

A Review

Credentialing Fees

Department of Regulation and Licensing

2003-2004 Joint Legislative Audit Committee Members

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July 13, 2004

Senator Carol A. Roessler and
Representative Suzanne Jeskewitz, Co-chairpersons
Joint Legislative Audit Committee
State Capitol
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

We have completed a review of the methodology for determining credentialing fees proposed by the Department of Regulation and Licensing during 2003-05 budget deliberations, as requested by the Joint Legislative Audit Committee. The Department and the boards it supports issue nearly 318,000 credentials in 84 professions and 26 businesses. In fiscal year 2003-04, the Department had a total budget of \$11.1 million, which was supported entirely with credentialing and other fees, and an authorized staff of 125.5 full-time equivalent employees.

With the fee-setting methodology proposed in 2003, the Department believed it would more accurately allocate regulatory costs to credential holders based on services provided to each type of profession or business, as required by statutes. However, legislators and others were concerned that the methodology was based on time estimates, rather than on documented time spent, and that several professions would experience large fee increases. As a result, neither new fees nor the proposed methodology were approved, and credentialing fees have not changed since 2001.

We found that the proposed methodology could increase the Department's ability to allocate credentialing costs based on services provided. However, additional refinements could be considered by the Department and the Legislature if the methodology will again be proposed during 2005-07 biennial budget deliberations. We also provide options for the Legislature to consider as it deliberates on the Department's funding and spending authority.

Finally, we compared Wisconsin's regulatory structure and methodology for determining fees with those in six other midwestern states. Regulatory structures are less centralized in other states, with regulatory authorities overseeing small groups of related professions. In addition, credentialing fees in Wisconsin are typically lower than in surrounding states.

We appreciate the courtesy and cooperation extended to us by the Department. Its response follows Appendix 2.

Respectfully submitted,

A handwritten signature in cursive script that reads 'Janice Mueller'.

Janice Mueller
State Auditor

JM/DB/ss

Report Highlights ■

Credentialing fees have not changed since 2001.

In 2003, new fees were proposed to more accurately reflect regulatory costs.

Wisconsin's renewal fees are lower than midwestern averages for some professions and many businesses.

The Legislature may wish to consider how fees are assessed and how they are applied.

The Department of Regulation and Licensing issues 110 types of occupational licenses, permits, and other credentials to individuals and businesses, either directly or through the 38 boards and regulatory authorities to which it provides administrative and other support. It has 125.5 authorized full-time equivalent (FTE) positions and a fiscal year (FY) 2003-04 budget of \$11.1 million. Fees paid by new and renewing credential holders fund more than three-quarters of the Department's operating costs.

To ensure that credentialing fees reflect the approximate costs of regulating particular professions and businesses, statutes require the Department to estimate its administrative and enforcement costs for each credential type in each biennium and, as part of its biennial budget proposal, to adjust initial and renewal fees accordingly. To assist the Legislature in its consideration of expected agency budget proposals for the 2005-07 biennium, the Joint Legislative Audit Committee directed us to review:

- whether a new fee-setting methodology proposed by the Department in 2003 is adequately documented and could be administered in a straightforward manner;
- whether proposed new fees would reflect actual regulatory costs by credential type and could provide sufficient revenue to support the Department's operations; and

- how Wisconsin's regulatory structure and practices compare to those of other midwestern states.

Our report suggests a number of options for establishing an equitable fee structure and funding new initiatives.

Current Fees

Since 1991, the Department has been required by statutes to allocate its costs to credential holders based on services provided, so that fees collected from one type of credential holder do not support the cost of regulating others. During 2003-05 biennial budget deliberations, the Department proposed both a new method for allocating costs, which it believed to be more accurate, and new credentialing fees. In some cases, the new fees also shifted regulatory costs from new to renewing credential holders.

These changes were not enacted because of legislative concerns about large fee increases for some professions, as well as uncertainty about the appropriateness of the proposed method for establishing fees. Current fees have been in effect since the beginning of the 2001-03 biennium.

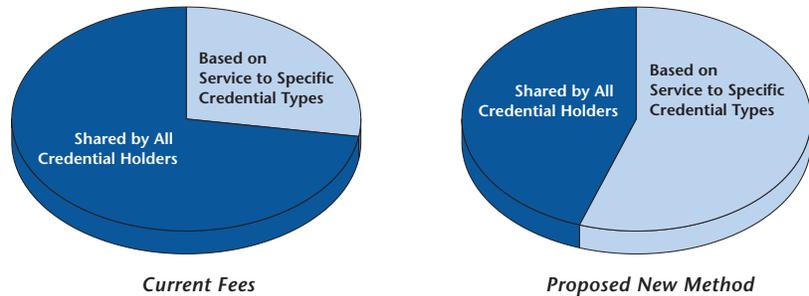
Current fees are set at \$53 for new credential applicants. In contrast, renewal fees vary widely. Most include the \$53 base, but they are also intended to reflect direct enforcement costs related to particular credential types. Therefore, they differ based on the number of credential holders in a profession, as well as enforcement costs related to that profession. For example, soil scientists, massage therapists, and athletic trainers all pay renewal fees of \$53 every two years. Engineers pay \$58, cosmetologists and barbers \$63, and certified real estate appraisers \$167. The current renewal fee for most businesses is \$56. However, charitable organizations pay \$15 and cemetery authorities pay \$343. Our report includes a listing of renewal fees for each regulated profession and business.

Proposed New Fees

The Department's proposed new method for setting credentialing fees would increase the proportion of costs that are allocated based on services provided. Currently, more than two-thirds of administrative and enforcement costs are allocated equally to all credential types, as shown in Figure 1; only 27.4 percent are allocated based on services provided. The proposed method for setting fees would allocate 58.2 percent of costs based on services provided.

Figure 1

How Regulatory Costs Are Allocated



Nevertheless, allocating costs accurately is complex, and the Department could take additional steps to simplify fee-setting. Furthermore, basing credentialing fees primarily on the level of service received by each type of credential holder has significant limitations.

First, the majority of the Department's costs are for staff salaries and fringe benefits, and some staff perform work benefiting many different types of credential holders in a single day. As a result, accurate timekeeping is essential to ensure that costs are allocated precisely. The Department did not have a comprehensive timekeeping system in place when it first proposed changes to the method by which credentialing fees are set.

Second, some fees could change significantly under a new system. Based on the Department's anticipated costs for the current biennium, renewal fees would have increased for 68 credential types. For example, cemetery sales people would have paid an additional \$226 to renew their credentials, for a total of \$316 for a two-year period. Dentists' renewal fees would have increased by \$121, to \$252, and nurses' fees would have increased from \$60 to \$66. However, the proposed new fee-setting method would have reduced renewal fees for 27 credential types.

It should be noted that fees based on level of service received do not consider average income in the various professions and businesses for which credentials are required. Therefore, they may raise concerns about affordability for some credential holders. For example, new renewal fees proposed during 2003-05 biennial budget deliberations would have been \$151 for physicians but \$161 for dance therapists, who typically have much lower incomes.

Fees in Other States

As shown in Table 1, Wisconsin's credentialing fees are significantly lower than midwestern averages for some professions with a large number of credential holders. For example, Wisconsin's current biennial credentialing fee for physicians is \$166 less than the midwestern average. Pharmacists pay \$52 less, and certified public accountants \$25 less. Current fees are also below the midwestern average for four of the five most commonly credentialed businesses. However, they are higher than the midwestern average for real estate brokers and salespeople, cosmetologists, and nurses.

