

A Review:

Credentialing Fees

Department of Regulation and Licensing

July 2004

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

Key Facts and Findings

Credentialing fees fund 118.5 of the Department's 125.5 FTE staff positions.

Costs must be allocated based on service provided to credential holders.

Allocating costs accurately will require an effective timekeeping system.

Recently, revenue from credentialing fees has exceeded the Department's spending authority.

To help address recent state budget deficits, the Department was required to lapse \$6.8 million over two biennia.

The Department projects that if no additional lapses occur, its 2005-07 revenue could fund increased services.

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, barbers and cosmetologists \$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.

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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; 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.

How Regulatory Costs Are Allocated



Current Fees



Proposed New Method

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 every two years. However, the proposed new fee-setting method would have reduced renewal fees for 27 credential types.

It should be noted that fees based on services received do not consider average incomes 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 significantly lower incomes.

Fees in Other States

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.

Biennial Renewal Fees for Selected Professions

	<u>Midwestern Average</u>	<u>Wisconsin</u>
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. 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.

Recommendations

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*);

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