Legislative Fiscal Bureau
One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873
Email: fiscal.bureau@legis.wisconsin.gov • Website: http://legis.wisconsin.gov/lfb

April 30, 2013 Joint Committee on Finance Paper #155

Compensation Reserves Overview
(Budget Management and Compensation Reserves)

[LFB 2013-15 Budget Summary: Page 72, #1]

CURRENT LAW

For the 2011-13 biennium, all funds compensation reserves totaled $58,388,100 in 2011-12 ($28,790,000 GPR and $29,598,100 Other Funds) and $143,881,000 in 2012-13 ($61,910,000 GPR and $81,971,000 Other Funds).

GOVERNOR

Provide, in 2013-15, total compensation reserves of $92,727,400 in 2013-14 and $152,000,900 in 2014-15 for the increased cost of state employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table:

Fund Source	2013-14	2014-15
General Purpose Revenue	$46,363,700	$76,000,500
Federal Revenue	12,054,600	19,760,100
Program Revenue	20,400,000	33,440,200
Segregated Revenue	13,909,100	22,800,100
Total	$92,727,400	$152,000,900

DISCUSSION POINTS

This paper is for informational purposes only and provides no modification of, or alternatives to, the bill.

1. The purpose of establishing compensation reserves is to indicate that monies are reserved in the budget to provide funding for any increases in state employee salary and fringe benefit costs that may be required in the biennium, but for which funding is not included in individual agency budgets as a part of the biennial budget. The reserve funds are not allocated at the time of budget development to individual agency budgets because neither the amount of any salary or fringe benefit costs increases, nor the specific amount of funding needed by each individual agency, is known at the time of budget development.

2. More specifically, the funding levels provided within compensation reserves are intended to cover: (a) the increased employer salary and associated fringe benefit costs resulting from any compensation plan increases for non-represented employees that are recommended by the Office of State Employment Relations (OSER) and approved by the Joint Committee on Employment Relations (JCOER); (b) the costs of salary and associated fringe benefit costs that may be provided to represented state employees under approved collective bargaining agreements; (c) increases in premium levels for state employee health insurance, which are determined in the fall of each year to become effective the following January; and (d) increases in the employer share of contributions to the Wisconsin Retirement System (WRS) for employees' future retirement benefits.

3. The compensation reserves under the bill do not include reserve amounts for the UW System. Instead, the bill would provide $32,388,500 in 2013-14 and $57,056,000 in 2014-15 directly to the UW System. Although this additional funding has not been allotted for specific purposes, the administration has indicated that these amounts have been provided to fund increases in fringe benefit costs and salaries for UW employees. According the DOA staff, these amounts were calculated using the same methodology as was used to calculate the amounts in the compensation reserves. The UW System would not receive supplements from the state's compensation reserves under the bill.

4. Another provision of the bill would authorize the Board of Regents to establish compensation plans for all UW employees except those employees assigned to UW-Madison and authorize the UW-Madison Chancellor to establish compensation plans for all UW employees assigned to UW-Madison. Under this provision, the Board of Regents and the UW-Madison chancellor would have the authority to provide salary increases to UW employees without OSER involvement or JCOER approval. The Board of Regents and the UW-Madison Chancellor would have the ability to combine the funding provided in the budget with tuition and revenue from other sources to fund these salary increases as well as increases in fringe benefit costs.

5. Under 2011 Act 32, the Board of Regents was authorized to establish a personnel system for all UW employees except those assigned to UW-Madison and authorized the UW-Madison chancellor to establish a personnel system for all UW employees assigned to UW-Madison. These new personnel systems must be approved by JCOER and will take effect on July 1, 2013. Although UW employees will no longer be part of the state personnel system after July 1, 2013, UW employees will continue to participate in the state group health insurance program, the Wisconsin Retirement System, and other fringe benefit programs managed by the Department of Employee Trust Funds (ETF). For this reason, increases in fringe benefit costs for UW employees will continue to be determined by ETF, not the Board of Regents and the UW-Madison Chancellor.

6. In the 2013-15 biennium, to the extent necessary, costs of unbudgeted pay and fringe benefit adjustments will be funded from the compensation reserves under the pay plan supplementation process. The pay plan supplementation process operates as follows. The Department of Administration (DOA) requires state agencies, towards the end of each fiscal year, to document their need for any supplementation of their existing budgets for the cost of any authorized pay increases (including associated fringe benefit costs such as social security and retirement contribution payments) provided to the agencies' employees and for the cost of the employers' share of any increased premiums for state employee health insurance. Once these requests have been reviewed by DOA, they must then be submitted to the Joint Committee on Finance for final approval under a 14-day passive review process.

7. The schedule of compensation reserves (shown in the table above) indicates reserve funding for each funding source from which state employees' salaries may be funded. The respective indications of GPR, PR, FED and SEG funding amounts are included to provide an indication of the all-funds impact of the anticipated cost increases to agencies under the administration's compensation plans. However, the actual fiscal impact of "releasing" funds from these indicated reserves is quite different between GPR funds and all the non-GPR funding sources. The reason for this is that the GPR funding comes from a single central source, the general fund, which is composed primarily of general tax revenues. In contrast, the other funding sources are not actually all pooled in a single account. While these revenue sources are the same in the definitional sense of involving the same type of revenue (for example, federal revenues), the revenues are actually retained by the individual agencies in either separate program accounts (such as a separate program account for licensing fees) or in distinct segregated funds (the transportation fund or the conservation fund, for example). Therefore, rather than these different revenues all going to a single fund, each program account or segregated fund separately receives revenues that are to be deposited exclusively in that account or fund and the expenditures of those revenues may be made only for the purposes authorized for that account or fund.