Table 1
Biennial Renewal Fees for Selected Professions
As of December 2003

	Midwestern Average	Wisconsin
Physician	\$272	\$106
Pharmacist	149	97
Certified Public Accountant	84	59
Engineer	82	58
Barber	62	63
Registered Nurse	59	66
Licensed Practical Nurse	59	69
Cosmetologist	43	63
Real Estate Salesperson	60	83
Real Estate Broker	94	128

Like Wisconsin, most midwestern states require credentialing fees to be set at a level that is sufficient to fully fund credentialing activities. However, most other states adjust their fees less frequently. Furthermore, because their regulatory structures are less centralized than Wisconsin's, they are less concerned that fees paid by some professions will subsidize the regulatory costs of others.

Revenues from credentialing fees exceeded regulatory costs for each agency of the other states we contacted. Nevertheless, some other states have increased their credentialing fees or are considering fee increases.

Future Considerations

For many years, the Department has been required to deposit 10.0 percent of credentialing fees to the State's General Fund. These funds reimburse costs that other state agencies incur on the Department's behalf. Since FY 2001-02, the Department has also been required to lapse additional funds to help address state budget deficits. By the end of FY 2004-05, these additional required lapses will have totaled \$6.8 million.

Despite these required lapses, the Department projects a balance in its credentialing fees appropriation. Nevertheless, regulatory boards representing several professions have expressed concern that the fees credential holders are assessed to cover regulatory costs are being used for other purposes.

In addition, the Department reduced service levels for some professions in FY 2003-04, in an effort to cut its own costs. Some members of regulatory boards have indicated that as a result, their ability to act on pending credential applications and enforcement cases has been hampered. Furthermore, several boards—including the Medical Examining Board and the Pharmacy Board—have expressed an interest in expanding the level of service the Department provides to them, even if it results in fee increases.

Because credentialing fees have not been adjusted since the beginning of the 2001-03 biennium, the Governor and the Legislature may be asked to consider options for doing so as part of the 2005-07 biennial budget process. They will have several options to consider while preparing and deliberating the Department's budget.

First, the fees currently enumerated in statutes could remain unchanged. These fees have resulted in considerable fund balances in each year since FY 2001-02, and they are projected to produce additional balances through the 2005-07 biennium if the Department's spending does not increase.

Second, the fees currently enumerated in statutes could be revised. For example, surcharges could be assessed for specific professions that request additional services, or adjustments could be based on an inflation factor for the 2005-07 biennium. However, fee revisions may not address the Department's concern related to its statutory requirement to allocate costs based on services received.

Finally, the Department's 2003-05 proposal could be implemented in 2005-07 using more complete timekeeping data. Under this option, the proportion of costs allocated on the basis of service would be increased.

Recommendation

The Department's 2005-07 budget request is expected to again propose changes in the method by which credentialing fees are set. Our report includes a recommendation for the Department to:

- ☑ improve the accuracy and precision of this proposal by clearly explaining how individual fees are determined; using actual timekeeping data; and thoroughly documenting any modifications to current practices that are based on policy or other considerations (*pp. 37-38*).

■ ■ ■ ■

Introduction ■

The Department and the regulatory authorities it supports issue credentials to nearly 318,000 individual and business credential holders in 84 professions and 26 business types. The regulatory authorities it supports include:

- 21 examining and credentialing boards, which have the independent authority to license individuals or businesses, promulgate administrative rule changes, and impose disciplinary sanctions;
- 4 additional boards that may discipline credential holders, but that are limited to advising the Department in matters related to licensing and rule-making; and
- 13 advisory councils and committees with no disciplinary authority.

Appendix 1 lists all of the Department's attached boards, councils, and committees.

Credentialing fees are the Department's primary source of funding.

The program revenue that funds the Department's operations is generated primarily from credentialing fees paid by new and renewing credential holders, which typically cover a two-year period. As part of the biennial budget process, s. 440.03(9)(b), Wis. Stats., requires the Department to estimate its administrative and enforcement costs and then recommend

appropriate fees for new and renewing credential holders, based on its anticipated regulatory costs for particular professions and businesses in the coming budget period. In this way, it is expected that fees collected from one type of credential holder will not be used to support the cost of regulating another type.

During legislative deliberation on the 2003-05 budget, the Department proposed new credentialing fees based on:

- an estimate of its administrative and enforcement costs that was \$3.6 million higher than the estimate for the previous biennium, and included costs to fund several new initiatives; and
- changes to its fee-setting methodology that were recommended by a contracted consultant.

***Credentialing fees have
not changed since
FY 2001-02.***

The Department believed that changes to its fee-setting methodology would more accurately allocate regulatory costs to the different types of credential holders, as required by statute. However, the Joint Committee on Finance was concerned that cost allocations were based on time estimates, rather than on documented time spent, and that several professions would experience large fee increases based on these estimates. As a result, the proposed fees and underlying methodology were not approved, and current credentialing fees remain unchanged since the beginning of the 2001-03 biennium.

In October 2003, the Joint Legislative Audit Committee directed us to review the Department's proposed fee-setting methodology. In conducting this review, we spoke with the Department's staff, interviewed the chairs of 11 different boards representing more than 86 percent of all credential holders in Wisconsin, and spoke with regulatory staff in six other midwestern states. We also reviewed:

- the Department's budget, revenue, and expenditure data for FY 1998-99 through FY 2002-03, as well as projections for the 2003-05 biennium;
- documents related to the Department's 2003-05 budget request, including planned information technology initiatives;
- documents and data related to the proposed fee-setting methodology and credentialing fees, which were prepared by the Department's consultant.

Organization and Staffing

The Department's 125.5 FTE staff are assigned to one of four divisions or three offices, as shown in Table 2. The largest, the Division of Enforcement, has a total of 50.25 FTE positions. Its staff respond to consumer complaints about credential holders and monitor credential holders' compliance with disciplinary requirements.

Table 2

Authorized FTE Staff Positions FY 2003-04

Organizational Unit	FTEs
Division of Enforcement:	
Investigators	16.50
Attorneys	12.00
Administrative Staff	11.75
Paralegals	8.00
Auditors	2.00
Division of Professional Credentialing	27.00
Division of Management Services	18.45
Division of Board Services	10.00
Office of Legal Counsel	6.80
Office of the Secretary	6.00
Subtotal	118.50
Office of Education and Examinations ¹	7.00
Total	125.50

¹ These positions are in the Division of Board Services and are fully funded by examination fees.

The Division of Professional Credentialing reviews new and renewal credential applications to ensure that applicants meet requirements. The Division of Management Services provides the Department and the regulatory authorities it supports with administrative assistance, such as computer support, while the Division of Board Services assists the various regulatory boards, councils, and committees with drafting and implementing new laws, rules, or policies and provides other support.

Credentialing fees support 118.5 of the 125.5 FTE staff positions the Department is authorized.

Staff in the Department's four divisions, along with legal counsel and the Office of the Secretary, are fully funded through credentialing fees. An additional 7.0 FTE positions in the Office of Education and Examinations are fully funded through examination fees paid by credential applicants whose professions require testing as part of their credentialing process.

Statutes authorize the Department to require any new or renewing credential applicant to undergo a criminal background check, but only private detectives, private security persons, and nursing home administrators must currently submit to these checks. Criminal background checks are performed primarily by Federal Bureau of Investigation and Wisconsin Department of Justice staff, under contract with the Department.

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Revenue and Expenditures ■

During 2003-05 budget deliberations, it was unclear whether revenue from credentialing fees would be sufficient to fund the Department's actual regulatory costs. However, the Department currently projects that at the end of FY 2004-05, its appropriation funded with credentialing fees will have a balance of \$1.1 million. This amount reflects lapses to the State's General Fund that totaled \$6.8 million during the current and last biennia and were required to help address state budget deficits.

Revenue

As shown in Table 3, the Department is funded entirely by program revenue from three sources:

- credentialing fees, which are paid by new and renewing credential holders;
- examination fees, which are paid by credential applicants whose professions require testing as part of their credentialing process, including pharmacists, real estate brokers, and social workers; and
- fees for criminal background checks, which are paid only by those who undergo such checks and are typically limited to private detectives, private security persons, and nursing home administrators.

