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Joint Committee on Finance

Paper #103

Service Award Program Changes (Administration -- General Agency Provisions)

[LFB 2017-19 Budget Summary: Page 27, #9]

CURRENT LAW

The service award program assists municipalities in financing a length of service award for volunteer fire fighters, first responders, and emergency medical technicians by providing a state match for annual contributions made by municipalities to individual accounts for volunteers. In 2016-17, the Department of Administration (DOA) is required to match all annual municipal contributions paid to individual length of service award accounts up to \$344.11 per account. Upon reaching 20 years of service and reaching the age of 60, a volunteer for whom an account was established is considered fully vested and must be paid a length of service award. The service award appropriation is a sum sufficient appropriation subject to a statutory limitation of \$2.5 million GPR annually. The expenditure estimate for the appropriation, which serves as the base funding for the appropriation under the bill, is \$2,035,100 GPR in 2016-17.

GOVERNOR

Require that DOA provide a match of \$2 for every \$1 that a municipality contributes to an individual length of service award account for a volunteer fire fighter, first responder, or emergency medical technician, up to \$500 per volunteer per fiscal year. Maintain the current law requirement that the match limit be adjusted annually on July 1 to reflect changes in the U.S. consumer price index for all urban consumers.

Modify the vesting requirements of the program to 15 years of service and age 53.

Reestimate expenditures for service award match payments at \$2,224,900 GPR annually (an increase of \$189,800 GPR annually). The bill does not modify the \$2.5 million limit on

service award match expenditures.

DISCUSSION POINTS

1. In 2016, the Joint Legislative Council established the Study Committee on Volunteer Firefighter and Emergency Medical Technician Shortages to examine issues related to the shortage of volunteer firefighters and emergency medical technicians in Wisconsin, particularly in rural areas, and proposed measures to address the shortage. In a Legislative Council staff brief providing an overview of the subject, data presented from the Department of Safety and Professional Services indicated that there are 832 registered fire departments in the state, of which 40 are career departments (paid personnel), 658 are all-volunteer, 121 are a combination of career staff and volunteer members, two are affiliates of fire departments, and 11 are categorized as federal, state, or military.

2. The committee developed several legislative options to address the shortage, including proposals designed to increase recruitment and retention of volunteers throughout the state. Changes to the state's service award program to increase matching funds provided by the state and modify vesting requirements for volunteers were recommended by the committee and ultimately introduced as 2017 Senate Bill 31. The provisions included in the Governor's recommended budget are identical to the provisions of 2017 SB 31. Senate Bill 31 was introduced on February 9, 2017, and referred to the Committee on Government Operations, Technology and Consumer Protection. That Committee has not yet taken action on the bill.

Service Award Matching Contributions

3. Under state statute, DOA is required to match all annual municipal contributions paid to individual length of service award accounts up to \$250 per fiscal year, a limit that is adjusted annually on July 1 to reflect changes in the U.S. consumer price index for all urban consumers. The match limit paid for calendar year 2015 was \$343.77 (paid in 2015-16) and the match for calendar year 2016 is \$344.11 (to be paid in 2016-17). Expenditures for state match payments in 2015-16 totaled \$1,982,600 GPR.

4. In calendar year 2015, a total of 236 municipal departments participated in the state's service award program through which 6,338 contributions were made to individual length of service award accounts. Participating municipalities determine the amounts to contribute to volunteer accounts. As shown in Table 1 below, most municipalities choose to contribute the same amount to each volunteer's account (73% are uniform or mostly uniform). Other municipalities choose to contribute different amounts based on factors such as the volunteer's number of years of service or number of responses to calls (27% have varying rates).

TABLE 1

**Variation in Service Award Contributions by Municipalities,
Calendar Year 2015**

<u>Variation in Contributions</u>	<u>Number of Volunteers</u>	<u>Number of Municipalities</u>
Uniform	4,254	164
Mostly Uniform*	224	9
Varies	<u>1,860</u>	<u>63</u>
Total	6,338	236

*Differences in contributions between volunteers are \$1 or less.

