



Legislative Fiscal Bureau

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Joint Committee on Finance

Paper #160

Compensation Reserves (Budget Management and Compensation Reserves)

[LFB 2017-19 Budget Summary: Page 82, #1]

CURRENT LAW

For the 2015-17 biennium, all funds compensation reserves total \$21,385,000 in 2015-16 (\$10,692,500 GPR and \$10,692,500 other funds) and \$37,233,600 in 2016-17 (\$18,616,800 GPR and \$18,616,800 other funds). These amounts are reserved for all state agencies except for the University of Wisconsin (UW) System. Separate from compensation reserves, the 2015-17 biennial budget provided the UW System \$7,928,000 in 2015-16 and \$13,385,500 in 2016-17 as part of a GPR block grant to fund increases in salary and fringe benefit costs attributable to GPR in both years of the biennium.

GOVERNOR

Provide, in the 2017-19 summary of compensation reserves, \$29,001,600 in 2017-18 and \$71,235,800 in 2018-19 for cost increases related to state employee salaries and fringe benefits. Compensation reserve amounts by fund source and fiscal year are shown in Table 1. [Note that compensation reserves do not include amounts for cost increases related to UW System employee salaries and fringe benefits. Under the bill, amounts have been separately budgeted within the UW System in order to support these costs. A separate paper has been prepared on this issue.]

TABLE 1

Compensation Reserves Under the Bill, By Fund Source

<u>Fund Source</u>	<u>2017-18</u>	<u>2018-19</u>
General Purpose Revenue	\$14,361,900	\$35,276,600
Federal Revenue	3,925,100	9,641,200
Program Revenue	6,482,100	15,921,800
Segregated Revenue	<u>4,232,500</u>	<u>10,396,200</u>
Total	\$29,001,600	\$71,235,800

The GPR and all funds compensation reserves are net of the following components: (a) prior period and inflationary increases for employee fringe benefits; (b) savings estimated from an anticipated repeal of the federal Affordable Care Act's health insurer fee (otherwise known as a market share fee or premium tax); (c) savings estimated from the elimination of certain domestic partnership benefits under Chapter 40 of the statutes; (d) savings estimated from the state's high deductible health care plan; (e) savings estimated from employees opting out of the state's health insurance coverage net of the cost to provide \$2,000 annual opt-out incentive payments; (f) two 2% general wage adjustments for state employees on September 30, 2018, and May 26, 2019, respectively; and (g) funding to support market wage adjustments for state employees in the classified service.

DISCUSSION POINTS

Overview of Compensation Reserves

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. 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 typically intended to cover: (a) the employer share of increased premium costs in the forthcoming fiscal biennium for state employee health insurance; (b) the costs of any general wage adjustments or negotiated pay increases that are recommended by the Department of Administration's (DOA) Division of Personnel Management (DPM) and approved by the Joint Committee on Employment Relations (JCOER); (c) increases in the employer share of contributions to the state retirement fund for employees' future state retirement benefits; and (d) pension obligation bond payments for the state's unfunded prior service liability for retirement benefits, the accumulated sick leave conversion credit program, and income continuation benefits.

3. During the 2015-17 biennium, funding for increases in salary and fringe benefits costs to the UW System was not included in compensation reserves. Instead, the 2015-17 budget bill provided \$7,928,000 in 2015-16 and \$13,385,500 in 2016-17 to the UW System as part of a GPR block grant provided at the time of budget development in order to fund increases in salary and fringe benefit costs attributable to GPR in both years of the biennium.

Under the bill, the Governor proposes that anticipated salary and fringe benefit cost increases to the UW System during the 2017-19 biennium be budgeted for separately from compensation reserves, similar to the manner in which funding was budgeted during the 2015-17 biennium. Under the bill, the UW System is provided \$126,500 GPR in 2017-18 and \$11,517,900 GPR in 2018-19 to fund these costs, and the bill specifies that the Board of Regents may not request any funds from the state's compensation reserves during the 2017-19 biennium to fund compensation and fringe benefit costs. As previously noted, budget provisions related to UW System compensation and funding are addressed in a separate issue paper.

4. In the 2017-19 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 requires state agencies, towards the end of each fiscal year, to document the need for any supplementation of existing budgets for the cost of any authorized pay increases (including associated fringe benefit costs, such as social security and retirement contribution payments) and for the cost of the employer's 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-working day passive review process.

5. The schedule of compensation reserves (shown in Table 1) indicates reserve funding for each funding source from which state employees' salaries and benefits 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 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 revenue), 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.

6. 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 supplementation 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 supplementation 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.

7. The review of compensation reserves, therefore, usually focuses on GPR funding levels. As indicated in Table 1, GPR compensation reserves under the bill for state agencies (excluding the UW System) total \$14,361,900 GPR in 2017-18 and \$35,276,600 GPR in 2018-19. Given these factors, the balance of this paper will discuss projections for the GPR share of compensation reserves.