Table 3

Total Revenue, by Source
1999-2001 and 2001-03 Biennia

Appropriation	1999-2001	2001-03
Credentialing Fees	\$18,957,700	\$22,269,000
Examinations	2,376,500	3,105,600
Criminal Background Checks	228,400	216,200
Total	\$21,562,600	\$25,590,800

Because the Department both projects its costs and issues most credentials on a biennial basis, we analyzed its revenues and expenditures accordingly. Credentialing fees have generated more than three-quarters of the Department's total revenue in each of the past two biennia, and they fund 118.5 of its 125.5 authorized FTE positions. On a biennial basis, revenue from credentialing fees increased 17.4 percent in the period shown, from \$19.0 million to \$22.3 million.

As noted, revenue from examination fees fully funded the Department's remaining 7.0 FTE positions, and it increased considerably between the past two biennia as the use of electronic testing increased. These tests are more expensive than paper-based tests, but they can be scheduled more frequently and sometimes allow for partial retesting when applicants have not satisfied all necessary requirements. The Department indicates that applicants have generally been willing to pay higher examination fees for this increased flexibility. Revenue from criminal background checks declined in the period shown and was less than 1 percent of total revenue in the 2001-03 biennium. Nevertheless, this activity is self-supporting and does not generate revenue for other purposes.

Credentialing fee revenue for the 2003-05 biennium is not expected to change from 2001-03 levels for two reasons: the fee structure has not changed, and the number of credential holders is typically consistent from one biennium to the next. Appendix 2 shows the fees that are currently in effect for new and renewing credential holders in each regulated profession and business. These fees were established based on expenditure projections for the 2001-03 biennium.

Expenditures

As shown in Table 4, the Department's total expenditures increased from \$21.2 million in the 1999-2001 biennium to \$22.3 million in the 2001-03 biennium, or by 5.2 percent. Our analysis focused on expenditures from the general program operations appropriation, consisting almost entirely of credentialing fee revenue, because it is the basis for the Department's estimate of the revenue it must generate to fund credentialing activities during the following biennium.

Table 4

Total Expenditures, by Source
1999-2001 and 2001-03 Biennia

	1999-2001	2001-03
Credentialing Fees	\$18,696,100	19,318,900
Examination Fees	2,246,900	2,758,400
Criminal Background Check Fees	230,900	199,500
Total	\$21,173,900	\$22,276,800

As shown in Table 5, expenditures funded by credentialing fees increased from \$18.7 million in the 1999-2001 biennium to \$19.3 million in the 2001-03 biennium, or by 3.2 percent. Salaries and fringe benefit costs made up 75.1 percent of all expenditures from the credentialing fees appropriation during the 2001-03 biennium.

Table 5

Credentialing Fee Expenditures, by Type
1999-2001 and 2001-03 Biennia

	1999-2001	2001-03
Salaries and Fringe Benefits	\$14,144,400	\$14,514,400
Other Administration	1,816,900	1,614,200
Lease of Space	1,150,300	1,085,800
Equipment and Supplies	582,800	780,100
Professional Services	345,700	523,000
Travel and Training	440,500	446,700
Miscellaneous Services	215,500	354,700
Total	\$18,696,100	\$19,318,900

***Enforcement costs
totaled \$3.6 million
in FY 2002-03.***

In the second year of the 2001-03 biennium, enforcement costs related to screening, investigating, and prosecuting consumer complaints accounted for \$3.6 million of the Department's expenditures funded by credentialing fees, as shown in Table 6. That amount represented 37.5 percent of FY 2002-03 expenditures funded by credentialing fees. Expenditures for the entire biennium could not be analyzed by organizational unit because of a departmental reorganization. However, expenditure data by organizational unit for even one fiscal year are useful in considering how costs related to the Department's various activities are allocated among credential holders.

Table 6

Credentialing Fee Expenditures, by Organizational Unit
FY 2002-03

	Amount
Division of Enforcement	\$3,623,500
Division of Management Services	2,500,200
Division of Professional Credentialing	1,144,200
Division of Board Services	994,400
Office of Legal Counsel	781,700
Office of the Secretary	625,300
Total	\$9,669,300

Lapsed Funds

In the previous and current biennia, the Department will have lapsed \$6.8 million to help address state budget deficits.

To offset general overhead costs incurred by other state agencies that support it, such as the Department of Administration, the Department is statutorily required to deposit 10.0 percent of all credentialing fee revenue to the State's General Fund as it is collected. These funds do not affect the Department's credentialing fees appropriation or its spending authority. However, in recent years the Department, like other agencies, has been required to make a number of one-time lapses to the General Fund, primarily to help address the State's budget deficit. From FY 2001-02 through FY 2004-05, it will have lapsed a total of \$6.8 million of unexpended credentialing fee revenue, including:

- \$358,000 in FY 2001-02;
- \$2.0 million in FY 2002-03;
- \$2.2 million in FY 2003-04; and
- \$2.2 million in FY 2004-05.

Because these fund lapses were largely from an unexpended balance for which the Department did not have spending authority, services were not reduced. However, 2003 Wisconsin Act 33, the 2003-05 Biennial Budget Act, reduced the Department's spending authority by \$498,400 in FY 2003-04 and \$543,400 in FY 2004-05, based on the elimination of 10.0 FTE staff positions.

Staffing Reductions

Before FY 2003-04, the Department had a total of 135.5 authorized FTE positions, including 128.5 that were supported with credentialing fee revenue. In its 2003-05 biennial budget proposal, the Department requested a reduction in its authorized staffing level in order to fund information technology initiatives, including upgrades of its existing computer equipment. The projects were not approved. However, Act 33 reduced both the Department's position authority and its spending authority.

Since Act 33's enactment, the Department has eliminated all or a portion of 14 positions equaling 10.0 FTE staff positions. As shown in Table 7, 4.5 of the 10.0 FTE positions eliminated were in the Division of Enforcement. Of the positions eliminated, ten were filled—involving eight layoffs and two reductions in hours—and four were vacant. In June 2003, the Department reported to the Legislature that the reductions would not significantly affect its operations given the efficiencies it anticipated as a result of the planned information technology enhancements.

Projected credentialing fee revenue is adequate to fund budgeted expenditures in the current biennium.

The Department's annual spending authority was further reduced by \$290,300 when revenue estimates projected that credentialing fee revenue would be insufficient to cover budgeted expenditures for the 2003-05 biennium. The budget reductions have been met, in part, through reduced services, including less frequent regulatory board meetings and newsletter mailings, which typically inform credential holders of rule changes or other regulatory updates. For example, the number of Pharmacy Board meetings was reduced from 12 to 7 per year. However, in June 2004 the Department projected that its credentialing fees appropriation would have a balance of \$1.1 million at the end of FY 2004-05. The balance does not include \$691,000 the Department has designated for improvements to its workspace in FY 2004-05, which is awaiting approval by the Department of Administration.

Finally, spending authority was reduced \$172,500 over the 2003-05 biennium as the Department's share of statewide reductions related to future information technology efficiencies, health insurance for part-time employees, and reductions in discretionary compensation adjustments, according to an October 2003 Department of Administration memorandum.