5. Table 2 below shows the number of municipalities with average annual contribution amounts per volunteer in the following ranges: (a) over \$350; (b) from \$341 to \$350; (c) from \$250 to \$340; (d) from \$150 to \$249; and (e) \$149 or less. As shown in the table, 53% of municipalities participating in the program had average per-volunteer contributions between \$341 and \$350 in 2015, the range closest to the state match of \$343.77 for the year.

TABLE 2

**Average Annual Service Award Contributions of
Municipalities per Volunteer, Calendar Year 2015**

<u>Municipality Average Contribution</u>	<u>Number of Municipalities</u>	<u>% of Total</u>
Over \$350	35	14.8%
\$341 to \$350	125	53.0
\$250 to \$340	48	20.3
\$150 to \$249	21	8.9
\$149 or Less	<u>7</u>	3.0
Total	236	100.0%

6. The rates shown in Table 2 represent the distribution of average contributions for each municipality. Because municipalities may contribute different amounts depending on the volunteer, using average contribution rates to estimate what the state would be required to provide in terms of the match formula proposed under the bill would overestimate the cost. For example, if a municipality contributed \$100 to one individual, and \$600 to another individual, the average contribution for the volunteers would be \$350. Based on an average rate of \$350, a state match of \$500 per individual could be estimated for a total of \$1,000. However, based on the actual individual contributions, the state match under the proposal would be one contribution of \$200 and one contribution of \$500 for a total of \$700. Therefore, actual individual contribution amounts from

municipalities are used to estimate the cost to increase the state's match to \$2 for every \$1 contributed, up to \$500 per individual account.

7. Table 3 below shows: (a) the actual number of individual accounts that received municipal contributions in each specific range indicated in calendar year 2015; (b) the average municipal contribution amount per volunteer for each range; (c) the per-volunteer amount the state would provide to each volunteer on average based on this formula; and (d) the total state match municipalities would anticipate based upon the formula. It should be noted that for a particular municipality, actual contributions to individual accounts could be included in multiple categories due to a policy of providing different contribution amounts per individual.

TABLE 3

**Individual Municipal Contributions (2015) and
Estimated State Matching Funds under the Bill**

<u>Individual Municipal Contribution Amount</u>	<u>Number of Volunteers</u>	<u>Average Municipal Contribution Amount</u>	<u>State Match per Volunteer</u>	<u>Total State Match Before Prorating</u>
Over \$350	761	\$659	\$500	\$380,500
\$341 to \$350	4,036	344	500	2,018,000
\$250 to \$340	743	281	500	371,500
\$150 to \$249	474	197	395	187,007
\$149 or Less	<u>324</u>	97	195	<u>63,035</u>
Total	6,338			\$3,020,042

8. As shown in the table above, the cost to fully fund the state match formula under the bill would be greater than what was initially estimated by the administration. In part, the difference is due to the use of more complete and detailed data to reestimate costs based on each individual contribution match provided by municipalities and by the state in 2015-16 (for 2015).

9. Because the total amount of state matching funds would exceed the service award appropriation limit of \$2.5 million, which is not modified under the bill, the actual cost to the program under the bill would total \$2.5 million GPR. As a result, DOA would need to prorate payments to individual accounts. Administrative rules do not specify a methodology for prorating state contributions. In 2009-10, state match contributions needed to be prorated to reduce overall spending by 7.8%. At that time, DOA determined that each state match contribution would be reduced to prorate the amounts provided. If the same approach were used in 2017-18 based on the expenditure estimate above, state match contributions could be reduced by approximately 17%. Actual municipal contributions in calendar year 2017 for which the state would provide a match payment will depend on the number of municipalities that participate in the program, the number of volunteers that provide service, and the amounts each municipality contributes to individual volunteers. Therefore, the actual amount the state would contribute for any given contribution by a municipality is not known.