8. As a consequence of this difference, when GPR that is set aside in the compensation reserves is released to state agencies under the pay plan supplement process, it is transferred from one central GPR appropriation to individual agency GPR appropriations for actual expenditure. In contrast, when PR, SEG or FED monies are "released" to state agencies under the pay plan supplement process, these monies are transferred from the individual revenue balance of the particular account or fund for that individual agency to the appropriation side of that account or fund. In general, such accounts or funds usually have sufficient revenue reserves to cover the costs of the pay plan supplements; what they require is the authorization to increase their total spending authority by the amount of the requested supplement.

9. The review of compensation reserves, therefore, usually focuses on GPR funding levels. As indicated in the table above, GPR compensation reserves under the bill total $122,364,200 ($46,363,700 in 2013-14 and $76,000,500 in 2014-15). Funding needs for approved salary adjustments, and for increases in the employers' share of health insurance costs and in other fringe benefit costs, would be expected to fall proportionately on the other fund sources in a similar manner, since the increases for a given employee do not differ based on the funding source for that employee's salary. For example, if health insurance premium costs increase by a given percentage

in each year, the cost increase is applicable to all employees, whether an individual employee is funded from GPR funding or from other fund sources.

10. Given these factors, the balance of this paper will discuss projections for the GPR share of compensation reserves.

11. As noted above, the compensation reserves must address pay adjustments, if provided, in the 2013-15 biennium. Pay adjustments may include across-the-board pay increases for all state employees, market adjustments for certain employment classifications, adjustments that reflect classification surveys for certain employee classifications, and other salary adjustments for state employees under the state's compensation plan or in contracts with certified labor organizations.

12. Under 2011 Wisconsin Act 10, the state is prohibited from bargaining collectively with a collective bargaining unit containing general employees with respect to any factor or condition of employment except base wages. Unless approved by referendum, any increase in base wages that exceeds the total base wages for authorized positions 180 days before the expiration of the previous collective bargaining agreement by a greater percentage than the increase in the consumer price index (CPI) is prohibited. [General employee labor organizations must now be annually certified to function as a representative for collective bargaining purposes. It should also be noted that certain "public safety employees" under Act 10 maintain pre-Act 10 collective bargaining rights.]

Under Act 10, therefore, the state is required to bargain over base wages with represented employees. The CPI increases currently projected for 2014 and 2015 are 1.7% and 1.6% respectively. Although these potential CPI increases may not result in base-wage increases of these magnitudes, it is possible that the state could agree to some level wage adjustments for represented employees (both general and public safety employees) through the collective bargaining process. To the extent necessary, such wage adjustments, as well as those provided to nonrepresented employees through the state's compensation plan in 2013-15 may be funded through the compensation reserves.

13. The administration has not yet submitted to JCOER its recommendations for the 2013-15 compensation plan for non-represented employees, including employees who do not currently have a certified labor representative. In addition, no 2013-15 collective bargaining agreements have been negotiated to date. Therefore, it is not known what recommendations will be included in the plan, effective for fiscal years 2013-14 and 2014-15. The compensation plan provides an important context for estimating future employer costs for state employee compensation, including fringe benefits, and OSER will detail these costs when the plan is submitted to JCOER.

14. With respect to health insurance costs, while certain assumptions are made in the reserve calculations about potential health care cost increases in 2013-14 and 2014-15, it is not possible, at this time, to accurately specify rate increases for 2014 or 2015. The state uses a managed competition approach to control health coverage costs and will work to negotiate the lowest premium rates possible. However, provider premium bids for 2014 coverage have not yet

been submitted to the state.

15. Reserve funds could also be utilized for potentially higher employer contribution rates for WRS benefits in 2014 and 2015. The WRS rates are adjusted annually; for example, the full rate for general participants was 11.8% of earnings in 2012 and is 13.3% in 2013. Half the rate is paid by employees and half by the employer. While the 2014 and 2015 rates cannot be accurately predicted at this point in time, ETF indicates there is some likelihood for more increases in the short term.

16. Finally, it should also be noted that the calculation of the compensation reserves included reductions in state fringe benefit costs associated with two other provisions under the bill: (a) a proposed $50 per month tobacco surcharge on state employees who use tobacco products; and (b) a proposed health insurance option for state employees of a high deductible health plan and health savings accounts (HDHP/HSA). If the Committee deletes these provisions or reestimates the assumed fiscal effects, it may wish to make parallel adjustments to the compensation reserves. [These two issues will be addressed under the Department of Employee Trust Funds.]

17. As noted above, the supplementation process is based on actual, documented need for each state agency at the end of a fiscal year. Draws from the compensation reserves are only in the amounts necessary to provide funds for unbudgeted salary and fringe benefit costs. Salary or fringe benefit supplementation requirements exceeding the compensation reserve amounts would need to be absorbed by each state agency. If the required supplementation is less than the amount reserved in a given year, the unutilized GPR reserves lapse to the general fund. It appears that the GPR compensation reserves under the bill would be adequate to address health insurance cost increases in the 2013-15 biennium and potential increases in WRS contributions in 2014 and 2015. Depending on Committee actions on other issues affecting the compensations reserves (tobacco surcharge and HDHP/HSA provisions), some level of compensation reserves may also be available for wage adjustments. The type and extent of pay adjustments to be provided, if any, would be proposed by OSER in the 2013-15 state compensation plan and approved by JCOER.

Prepared by: Art Zimmerman