Table 7

FTE Staff Reductions
FY 2003-04

Division and Title	Positions Eliminated	Filled
Enforcement		
Administrative Policy Advisor	1.00	Yes
Program Assistant 1	1.00	Yes
Program Assistant 3	1.00	Yes
Program Supervisor	1.00	Yes
Paralegal	.50	No
Subtotal	4.50	
Professional Credentialing		
Program Assistant 3	1.00	Yes
Program Assistant 4	.95	Yes
Program Assistant 3	.50	No
Program Assistant 1	.50	No
Subtotal	2.95	
Management Services		
Budget and Policy Analyst	1.00	Yes
Word Processor 2	1.00	Yes
Payroll and Benefits Specialist	.05	Yes
Subtotal	2.05	
Office of Legal Counsel		
Attorney	.30	No
Attorney	.20	Yes
Subtotal	.50	
Total	10.00	

Determining Credentialing Fees ■

Statutes require the Department to allocate costs to credential holders based on services provided.

Since 1991, the Department has been statutorily required to allocate its credentialing costs to credential holders based on the services it provides. In May 2003, during 2003-05 biennial budget deliberations, the Department proposed a new methodology for allocating costs that it believed to be more accurate, and it recommended new credentialing fees based on this methodology. In June 2003, the Department submitted budget revisions to the Legislature, including a change to the proposed methodology that would shift some regulatory costs from new to renewing credential holders. However, the proposed changes were not clearly presented, and credential holders, legislators, and others found it difficult to understand how credentialing fees were determined. As a result, neither proposal was approved, and 2001-03 credentialing fees and their underlying fee-setting methodology remain in effect.

Existing Methodology

In order to estimate the revenue it will need for each biennium, the Department determines actual credentialing fee expenditures for the most recently completed fiscal year and then adjusts those costs for inflation and other factors, including collective bargaining agreements that affect employee wages. In addition, the Department may include proposed funding for new initiatives. Under the existing methodology, the Department categorizes credentialing costs in one of two ways: costs that are directly related to investigating and prosecuting enforcement cases, and all other costs, which it broadly defines as administrative overhead.

The initial fee of \$53 is currently the same for all professions and businesses.

Currently, the Department assesses two types of credentialing fees: an initial fee, which is assessed when a credential is first issued; and a renewal fee, which is assessed when a credential is renewed, typically every two years. Costs broadly defined as administrative overhead are divided equally among all new and renewing credential holders, while direct enforcement costs are allocated only to renewing credential holders. As a result, initial fees—currently \$53—are the same for all credential types.

However, the existing methodology allocates costs related to issuing credentials, which totaled \$1.1 million in FY 2002-03, equally to all credential holders even though some credential types require relatively more services. For example, to issue new credentials to certified public accountants, the Department's staff thoroughly review multiple documents to ensure that applicants have passed multiple parts of an examination and have fulfilled other requirements. In contrast, for real estate salespersons, only an application must be reviewed.

Renewal fees range from \$53 to \$343, depending on the enforcement costs allocated to particular credential types.

Credential renewal fees include the \$53 base but are also intended to reflect direct enforcement costs related to particular credential types. Renewal fees vary widely because enforcement costs are limited for credential types with few enforcement actions. For example, under the existing methodology, the enforcement portion adds nothing to the \$53 base for soil scientists, who pay \$53 every two years to renew their credentials. However, certain types of professions and businesses are subject to more enforcement actions, which increase costs. For example, enforcement costs allocated to cemetery authorities add \$290 to the \$53 fixed portion of the renewal fee, resulting in a biennial credential renewal fee of \$343.

Allocating costs based on services provided is complex.

The Department believes there are two fundamental problems with its existing methodology:

- First, because the allocation of enforcement costs is based solely on the number of cases associated with each credential type, the existing methodology does not account for the relative complexity of each case, which affects its costs. For example, a profession with a relatively large number of cases that are quickly resolved may require less staff time, and hence fewer costs, than a smaller number of more complex cases related to a different profession.

- Second, under the existing methodology, 72.6 percent of the Department’s credentialing costs are categorized as administrative overhead and allocated equally to all credential holders. The Department believes that many costs currently categorized as administrative overhead could instead be allocated based on services provided.

Proposed Methodology

The proposed methodology is intended to more accurately allocate credentialing costs.

The Department’s proposed methodology was developed by a contracted consultant at a cost of \$14,500. It is intended to more accurately allocate the Department’s regulatory costs based on the services provided for each type of profession or business. The fee schedule proposed during legislative deliberations for the 2003-05 biennial budget was based on this methodology.

The proposed methodology would decrease the proportion of costs allocated equally to all credential types and increase the proportion of costs allocated on the basis of services provided. As shown in Table 8, costs for activities performed by staff in the Department’s divisions of Enforcement, Professional Credentialing, and Board Services, as well the Office of Legal Counsel, would be allocated separately to each credential type based on services provided. As a result, the proportion of credentialing costs allocated to credential holders based on services provided would increase from 27.4 percent under the existing methodology to 58.2 percent under the proposed methodology.

Table 8

Credentialing Costs Allocated Based on Services Provided

	Existing Methodology	Proposed Methodology
Division of Enforcement	■	■
Division of Professional Credentialing		■
Division of Board Services		■
Office of Legal Counsel		■
Division of Management Services		
Office of the Secretary		
General Administration		
Information Technology Initiatives		

However, the proposed methodology would continue to allocate many costs equally to all credential holders, as the existing methodology does. For example, staffing and other costs for the Division of Management Services, Office of the Secretary, and most general administration would continue to be allocated equally to all credential holders. If it wishes to propose this methodology again, the Department could consider allocating more of these costs based on levels of service. In particular, Division of Management Services costs, which include staffing costs for information technology professionals, could be allocated based on which credential types receive the most services.

Allocating costs more accurately increases the complexity of the fee methodology.

Furthermore, the proposed methodology uses multiple methods and complex calculations to allocate costs among regulated professions and businesses. For example, the proposed methodology would:

- allocate costs for the Office of the Secretary, which totaled \$625,300 in FY 2002-03, equally to all credential holders;
- allocate 70.0 percent of the costs for the Office of Legal Counsel, which totaled \$781,700 in FY 2002-03, based on staff estimates of the amount of time spent to support each credential type, while 30.0 percent of costs would be allocated based on the number of contested cases for each credential type, which assumes cases take a similar amount of time;
- allocate Division of Management Services costs, which totaled \$2.5 million in FY 2002-03, equally to all new and renewing credential holders; and
- allocate Division of Board Services costs, which totaled almost \$1.0 million in FY 2002-03, to each board based on staff estimates of the amount of time spent to support each credential type, and then equally to each credential type supported by the board.

Administration and documentation of the proposed methodology could be simplified.

As a result of this complexity, some members of regulatory authorities attached to the Department have questioned proposed fee changes. While some complexity can be expected when allocating costs as proposed, the Department could simplify its administration and documentation of the proposed methodology by, for example, providing sample calculations.

In addition, under the proposed methodology, the Department allocates staffing costs separately from other costs, and it calculates initial and renewal fees in the same step. The Department could simplify the proposed methodology by combining staffing and other costs before allocating them to credential holders, and by calculating initial and renewal fees in distinct steps, as the existing methodology does.

Timekeeping System

To accurately allocate costs, an effective timekeeping system is required.

Because the proposed methodology is based on accurate tracking of how much time staff spend in support of each credential type, an effective timekeeping system will also be necessary to accurately allocate staffing costs, which accounted for 75.1 percent of credentialing costs in the 2001-03 biennium. The consultant identified this need in its May 2003 report, recommending that the Department implement a timekeeping system on July 1, 2003. The Department implemented a spreadsheet-based timekeeping system in November 2003.

When it submits its 2005-07 biennial budget proposal to the Department of Administration in September 2004, the Department will have ten months of timekeeping data with which to apply its proposed methodology. It will have 16 months of data when budget deliberation by the full Legislature begins in early 2005. However, because the time staff spend supporting each credential type differs based on when particular credentials are renewed, using two full years of timekeeping data when the Department prepares its 2007-09 budget will most accurately represent the level of service for each credential type.