State Match Policy

10. The appropriation from which state match payments are made is a sum sufficient appropriation, which is generally expendable from the indicated source in the amount necessary to accomplish the purpose specified. However, the service award appropriation is subject to a statutory limitation of \$2.5 million annually. If the total amount of service award payments would be greater than the appropriation limit, DOA must prorate the payments. While awards would need to be prorated, in total, increased payments from the appropriation up to the statutory limit would be provided under the bill. As such, the Committee could choose to approve the Governor's recommendations relating to state match amounts, funding, expenditure estimates, and vesting policy. [Alternative A1]

11. As shown in Table 3, if contribution rates of municipalities are similar to contribution rates in 2015, the same municipalities participate, and the number of volunteers remained the same for each municipality, the cost to provide the full calculated state contribution amounts requested, up to a maximum of \$500 per individual account, would total approximately \$3 million. As a result, expenditures would reach the statutory limit of \$2.5 million and state contributions to volunteer accounts would be prorated, as required under statute. Therefore, the Committee could approve the Governor's recommendations relating to state match amounts, funding, and vesting policy, and choose to reestimate expenditures at \$2.5 million GPR annually (based on more complete and detailed contribution data than was utilized for the initial estimate). As under the bill, this alternative would maintain the current law appropriation limit of \$2.5 million GPR annually. State match payments to individual accounts would be prorated. [Alternative A2] Since the method by which DOA would prorate the payments is not known, municipalities and volunteers would not initially know the state match amount.

12. Given that only 236 municipal departments participate in the program while over 600 all-volunteer departments are registered in the state, it could be argued more could be done to encourage participation. Although each department's reason for not participating is not known, there are several possible causes: (a) many all-volunteer departments are in rural areas with a decreasing tax base that makes contributions to length of service award accounts difficult; (b) the amount the municipality would be willing to contribute may seem to be too low to have an effect; and (c) departments may not be familiar with the state match program as a resource. Therefore, several other options relating to state match payments and the service award match appropriation could be considered to enhance and increase awareness of the program's benefits. Under each option, the amount needed in 2018-19 would depend on the prior year change in the U.S. consumer price index, which for the purpose of budgeting for possible expenditures is assumed to be 3% (a lower percentage would result in lower expenditures, all else being equal). Additionally, as maximum match amounts are increased, it is assumed that participation by municipalities and volunteers could also increase.

13. First, the Committee could reduce the maximum amount paid to each individual account to \$390. The estimated cost to fully fund the calculated match amount with this modification would total \$2.4 million GPR in 2017-18 and \$2.5 million GPR in 2018-19. Although the maximum state match in statute would be lower than \$500, it would be greater than the current

law match, would maintain the appropriation limit, and actual state match payments would be less likely to be prorated. [Alternative B1] Second, the Committee could instead maintain the \$500 maximum match payment and increase the appropriation limit to \$3.25 million annually for the purpose of funding the estimated match, and estimate expenditures from the appropriation at \$3,020,000 GPR in 2017-18 and \$3,188,400 GPR in 2018-19 (assuming a 2.5% increase in participation and 3% increase applied to payment amounts in 2018-19), an increase of \$795,100 GPR in 2017-18 and \$963,500 GPR in 2018-19 from the bill estimates. [Alternative B2].

14. If the Committee wished to further encourage participation in the program and increase payments to volunteer accounts, it could increase the maximum match per account to \$600, increase the appropriation limit to \$3.9 million, and estimate expenditures at \$3.5 million GPR in 2017-18 and \$3.8 million GPR in 2018-19 (assuming a 5% increase in participation and 3% increase applied to payment amounts in 2018-19), an increase of \$1,275,100 GPR in 2017-18 and \$1,575,100 GPR in 2018-19 from the bill estimates. [Alternative B3]

Service Award Vesting Requirements

15. Under current law, a volunteer for whom an account was established is considered fully vested and must be paid a length of service award upon reaching 20 years of service and reaching the age of 60, consisting of all municipal and state contributions made on behalf of the volunteer and earnings on the contributions, less the amount of expenses incurred in the investment of the contributions and earnings. After receiving this length of service award, the volunteer may continue to provide service and may also continue to annually receive length of service award contributions from the municipality and the state. Since subsequent awards are received annually, the amounts of such contributions do not remain in an account where investment earnings may accrue.

