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CORRESPONDENCE MEMORANDUM

DATE: March 28, 2006
TO: Employee Trust Funds Board
FROM: Jon Kranz, Director
Office of Internal Audit and Budget
SUBJECT: Agency Biennial Budget Themes

During a discussion regarding operational flexibility at the December 16, 2005 Employee Trust Funds (ETF) Board meeting, the Board requested that the Department provide a brief description of the approach that will be used to develop the fiscal year (FY) 2007-2009 biennial budget request. The purpose of this memo is to describe the process that the Department will follow while developing the budget request that is due in the Department of Administration's State Budget Office on September 15, 2006. No Board action is required.

Background

Demographic Trends

ETF presently serves over 525,000 Wisconsin Retirement System (WRS) participants; just over 130,000 are retirees. In the next ten years, as the "baby boom" generation begins to retire, staff will process 120,000 new retirement applications and the total WRS retiree population will then stand at about 209,000. By 2034, the WRS retiree population will peak at nearly 300,000 retirees. Although rankings of peer retirement systems show ETF as being among the lowest in terms of administrative costs per member, the agency's service levels rank as only average. That "average" ranking may be difficult to maintain as ETF's customer base expands if certain past trends hold. For example, WRS membership has grown 66 percent in less than 20 years while staffing levels increased only about 20 percent. As a result, the ratio of members per employee is growing. In 1988, there were 2,057 WRS members for every ETF employee. Next year that ratio is projected to be 2,803 to one.

State Budget Process

State agencies receive most of their administrative expenditure authority through an annual appropriation. By statute, an annual appropriation is a fixed dollar amount per year. Spending in excess of this specified amount is generally prohibited unless approved by the Joint Committee on Finance (JCF). In addition, all positions must be authorized by the Legislature. Agencies generally cannot create or delete positions without legislative approval.

On September 15 of even numbered years, agencies submit their budget requests for the subsequent biennium to the Governor via the State Budget Office. Sometime during the following January or February, the Governor's Office submits a budget, in the form of the Biennial Budget Bill, to the Legislature where it is formally introduced by the JCF and subjected to intense review and analysis by the Legislative Fiscal Bureau. Then, typically, the JCF makes substantial amendments to the Bill before it is debated, and sometimes further amended, by

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both Houses of the Legislature. The final legislative product is then sent to the Governor for review. The Governor may veto all or part of the budget passed by the Legislature. This usually happens by July or August of the odd-numbered year, nearly a full year after the budget request is submitted to the Budget Office.

ETF Recent Budget Position and Funding Requests

Following is a summary of the results for the three most recent agency biennial budgets:

Biennium	ETF Request		Enacted Budget	
	FTE	Funding	FTE	Funding
FY 2001-2003*	25.0	\$10,895,000	15.5	\$8,276,700
FY 2003-2005	27.8	\$3,495,800	10.0	\$2,055,800
FY 2005-2007	4.5	\$1,199,100	1.75	\$1,034,500

Over the three biennia, ETF requested 57.3 positions and was granted 27.75, or 48 percent of the requested positions. Additionally, ETF requested increased segregated funding of \$14,391,999 and received \$11,367,000, or 79 percent of the requested funding.

ETF Budget Development Process

State agency budget requests, including those of ETF, are typically based on assessing current and anticipated needs through the end of the subsequent biennium. In general, ETF's requests correlate to anticipated changes in the participant population, particularly the portion of the population at or near retirement. WRS participant projections are developed based on information provided by the consulting actuary and agency controller. Projections that will be used in determining budget needs for the FY 2007-2009 biennium are outlined in the attachment. ETF will then estimate resource needs in a manner that will allow the agency to meet established service standards based on this projected workload.

Considerations for FY 2007-2009 Budget

As ETF contemplates its budget recommendations, it must remain cognizant of the following issues:

- ETF is already beginning to experience the first surge of the "baby boom" retirement wave. That wave affects the agency in two significant ways: it increases the number of customers we serve and it results in the loss of experienced staff due to their own retirements.
- Although ETF appreciates the successes it has enjoyed on budget matters in the recent past, especially in light of the difficult budgets that the state has faced and the increased emphasis on downsizing, the effect on the agency of failing to receive over 50 percent of the requested positions will be compounded as ETF continues to experience increases in customers from the "baby boom" generation.

* Excludes 1999 Wisconsin Act 11 implementation resources

All amounts represent the increment requested over and above the agency adjusted base budget. Standard budget adjustments excluded. Only segregated funding and positions are included.

- The implementation of the Benefit Payment System (BPS) will improve ETF's ability to efficiently serve its customers. This may lessen, somewhat, the impact of failing to receive requested positions.
- ETF enjoys the ability to project retirement and workload trends over the long term with good precision. However, its ability to predict when particular individuals retire, and the corresponding fluctuations in retirement activity and workloads on a shorter-term basis, is less accurate. Additionally, workload fluctuations do not correspond precisely with state budget setting activities or with Legislative floorperiods.
- Despite ETF's best efforts, it is unable to meet all of the service level standards it has set. For example, current wait times for retirement estimates are 10 weeks compared to the service standard of 3 weeks.

ETF Budget Themes for 2007-2009 Biennium

Currently, Department staff is in the process of developing specific budget items to be included in the biennial budget request and will continue this effort into the summer. Budget themes that will guide the creation of those initiatives are identified below:

- *Attainment of Resources Necessary to Meet Current and Projected Customer Service Needs.* As the customer base begins to rapidly increase, ETF will need to secure the resources necessary to fulfill its service obligation to its customers. This is not just about meeting projected increases. It must begin with receiving adequate resources to address the needs of today's customers, needs that have been partially unfulfilled because of unmet budget requests in the past.
- *Maximization of Efficiencies through Information Technology (IT).* ETF will need to continue its IT investments by developing and replacing antiquated and inefficient technologies to better serve its customers. Successful deployment of BPS is critical to this strategy, but it is only a first step.
- *Establishment of Statutory Flexibility to Respond to Unpredictable Short-term Workload Fluctuations.* Ideally, the Department desires to move from the current static model (the annual appropriation) where needs must be determined one year prior to the upcoming biennium to a dynamic model that allows for interim budget adjustments based on workload. For example, the Department is exploring a model that would provide staffing and funding based on participant numbers. This flexible model will allow the Department to better fulfill its statutory duties while providing necessary services at the lowest possible cost.
- *Clarification of the ETF Board's and the Department's Authority to Contract for Legal and Other Services.*

Summary

The agency will adopt a budget strategy that takes into account the considerations and themes outlined above with a goal of obtaining sufficient resources and greater flexibility to meet the needs of a growing customer base.