Cost Shift from New to Renewing Credential Holders

In June 2003, in response to suggestions from several regulatory boards, the Department recommended modifying its proposed methodology to shift a portion of the projected costs for each credential type from new to renewing credential holders. Overall, the portion of credentialing costs allocated to each credential type was not changed. The proposed modifications were intended to reduce fees for new credential applicants not yet established in a profession by shifting costs to renewing credential holders in the same profession.

***Proposed modifications
to the fee-setting
methodology must be
adequately documented.***

Because the proposed methodology was not approved, the recommended modifications were not implemented. In addition, the Department was unable to provide documentation of how it determined the amount of costs that should be shifted from new to renewing credential holders. While policy considerations and input from its boards might justify such cost shifts, the Department must adequately document the methodology for such changes so that credential holders, legislators, and others can readily understand how fees are determined.

■ ■ ■ ■

Credentialing Fees in Other Midwestern States ■

We compared Wisconsin's regulatory structure, procedures for projecting revenues and expenditures, and methodology for determining credential fees with those in six other midwestern states. While all midwestern states assess fees to recover the cost of regulation, the regulatory structures of most midwestern states are less centralized than Wisconsin's, and most states' boards and regulatory agencies oversee a relatively small group of related professions. As a result, other midwestern states have relatively less concern that fees paid by credential holders in some professions subsidize the regulatory costs of others. In addition, credentialing fees are generally lower in Wisconsin than in surrounding states.

Regulatory Structures

Other midwestern states have less centralized regulatory structures than Wisconsin.

Wisconsin's centralized regulatory structure is relatively uncommon. Illinois is the only other state in our comparison with a centralized agency that regulates a large number of disparate professions and businesses. In the other states, multiple agencies regulate smaller groups of related professions and businesses, such as physicians, pharmacists, and nurses. In addition, autonomous examining boards in Minnesota and Ohio regulate a number of professions and businesses by reviewing applications for licensure, processing credential renewals, and carrying out enforcement activities.

Renewal Fee Comparisons

Table 9 compares Wisconsin's renewal fees for ten professions and five business types with large numbers of credential holders to fees in six other states. The fees shown have been standardized for a two-year renewal period.

Table 9

Biennial Renewal Fees for Professions and Businesses with the Largest Numbers of Credential Holders As of December 2003

	IL	IN	IA	MI	MN	OH	Average	WI	Difference
Professions									
Physician	\$200	\$200	\$350	\$190	\$384	\$305	\$272	\$106	(\$166)
Pharmacist	150	160	110	70	210	195	149	97	(52)
Certified Public Accountant	40	100	100	80	90	93	84	59	(25)
Engineer	60	100	100	80	120	32	82	58	(24)
Barber	50	20	50	60	80	110	62	63	1
Registered Nurse	40	50	66	48	85	65	59	66	7
Licensed Practical Nurse	40	50	66	48	85	65	59	69	10
Cosmetologist	50	20	50	48	60	30	43	63	20
Real Estate Salesperson	50	25	83	65	60	78	60	83	23
Real Estate Broker	100	50	113	85	120	98	94	128	34
Businesses									
Drug Distributor	400	100	200	60	360	375	249	70	(179)
Pharmacy	200	200	200	110	330	300	223	56	(167)
Real Estate Business Entity	100	50	113	33	120	40	76	56	(20)
Barbering Establishment	40	20	60	80	100	75	63	56	(7)
Cosmetology Establishment	40	20	70	50	100	50	55	56	1

Wisconsin's renewal fees are lower than average for some professions and many businesses.

Wisconsin's fees are significantly lower than midwestern averages for some professions with a large number of credential holders, such as physicians, pharmacists, certified public accountants, and engineers. They are also below the midwestern average for four of the five most commonly credentialed businesses, including drug distributors and pharmacies. However, Wisconsin's fees are higher than the midwestern average for six other professions with large numbers of credential holders, including nurses and cosmetologists.

Fee-Setting Methods

Other midwestern states' methods for allocating costs vary widely.

Like Wisconsin, most midwestern states require credentialing fees to be set at a level that is sufficient to fully fund credentialing activities. However, other states are typically not required to adjust their fees every two years, and they do not attempt to do so. Furthermore, the methods that states use to allocate costs vary widely. For example:

- until 2003, one regulatory agency in Michigan had not revised many of its fees since 1989;
- a regulatory agency in Iowa allocates a considerable share of its costs to credential holders based on a review it commissioned in 1993, which estimated the amount of time staff spent to support each credential type; and
- another Michigan agency allocates much of its costs based on the number of credential holders in each profession or business.

Like Wisconsin, most other midwestern states also maintain at least one separate fund for revenues and expenditures related to the regulation of professions and businesses. However, regulatory agencies in Indiana and Iowa deposit their fees directly into those states' general funds, which then are the source of funds for the agencies.

Although revenues from credentialing fees exceeded regulatory costs for each agency we contacted, some states have recently increased fees or are considering increasing fees. For example, Michigan temporarily increased credentialing fees in 16 occupational areas in July 2003, and one regulatory agency in Iowa is considering a 10 percent fee increase for all credential holders to fund an information technology initiative. Several states reported that concerns about fee levels were prompted by the difficult fiscal conditions confronting most states in recent years.

Lapsing Fee Revenue

Like Wisconsin, other midwestern states have lapsed credentialing fee revenue.

Like Wisconsin, most midwestern states are required to transfer a portion of their credentialing fee revenue to fund general administrative costs incurred by other agencies that support the regulatory agency with centralized administrative, personnel, or procurement services. In addition, most states have been required to lapse a portion of their credentialing fee balances to help address budget deficits in recent years. For example, one regulatory agency in Illinois reported that it was required to transfer \$5.0 million from its credentialing fee fund to Illinois' general fund in July 2003.

■ ■ ■ ■

Future Considerations ■

As part of 2005-07 biennial budget deliberations, it is expected the Department will advance a budget request that will estimate the cost to carry out its credentialing activities and include a proposed methodology for allocating these costs to credential holders. Because several professions have requested additional services and the Department will likely propose new spending initiatives, the Legislature will need to carefully consider whether expanded services are worthwhile and, if so, the best method to fund them. In addition, the Legislature will need to consider the most efficient, effective, and equitable way for the Department to allocate credentialing costs to regulated individuals and businesses.

Estimating Revenue Needs

As noted, in order to calculate credentialing fees, the Department must determine how much it plans to spend on credentialing activities each year. This amount determines the total revenue it will need for the biennium to fund its estimated costs. The Department takes the actual costs for the most recently completed fiscal year as an estimate of the continuing routine costs of credentialing activity. It then factors in costs for new initiatives, such as increased enforcement or regulatory board activities, information technology enhancements, or office space needs.

Credentialing fee revenue in excess of the Department's spending authority has produced large balances.

In recent years, the Department's credentialing fee revenue has exceeded its legislative authority to spend. For example, as of June 2004, the Department estimated that it would receive \$22.8 million in credentialing fee revenue during the 2003-05 biennium. However, its budget authority for credentialing activities is only \$18.7 million. Because this situation has occurred in successive biennia, the Department has had a large balance in its credentialing fees appropriation.

The Department projects a balance of \$1.1 million at the end of the current biennium.

As shown in Table 10, the Department currently projects a balance of approximately \$1.1 million at the end of the current biennium, even though it is required to lapse a total of \$4.4 million from its credentialing fees appropriation in the current biennium, and by the end of the biennium it will have lapsed \$6.8 million since FY 2001-02. Because the number of credentials issued in each biennium is relatively constant, the Department projects a balance in its credentialing fees appropriation even if fees remain unchanged, unless its revenues decrease, its spending authority is increased, or it is required to lapse additional amounts to the General Fund.