16. Administrative rules and statute also provide that a volunteer who has reached the age of 60 becomes partially vested after providing 10 years of service. A partially vested volunteer is eligible to request and receive a distribution of a service award payment under the program, which under statute must be less than the amount that would be paid to a fully vested volunteer who has reached the age of 60 and has provided 20 years of service.

17. Under the bill, vesting requirements to receive a full service award payment would be modified to 15 years of service and age 53. In part, reducing the number of years of service and the age required to be fully vested is intended to provide volunteers recognition sooner than is provided under current law. In testimony provided to the Study Committee in October, 2016, a representative from the National Volunteer Fire Council indicated that he was uncertain whether the reduction in years of service from 20 to 15 would help with recruitment and retention directly, but that "20 years is a long time to serve as a volunteer firefighter. People move, get hurt, change jobs, etc. Lowering it to 15 years might be more realistic and fair."

18. The bill does not modify the partial vesting requirement of 10 years of service, nor does it modify the partial vesting requirement of reaching age 60. The timing of the distribution of length of service awards from individual accounts to which contributions have been made by the municipality and the state does not affect the cost to DOA to pay state matching contributions or to

administer the program.

19. However, the conditions under which volunteers would be considered fully vested would have a financial impact for the volunteers individually. For example, if a volunteer were to start service at age 25 and provide service continuously until becoming fully vested, the individual would have served for 35 years when reaching age 60. During this time, 35 contributions would be made and investment earnings (or potentially losses in some years) would accrue to the individual's account over a period of 35 years. Under the bill, if the same individual became fully vested at age 53 and chose to continue volunteering until age 60, they would receive a service award payment at age 53 for the previous 28 years of contributions and earnings on the contributions. The individual would then, over the course of seven years, receive service award payments from the municipality and the state on an annual basis, which would not grow or be accompanied by investment earnings (or losses). Depending on the circumstances, such as contribution amounts and market conditions during the seven years, the effect of compound investment earnings in such a case could be significant. Additionally, a volunteer is more likely to be engaged in other full-time paid employment at age 53 than at age 60. Therefore, the individual's marginal tax rate (the rate at which the length of service award payment might be taxed when distributed) would likely be higher at age 53 than at age 60.

20. Table 4 compares vesting requirements under current law and under the bill. As noted, because partial vesting requirements are not modified under the bill, a volunteer with 10 to 14 years of service would not be partially vested unless the individual was at least age 60. For example, if an individual started service at age 40 and volunteered continuously, they would never become partially vested. When the individual reached age 53, although they would have 13 years of service, they would not yet have reached age 60 (a requirement that is not modified under the bill). Therefore, the individual would become fully vested at age 55. In comparison, if an individual started service at age 50, they would become partially vested at age 60 with 10 years of service. The individual would become fully vested at age 65, at which point they would have 15 years of service.

TABLE 4

**Service Award Program Vesting Requirements
Current Law and Governor's Recommendation**

<u>Age</u>	<u>Years of Service</u>	<u>Current Law (Administrative Rule) Vesting Status</u>	<u>Governor's Recommendation Vesting Status</u>
53	10	Not Vested	Not Vested*
	15	Not Vested	Fully Vested
	20	Not Vested	Fully Vested
60	10	Partially Vested	Partially Vested*
	15	Partially Vested	Fully Vested
	20	Fully Vested	Fully Vested

*The bill does not modify partial vesting requirements. Volunteers with 10 to 14 years of service would not be partially vested unless they were at least 60 years of age.

Vesting Policy

21. On one hand, modifying full vesting requirements from 20 years of service and 60 years of age to 15 years of service and 53 years of age would provide to volunteers a more immediate benefit. This could make volunteer work more attractive by recognizing volunteer service sooner, and the volunteer would receive a contribution directly on an annual basis if the volunteer continued to provide service after becoming fully vested.

