sales program through the help of other state agencies such as Transportation and Natural Resources that have experience with land sales in order to take advantage of lucrative sales for the state, private sector, and taxpayers?	10	2	0
Should the state perform a state budget stress test on a regular schedule to inform policy makers as to the fiscal condition of the state in relationship to different levels of recession as well as make our state's reserve policies more robust?	8	3	1

Should the state conduct a review and sunset of existing reports in state statute? Reports of value would be continued and made available on a website for the public to view. This would be more transparent and provide more value to the state. This would also reduce staff time and costs related to preparing reports of little to no value. A comprehensive review of the reports by each agency would provide greater insight into reports that should be continued, amended or removed in the statutes. A similar review was required in Texas by the legislature (2011 House Bill 1781). All state agencies were required to review all reporting requirements and determine whether each reporting requirement is not necessary to accomplish the objectives of the statute containing the requirement, is redundant of other statutory report requirements, or is required under statute to be provided at a frequency for which data is not available. Completing a comprehensive review and streamlining of reports would allow agency staff to focus time of the critical functions of their agencies.	12	0	0

Appendix D

Commission Member Clarifications

DATE: November 4, 2016
TO: Members, Governor's Commission on Government Reform, Efficiency, and Performance
FROM: State Senator Janis Ringhand
RE: Commission Questionnaire

I appreciate the time and effort that has been put into the Governor's Commission on Government Reform, Efficiency and Performance. There have been many ideas shared that could help Wisconsin continue to provide quality public services at reduced costs to taxpayers.

Finding ways to provide cost efficient, transparent and quality public services are laudable goals.

Conceptually, there are many proposals in the survey that I support, as long as they are brought forward in a manner that includes the stakeholders in a collaborative effort. As we saw with the proposed merger of DFI and DSPS, failing to include the stakeholders in the development the proposed changes undermines the trust that is needed in order to garner enough support to make the changes come to fruition.

In the same breath, it would be easy to oppose many of the proposed changes, depending on how they are developed and brought forth. The establishment of this Commission is a good first step in developing a transparent process for this effort.

For many of the proposed changes in the survey, we need to ask the question; how will this be done? How we go about making the changes proposed in the survey is more complicated than a simple yes or no answer.

There are key questions that need to be asked regarding any of the proposed changes and efficiencies.

1) How will these changes be implemented? It is critical that any of the proposed changes be vetted through the stakeholders and those who would be directly affected by the changes. Proposals that are merely brought forth without the input from stakeholders makes it difficult to garner support for the changes and often makes it more difficult to move ideas forward because the process excluded key stakeholders and the public.

2) Who will be the champions for these changes? For any major policy change, especially those that require legislative approval, it is critical to have a champion who would guide the changes through the legislative process and serve as resource for those who have concerns or questions regarding the changes.

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