Table 10

Credentialing Fees Appropriation Balance
As of June 2004

	FY 2001-02	FY 2002-03	FY 2003-04 ¹	FY 2004-05 ²
Opening Balance	\$ 2,108,300	\$4,570,500	\$ 2,705,100	\$ 3,643,200
Revenues	12,469,800	9,799,200	12,694,200	10,068,000
Appropriation Lapses	(358,000)	(1,995,300)	(2,199,200)	(2,209,800)
Total Available	14,220,100	12,374,400	13,200,100	11,501,400
Expenditures	(9,649,600)	(9,669,300)	(9,556,900)	(10,445,100)
Closing Balance	\$4,570,500	\$2,705,100	\$3,643,200	\$1,056,300

¹ Estimated.

² Projected.

Regulatory boards representing several professions have expressed concern about the amounts lapsed to the General Fund. Although, as noted, the Department has been required to deposit 10.0 percent of credentialing fees directly into the General Fund for many years

to reflect state government administrative overhead costs, considerable appropriation lapses were imposed to help address the State's overall budget deficit. In addition, the Department reduced service levels for some professions in FY 2003-04 to save costs, including reductions in the number of board meetings. Board members have indicated to us that meeting less often has hampered their ability to act on pending credential applications, including applicants wishing to transfer a credential from another state, and on enforcement cases.

Some regulatory boards would like the Department to provide more services.

As a result, rather than seeking lower fees to avoid future fund balances, several boards—including the Medical Examining Board, which regulates physicians, and the Pharmacy Board—have expressed an interest in expanding the level of service the Department provides to them, even if it results in fee increases. For example, in addition to restoring board service reductions made in FY 2003-04, boards representing several health care professions would like the Department to increase its enforcement efforts related to those fields.

In the past, the Department recommended several specific initiatives that it believed would improve its services. In 2005-07, it may request funding that was originally proposed in 2003-05 to:

- expand its capacity to process on-line transactions, such as renewing credentials or updating personal information;
- increase its ability to electronically manage administrative functions, such as improving its budgeting process and its process for distributing meeting agendas and other relevant documents to its boards, councils, and committees;
- add 1.0 FTE staff position to resolve medical complaints subject to statutes of limitation;
- perform physician competency testing; and
- increase the hourly rate paid to expert witnesses in enforcement cases.

The Department has had difficulty improving its informational technology infrastructure.

When it reviews the Department's 2005-07 budget request, the Legislature will need to evaluate the revised strategic technology plan the Department published in March 2004. In the past, the Department has had difficulty demonstrating the capacity to effectively plan and implement information technology projects. For example, a June 2000 review by the Department of Administration

found that the Department's projects were subject to "false starts" and inadequate resources. In addition, in April 2003 the Legislative Fiscal Bureau expressed concerns about the Department's ability to simultaneously administer multiple information technology consulting contracts. As a result, the Department will be asked to fully analyze and report the costs and benefits of its information technology projects for 2005-07.

In June 2004, the Department estimated that by the end of the 2005-07 biennium, it would generate a \$4.2 million balance in its credentialing fees appropriation if spending did not increase and it was not required to make additional lapses to the General Fund. However, while the Department's revenue may be adequate for its current expenditures, the Governor and the Legislature will decide what, if any, additional spending will be approved. If a significant expansion of the Department's spending authority is deemed necessary and is approved, credentialing fee increases may be required.

Establishing an Effective Fee-Setting Methodology

In order to establish credentialing fees for the biennium, the Department first determines how it will allocate the estimated cost of credentialing activities to regulated individuals and businesses. Various fee-setting methodologies can be employed, each serving one or more specific goals. For example, a methodology could require that fees cover all costs, or a certain proportion of costs; be based on credential holders' relative ability to pay; increase gradually and predictably; be calculated in a manner that is easily understood; or be reasonably representative of the services received. However, because many of these goals are not necessarily compatible, a particular methodology must be based on legislative direction, either through statutes or the biennial budget process.

As noted, the Department has been statutorily required since 1991 to allocate its costs based on services provided to each type of regulated business or profession. For example, the Department is required to set credentialing fees for barbers based on the amount it spends to issue new and renewed credentials to barbers, to provide administrative support to the Barbering and Cosmetology Examining Board, and to ensure that barbers comply with state standards for safety and professional conduct. However, credentialing fees also include a significant share of costs that are allocated equally to all credential holders.

The existing methodology allocates only a small portion of fees based on services provided.

The existing fee-setting methodology does have the advantage that each credentialing fee is intended to reflect the level of service received by credential holders. As a result, fees paid by one type of credential holder are less likely to support services for a different type. As noted, however, the existing methodology categorizes 72.6 percent of credentialing costs as administrative overhead and allocates them equally to all credential holders. To the extent that the services included in overhead benefit some professions over others, the existing methodology departs from the statutory requirement. Therefore, although it is designed so that fees will be based on the level of service received, in practice it does not fully accomplish this goal. As a result, some credential holders and legislators have expressed dissatisfaction with the existing methodology.

The fee-setting methodology proposed during the 2003-05 biennium is an improvement over the existing methodology, allowing the Department to better meet the statutory requirement by more narrowly defining overhead and increasing the amount of costs it allocates based on the level of service received by each type of credential holder. However, while the proposed fee-setting methodology represents an improvement over the existing methodology, basing credentialing fees solely on the level of service received by each type of credential holder has significant limitations.

First, allocating costs based on the level of service received by each type of credential holder is complex. The majority of the Department's costs are for staff salaries and fringe benefits, and some staff perform work benefiting many different types of credential holders in a single day. As a result, a detailed timekeeping system is required to allocate costs precisely. The Department did not have a comprehensive timekeeping system in place when it proposed changes to its fee-setting methodology during 2003-05 budget deliberations. Instead, it used a variety of methods to allocate costs, including actual timekeeping data and various estimates. As a result, many board members, legislators, and others did not understand how the Department calculated the fees it proposed for 2003-05. Accurate timekeeping will be essential to ensure the methodology is effectively applied.

The proposed methodology is an improvement, but it could be refined.

Second, if the Department implements the proposed fee-setting methodology, there would be considerable fluctuations in fees for some credential types. Credential renewal fees calculated by the Department during 2003-05 budget deliberations using the proposed methodology would have resulted in fee increases for 68 credential types and decreases for 27 types. Renewal fees would have increased by as much as \$641 for cemetery authorities and decreased by as much as \$79 for schools of manicuring. Fees would have remained unchanged for two credential types.

As the Department allocates more costs based on the level of service received, rather than equally to all as administrative overhead, a shifting of costs that results in fee fluctuations can be expected. However, implementing such changes all at once, without adequate explanation, will result in questions about whether this is the most efficient and equitable method to allocate costs.

Finally, fees based on level of service received do not consider a particular credential holder's ability to pay as reflected by the average income of a profession or business. For example, credential renewal fees calculated by the Department during 2003-05 budget deliberations using the proposed methodology would have resulted in a renewal fee of \$151 for physicians, while the renewal fee would have been \$161 for dance therapists, who typically have much lower incomes than physicians. It could be expected that dance therapists, with relatively few in the profession, would pay fees that vary considerably, depending on enforcement effort. However, expecting a member of a profession that pays modest wages to support fees at the same level as well-paying professions may seem inequitable to some.

Legislative Options

The Legislature will have several options to consider during 2005-07 biennial budget deliberations.

Because credentialing fees have not been adjusted since the beginning of the 2001-03 biennium, the Governor and the Legislature may be asked to consider options for doing so as part of the 2005-07 biennial budget process. They will have several options to consider while preparing and deliberating the Department's budget.