22. Therefore, the Committee could choose to approve the Governor's recommendations regarding full vesting requirements, and additionally provide a technical modification to partial vesting requirements under statute to be consistent with the full vesting age of 53. Under this alternative, after reaching age 53 a volunteer could request and receive a partially vested distribution from their length of service award account at any time after performing a minimum of 10 years of service for credit. [Alternative C1]

23. On the other hand, the recommended changes in vesting requirements would cause volunteers to automatically receive the full amount of contributions in their account at an earlier age, which may coincide with a higher earnings period in their primary occupation. One of the purposes of a length of service award account is to provide a tax-deferred benefit similar to a retirement benefit. If an individual is still working full-time, receiving the award sooner could provide less of a tax advantage. In addition, as an account accrues contributions and earnings over time, the ability of the assets to earn greater amounts also increases through compounded growth.

24. In other words, the recommended modification under the bill regarding age could potentially reduce the monetary value of the length of service award that is provided because the marginal tax rate that may be applied to the length of service award could be higher (full-time paid employment and, therefore, greater earnings are more likely at age 53 than at age 60); and investment earnings would potentially be reduced (seven years of investment earnings).

25. Therefore, the Committee could choose to approve the vesting modification under the bill in part, by approving the change in years of service to 15 years while maintaining current law for full vesting at age 60. To provide volunteers the ability to request and receive a payment at age 53, the Committee could specify that a volunteer would be partially vested at age 53 and 10 years of service, but that a partially vested service award payment made at the request of an individual who is partially vested (reached age 53 and provided at least 10 years of service) must be less than the amount paid to a volunteer who has reached age 60 and provided 15 years of service. This would closely match current law provisions relating to partial vesting. The Committee may wish to also specify that DOA promulgate revised administrative rules reflecting the new vesting requirements (both full and partial). [Alternative C2]

26. Although recommendations were not made regarding leaves of absence, the Committee could consider extending the period of time that a volunteer would be permitted a break in service before their account is closed. Currently, the length of time a volunteer may cease providing service without having a supervisor grant a leave of absence is six months. Various life circumstances could lead to a break in volunteering that could exceed six months. While a volunteer could apply to a supervisor to be granted a leave of absence, an individual may experience an

unanticipated crisis that demands immediate and sustained attention. In other cases, circumstances may not be urgent, but the closing of an account that received several years of contributions, after only six months without volunteering, could discourage an individual from returning. Under statute, the account of any volunteer fire fighter, first responder, or emergency medical technician who "has not met all of the vesting requirements under the program, who has not provided volunteer fire fighting, first responder, or emergency medical technical services for a municipality for a period of 6 months or more, who does not meet any other program requirement established by the municipality, and who has not been granted a leave of absence by his or her supervisor shall be closed." The Committee could choose to extend this period to 12 months, to allow volunteers additional flexibility and encourage such volunteers to reengage in service. This could improve retention of volunteers long-term. [Alternative D1]

27. Finally, the Committee could direct that a minor technical redundancy in statute be eliminated to avoid confusion. Currently, two subsections of statute for the service award program that relate to the leave of absence provision summarized above are nearly identical in content. Because the meaning of s. 16.25(h) of the statutes is entirely included within paragraph (j) of the same section (which adds "who does not meet any other program requirement established by the municipality"), the Committee could direct that paragraph (h) be deleted, leaving paragraph (j). [Alternative D2]

28. If the Committee wishes to limit changes to the program, it could choose to delete recommendations relating to: (a) the state match [Alternative E1]; (b) vesting requirements [Alternative E2]; or (c) both [Alternative E3].