First, the credentialing fees currently enumerated in statutes could remain unchanged. These fees have resulted in considerable fund balances in each fiscal year since FY 2001-02, and they are projected to produce additional balances through the 2005-07 biennium. As a result, this approach has the advantage of affording the Department the opportunity to improve the proposed methodology, including fully developing timekeeping data, in time for 2007-09 biennial budget development. In addition, because fund balances are projected through the biennium, some services could likely be increased if additional spending is authorized. However, the Department asserts that existing fees do not meet the statutory requirement that credential holders only pay for services they receive. In addition, it would be difficult to increase credentialing fee revenue under this option in the event that credentialing fees generate less revenue than anticipated, or that the cost of any proposed service increases could not be fully funded with projected revenue.

Second, the credentialing fees currently enumerated in statutes could be revised in some cases to consider surcharges during the 2005-07 biennium for specific professions that request additional services. Such surcharges would not be precedent-setting. Currently, a statutory surcharge of \$10 is included in the credential renewal fee for each real estate business or professional and is transferred to the University of Wisconsin-Madison Center for Urban Land Economics Research to support the Center's work. This approach would have the advantage of being able to target funds directly for intended uses and for priority areas. However, this approach would require statutory changes and, as noted, would not address the concern that existing fees do not meet statutory requirements. In addition, the Department has never used surcharges to fund its own initiatives, and it could be administratively burdensome to implement accounting practices to ensure that funds are used only for their intended purpose.

Alternatively, the credentialing fees currently enumerated in statutes could be revised to include an inflation factor for the 2005-07 biennium. This approach has the advantage of providing additional funding to the Department, which could be necessary if revenue projections decline or if requests for increases in services cannot be fully funded with projected revenue. However, fees would still be based on a methodology that the Department believes does not meet the statutory requirement.

Finally, the proposed methodology could be implemented in 2005-07 using the most complete timekeeping data available. This option would have the advantage of increasing the proportion of the Department's credentialing costs that are allocated to credential holders based on level of service. In addition, this approach could target funds for intended uses and for priority areas. However, the proposed methodology is complex and requires the Department to have complete and accurate timekeeping data in order for it to be effective. In addition, implementation of the proposed methodology would likely result in significant fee changes for many credential holders.

Recommendation

If the Department of Regulation and Licensing again includes the proposed fee-setting methodology in its 2005-07 biennial budget request, we recommend the following improvements be considered to ensure that the methodology is as accurate and precise as possible:

- *a review to determine whether the proposed methodology can increase the proportion of credentialing costs allocated based on levels of service;*

- *a clear explanation of how individual fees are determined so that credential holders, legislators, and other interested parties can more easily understand them;*
- *use of actual timekeeping data, updated throughout the biennial budget process; and*
- *thorough documentation of modifications to the fee-setting methodology that are based on policy or other considerations.*

Any of the options identified could include the flexibility to implement changes based on policy considerations, but any such changes must be adequately documented by the Department.

■ ■ ■ ■

Appendix 1

Department of Regulation and Licensing: Attached Boards, Councils, and Committees

Accounting Examining Board

Acupuncture Advisory Committee

Athletic Trainers Affiliated Credentialing Board

Auctioneer Board

Barbering and Cosmetology Examining Board

Cemetery Advisory Committee

Chiropractic Examining Board

Controlled Substances Board

Council on Speech-Language Pathology and Audiology

Council on Physicians Assistants

Dentistry Examining Board

Dietitians Affiliated Credentialing Board

Joint Examining Board of Architects, Landscape Architects, Professional Engineers,
Designers, and Land Surveyors

Joint Examining Board of Marriage and Family Therapy, Professional Counseling, and Social Work

Joint Examining Board of Professional Geologists, Hydrologists, and Soil Scientists

Funeral Directors Examining Board

Hearing and Speech Examining Board

Home Inspector Advisory Committee

Interior Designers Advisory Committee

Massage Therapy and Body Worker Council

Medical Examining Board

Music, Art, and Dance Therapists Advisory Committee

Board of Nursing

Nursing Home Administrator Examining Board

Occupational Therapists Affiliated Credentialing Board

Optometry Examining Board

Perfusionists Examining Council

Pharmacy Examining Board

Physical Therapists Affiliated Credentialing Board

Podiatrist Affiliated Credentialing Board

Private Detective Advisory Committee

Private Security Advisory Committee

Psychology Examining Board

Real Estate Appraiser Board

Real Estate Board

Real Estate Curriculum and Examination Council

Respiratory Care Practitioners Examining Council

Veterinary Examining Board

Appendix 2

Credential Holders and Credentialing Fees, as of May 2004

Professions	Credential Holders	Initial Fee	Renewal Fee
Registered Nurse	67,731	\$53	\$ 66
Physician	20,482	53	106
Engineer	19,552	53	58
Barber or Cosmetologist	19,299	53	63
Barbering or Cosmetology Manager	15,542	53	71
Licensed Practical Nurse	15,467	53	69
Real Estate Salesperson	13,629	53	83
Real Estate Broker	13,384	53	128
Certified Public Accountant	12,574	53	59
Private Security Person	10,197	53	53
Pharmacist	6,091	53	97
Social Worker	5,925	53	63
Architect	4,860	53	60
Dental Hygienist	4,696	53	57
Physical Therapist	4,510	53	62
Dentist	4,470	53	131
Clinical Social Worker	3,759	53	73
Veterinarian	3,117	53	105
Occupational Therapist	3,076	53	59
Manicurist	2,897	53	133
Massage Therapist or Bodyworker	2,498	53	53
Professional Counselor	2,422	53	76
Respiratory Care Practitioner	2,380	53	65
Advanced Practice Nurse Prescriber	2,166	53	73
Chiropractor	1,957	53	168
Speech-Language Pathologist	1,758	53	63
Engineer In Training	1,573	53	*
Land Surveyor	1,529	53	77
Psychologist	1,514	53	157
Dietitian	1,431	53	56
Advanced Practice Social Worker	1,418	53	70
Funeral Director	1,296	53	135
Physician Assistant	1,231	53	72
Optometrist	1,230	53	65
Occupational Therapy Assistant	1,174	53	62
Private Detective	1,081	53	101
Physical Therapist Assistant	1,078	53	44
Nursing Home Administrator	1,039	53	120

Professions	Credential Holders	Initial Fee	Renewal Fee
Auctioneer	1,031	\$53	\$174
Designer of Engineering Systems	1,029	53	58
Geologist	1,010	53	59
Veterinary Technician	995	53	58
Certified Real Estate Appraiser (Residential)	913	53	167
Barbering or Cosmetology Apprentice	874	10	*
Home Inspector	807	53	53
Licensed Real Estate Appraiser	768	53	185
Aesthetician	746	53	87
Certified Real Estate Appraiser (General)	658	53	162
Athletic Trainer	603	53	53
Temporary Education Training Permit	548	–	*
Marriage and Family Therapist	538	53	84
Independent Social Worker	529	53	58
Barbering or Cosmetology Instructor	515	53	91
Agent For Burial Agreements	450	53	*
Landscape Architect	440	53	56
Timeshare Salesperson	366	53	119
Audiologist	334	53	106
Registered Interior Designer	333	53	56
Podiatrist	330	53	150
Acupuncturist	293	53	70
Electrologist	275	53	76
Social Worker Training Certificate	218	10	*
Cemetery Salesperson	212	53	90
Hearing Instrument Specialist	208	53	106
Cemetery Preneed Seller	204	53	61
Soil Scientist	183	53	53
Hydrologist	175	53	53
Nurse Midwife	128	53	70
Funeral Director Apprentice	120	53	10
Professional Fund Raiser	103	53	93
Private Practice School Psychologist	84	53	103
Perfusionist	79	53	56
Music Therapist	61	53	53
Art Therapist	59	53	53
Professional Counselor Training Certificate	59	10	*
Peddlers	30	–	*
Boxing Second	28	5	*
Firearms Certifier	27	53	0
Professional Boxer	26	5	*
Manicuring Instructor	25	53	53

Professions	Credential Holders	Initial Fee	Renewal Fee
Aesthetics Instructor	20	\$53	\$ 70
Marriage and Family Therapist Training Certificate	18	–	*
Dance Therapist	10	53	53
Electrology Instructor	4	53	86
Subtotal	296,499		

Businesses	Credential Holders	Initial Fee	Renewal Fee
Barbering and Cosmetology Establishment	6,950	\$53	\$56
Charitable Organization	5,524	53	15
Real Estate Business Entity	2,593	53	56
Pharmacy	1,198	53	56
Architectural or Engineering Corp.—Certificate of	1,069	53	70
Manicuring Establishment	762	53	53
Drug Distributor	703	53	70
Private Detective Agency	574	53	53
Funeral Establishment	565	53	56
Accounting Firm	430	53	56
Cemetery Authority—Religious	379	–	*
Auction Company	174	53	56
Aesthetics Establishment	131	53	70
Electrology Establishment	131	53	56
Drug Manufacturer	76	53	70
Cemetery Authority	70	53	343
Geology Firm	52	53	53
Barbering or Cosmetology School	18	53	138
Soil Science Firm	14	53	53
Hydrology Firm	12	53	53
School of Manicuring	9	53	118
Professional Boxing Club	3	25	*
School of Aesthetics	3	53	115
Cemetery Warehouse	2	–	*
Fund-Raising Counsel	2	53	53
School of Electrology	1	53	71
Subtotal	21,445		
Total	317,944		

* Renewal of credentials is not required for these professions and businesses.

Jim Doyle
Governor

Donsia Strong Hill
Secretary



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July 7, 2004

Ms. Janice Mueller
Wisconsin State Auditor
Legislative Audit Bureau
22 E. Mifflin Street, Suite 500
Madison, WI 53703

Dear Ms. Mueller:

I have reviewed the Legislative Audit Bureau (LAB) evaluation of the Department of Regulation and Licensing methodology for setting cost based credentialing fees. I appreciate the opportunity to comment on the report. I commend you on the objectivity and professionalism of the LAB staff who conducted the evaluation. I would like to thank the entire team for their hard work.

I am pleased with your recognition of the situation this administration found itself in when it took over control of the Department.

DETERMINING CREDENTIALING FEES

Statutes require the Department to allocate costs to credential holders based on services provided

Existing Methodology

As the outgoing Secretary wrote in the Department's 2003-05 budget request: "***The Department is not satisfied with the methodology that was used in the past to recalculate enforcement costs and renewal fees.***" However, we have no evidence that a revised fee methodology or proposed new fees were submitted by the previous administration.

Proposed Methodology

- The Department hired Grant Thornton LLP to develop a methodology for allocating fees based on services provided.
- Grant Thornton developed a cost based methodology in three weeks.
- The proposed methodology is exhaustively documented.

The proposed methodology is complex as it allocates a variety of cost types. I believe the audit report correctly identifies the complexity of the fee model that was developed by our consultants at Grant Thornton. Grant Thornton was given approximately three weeks to develop a new cost

based fee methodology. I believe that Grant Thornton did a comprehensive job in a difficult situation with compressed timeframes. I agree that the proposed fee methodology was not perfect, but it appropriately reflects a service based allocation of costs.

I disagree that the Department was unable to provide documentation or an explanation regarding the basis for the proposed fees. We explained the general methodology to legislators and to the boards. All fee changes can be documented, but as previously stated, the methodology is complex.

The audit report discusses the impact the change would have had on various credential types. I believe that the magnitude of the dollar impact of the proposed fees is one time and reflects the change from the old methodology to the new cost based methodology and reinforces the point that the proposed methodology more accurately apportions costs. In addition, upon submission to the legislature, the Department recommended and continues to recommend, that fees be recalculated every four years to allow for normalization of regulatory time data and create a more stable price for credential holders.

ESTIMATING REVENUE NEEDS

- In June, the Department projected a cash balance of \$2.3 million at the end of the 2005-07 biennium if all revenues and expenditures remain constant.
- The Department estimates a cash balance of \$1.2 million at the end of the 2005-07 biennium when the necessary expenditures for facility upgrades and modernization of technology infrastructure would be made.
- The new DRL administration has had several IT successes.
- The 2004 Strategic Technology Plan is the foundation for DRL's 2005-07 Budget discussions.
- The Department can make necessary expenditures without requiring an increase in revenue.

The Department's intent in seeking a new fee setting methodology is not based on the need for more revenue, but on a wish to distribute costs as the law requires. State law contemplates that the initial and renewal fees reflect the administrative and enforcement costs attributable to each profession. The Department has accrued higher than anticipated revenues, which, in combination with reduced expenditure authority, has resulted in a higher than anticipated cash balance.

I recognize that the Department's approach to IT in the past has not always been successful. The Department's 2003-05 Biennial Budget request was developed and submitted by the previous administration that, as the report points out, had difficulty demonstrating the capacity to effectively plan and implement information technology projects. I believe that the current administration has already made great strides in IT, can show recent successes and demonstrate that we have developed sound groundwork for future IT successes. The 2004 Strategic Technology Plan is a better indicator of the Department's direction than the 2003-05 budget request. The Department has hired a new, very competent and experienced IT Director. Some of our recent successes include: A new user friendly web site, a revamped web-based license

lookup function which allows potential employers and others to determine the status of WI credential holders, the ability to make online name and address changes, and 81 registration types can now renew online. In addition, three feasibility studies will be completed this summer for systems integration for the Department's nine Oracle applications, a paperless board meeting process and online initial applications for selected professions.

Staffing Reductions

- The Department indicated that we could operate with fewer staff if IT infrastructure modernization was funded.
- The Department was left with fewer staff and IT resources after Joint Committee on Finance action.

The Governor's 2003-05 Biennial Budget recommendation proposed leaving the spending authority of \$543,400 related to the reduction of 10 FTE positions in the Department's budget in order to implement technology improvements. The recommendation clearly indicated that the Department could operate with fewer staff if the information technology projects were approved. However, the legislature's Joint Committee on Finance removed the IT funding from the budget bill citing the past administration's record of mismanaging IT resources. As a result, the Department was left with fewer staff, fewer resources and an insufficient technology infrastructure.

REVENUES AND EXPENDITURES

Lapsed Funds

- The Department reduced services to implement a budget reduction not a cash lapse.

As the audit report indicates, the Department has lapsed \$6.8 million to help address the budget deficit. However, the Department's lapse would not have necessitated a reduction in service levels to the boards. A reduction in service levels resulted from a budget reduction in spending authority of \$290,300 imposed by the legislature.

Timekeeping System

- The Department cannot wait another biennium to implement service based fees.

The Department has implemented a timekeeping system for all staff which provides better objective data to set fees. However, I do not believe that it is good policy to wait another biennium to distribute costs based on usage across the credential holders and to eliminate any existing subsidies under the current fee methodology. I believe that the timekeeping data which will be available will be an adequate basis to allocate costs.

Recommendation

The audit bureau report contains several interesting options for setting fees. During the course of developing the 2005-07 biennial budget, our Department will analyze and examine those options. If the decision is made to resubmit the proposed fee methodology, it will be modified to incorporate the recommendations submitted in the report. For example, I agree that we can

examine the feasibility of allocating Management Services costs on the basis of consumption of services by credential type.

My intent is to prepare a budget request incorporating the Department's emphasis on policy development, systems integration and ready public access to the Department's consumer protection and public safety services

I believe the report is informative and constructive and will assist the executive branch, the legislature, and the department as a fee structure is developed for the next biennial budget.

Sincerely,

A handwritten signature in black ink, appearing to read "D Strong Hill". The signature is written in a cursive, flowing style.

Donsia Strong Hill