ALTERNATIVES

A. Governor's Recommendation

1. Approve the Governor's recommendation to: (a) require that DOA provide a match of \$2 for every \$1 that a municipality contributes to an individual length of service award account, up to \$500 per volunteer per fiscal year; (b) modify the vesting requirements of the program to 15 years of service and age 53; and (c) reestimate expenditures for service award match payments by \$189,800 GPR annually. [Actual expenditures would be higher and state match payments would be prorated.]

ALT A1	Change to	
	Base	Bill
GPR	\$379,600	\$0

2. Modify Alternative A1 to increase estimated expenditures by \$275,100 GPR annually based on more complete and detailed contribution data. [Corresponds to an appropriation limit and expenditures of \$2.5 million GPR annually. Payments to individual accounts would be prorated.]

ALT A2	Change to	
	Base	Bill
GPR	\$929,800	\$550,200

B. Funding Modifications

Modify the provision to specify that: (a) the state provide \$2 for every \$1 contributed by a municipality up to the amount indicated below per volunteer; (b) increase the appropriation limit to the amount indicated for the purpose of funding the estimated match; and (c) reestimate expenditures from the appropriation as indicated [Alternatives B1 through B4 may not be selected with Alternatives A1 or A2]:

1. \$390 annually per volunteer; appropriation limit of \$2.5 million (same as current law limit); reestimate at \$2.4 million GPR in 2017-18 and \$2.5 million GPR in 2018-19.

ALT B1	Change to	
	Base	Bill
GPR	\$829,800	\$450,200

2. \$500 annually per volunteer (same as under the bill); appropriation limit of \$3.25 million; reestimate at \$3,020,000 GPR in 2017-18 and \$3,188,400 GPR in 2018-19 (assuming 2.5% increase in participation and 3% inflation applied to payments in 2018-19).

ALT B2	Change to	
	Base	Bill
GPR	\$2,138,200	\$1,758,600

3. \$600 annually per volunteer; appropriation limit of \$3.9 million; reestimate at \$3.5 million GPR in 2017-18 and \$3.8 million GPR in 2018-19 (assuming 5% increase in participation and 3% inflation applied to payments in 2018-19).

ALT B3	Change to	
	Base	Bill
GPR	\$3,229,800	\$2,850,200

C. Vesting Policy

1. Approve vesting requirement modifications (full vesting at age 53 with 15 years of service) and specify that at age 53 an individual with at least 10 years of service is partially vested.
2. Modify vesting requirements to specify that: (a) to be fully vested a volunteer must

have reached age 60 and have provided 15 years of service; (b) to be partially vested a volunteer must have reached age 53 and have provided 10 years of service; (c) specify that a partially vested service award payment made at the request of an individual who is partially vested (reached age 53 and provided at least 10 years of service) must be less than the amount paid to a volunteer who has reached age 60 and provided 15 years of service (similar to current law provisions); and (d) direct DOA to promulgate revised administrative rules reflecting the new vesting requirements (both full and partial).

D. Other Modifications

1. Extend the period of time that a volunteer would be permitted a break in service (without having a supervisor grant a leave of absence) before their length of service award account is closed to 12 months (current law allows a six-month break in service). [Alternative D1 may be selected with any other alternative.]

2. Repeal s. 16.25(h) of the statutes as a technical correction. The provision is redundant given that the meaning of the subsection is contained within s. 16.25(j) of the statutes. [Alternative D2 may be selected with any other alternative.]

E. Deletion of Selected Bill Provisions

1. Delete recommended changes to the state match. [Maintain the current law dollar for dollar match; the appropriation limit of \$2.5 million; and maintain base expenditure estimate of \$2,035,100 GPR annually. This alternative would adopt the vesting recommendations under the bill or Alternatives C1 or C2 if selected.]

ALT E1	Change to	
	Base	Bill
GPR	\$0	- \$379,600

2. Delete recommended changes to the vesting requirements. [Alternative E2 may be selected with Alternatives A1, A2, or B1 through B4.]

3. Delete provision. [Alternative E3 may be selected with Alternatives D1, D2, or both.]

ALT E3	Change to	
	Base	Bill
GPR	\$0	- \$379,600

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