8. As noted above, compensation reserves reflect the net of anticipated salary and fringe benefits costs increases during the 2017-19 biennium, less estimated savings from various budget provisions and health insurance actions. The following bullet points briefly summarize the components of the net compensation reserves calculation included in the budget bill. Table 2 identifies the various components of the net compensation reserve calculation, as a portion of total GPR compensation reserves under the bill.

- *Prior Period and Inflationary Increases for Fringe Benefits.* A reestimate of base fringe benefits costs and inflationary cost increases for fringe benefits, including health insurance, retirement benefits, pension obligation bond payments, the accumulated sick leave conversion credit program, and income continuation benefits. [A discussion of health insurance inflation calculations is included in a separate issue paper.]

- *General Wage Adjustments.* A 2% general wage adjustment (GWA) for non-UW System state employees on September 30, 2018, as well as another 2% GWA for non-UW System employees on May 26, 2019. These general wage adjustments are the same as the GWAs budgeted for UW System employees.

- *Market Wage Adjustments.* Funding to increase the pay for certain classifications of state employees in the classified service whose pay is below market rates and where recruitment and retention of employees is an issue.

- *ACA Health Insurer Fee Savings.* Estimated savings associated with the anticipated repeal of the federal Affordable Care Act's (ACA) health insurer fee (otherwise known as a market share fee or premium tax). [A discussion of this is included in a separate issue paper.]

- *Domestic Partnership Repeal Savings.* Estimated savings associated with the elimination of healthcare coverage for domestic partners under Chapter 40 of the statutes. [A separate issue paper has been prepared on this issue.]

- *High Deductible Health Care Plan Savings.* Estimated savings associated with the state's high deductible health care plan.

- *Opt-out Incentive Savings.* Estimated savings from employees opting out of the state's health insurance coverage net of the cost to provide \$2,000 annual opt-out incentive payments.

TABLE 2

GPR Compensation Reserves for Non-UW System State Employees

	<u>2017-18</u>	<u>2018-19</u>
Prior Period and Inflationary Increases for State Employee Fringe Benefits	\$18,818,100	\$30,841,100
General Wage Adjustments	0	15,431,200
Market Wage Adjustments	4,200,000	4,200,000
ACA Health Insurer Fee Savings	-4,082,700	-8,165,300
High Deductible Health Care Plan Savings	-2,722,200	-3,433,100
Domestic Partnership Repeal Savings	-1,493,500	-2,987,000
Opt-out Incentive Savings	<u>-357,800</u>	<u>-610,300</u>
 Total	 \$14,361,900	 \$35,276,600

9. The bill also specifies that if the state executes a contract to provide self-insured group health plans, the Secretary of DOA must reduce the estimated GPR expenditures for compensation reserves in 2017-18 and 2018-19 by an annual amount equal to estimated state agency savings, other than for the UW System, and lapse the estimated savings to the general fund. The general fund condition statement in the budget bill includes estimated lapses of \$10,147,000 GPR in 2017-18 and \$20,294,100 GPR in 2018-19 associated with the execution of a contract to provide self-insured group health plans. If a lapse occurs, then per pupil aid increases to school districts of \$12 for 2017-18 and \$24 in 2018-19 would be provided. The bill estimates that the \$12 and \$24 increases require approximately \$30.3 million GPR. [Separate papers have been prepared on the issues of self-insurance and per pupil aid increases.]

10. As identified above, funding under the bill in compensation reserves is net of funding and savings associated with various budgetary provisions. In summary, separate issue papers have been prepared on the following items: (a) funding for compensation and fringe benefits for the UW System; (b) the elimination of healthcare coverage for domestic partners under Chapter 40 of the statutes; and (c) issues related to health insurance, including health insurance inflation cost estimates, the decision of the state to execute a contract to provide self-insured group health plans, and estimated savings associated with the anticipated repeal of the federal ACA health insurer fee.

11. This office has reviewed the calculations utilized to estimate prior period and inflationary costs increases for fringe benefits, estimated savings associated with the state's high deductible health care plan, and estimated savings from employees opting out of the state's health insurance coverage net of the cost to provide \$2,000 annual opt-out incentive payments. The calculations utilized to estimate these costs and anticipated savings appear reasonable. [Again, note that the issue of health insurance inflation cost estimates are discussed in greater detail in a separate paper.]

12. The remainder of this paper discusses the funding for general wage adjustments and market adjustments included within compensation reserves. Alternatives are identified for the Committee's consideration associated with each of these two components.

General Wage Adjustments

13. As identified in Table 2, compensation reserves include \$15,431,200 GPR in 2018-19 to support general wage adjustments for non-UW state employees. [Similar GWAs are budgeted for UW System employees separately from compensation reserves.] The funding is intended to support a 2% GWA on September 30, 2018, as well as another 2% GWA on May 26, 2019. Combined, these two 2% GWAs represent a 4.04% general wage increase for state employees during the 2017-19 biennium. With regards to the timing and level of the GWAs for which funding is budgeted in compensation reserves, the administration indicates, "The general wage adjustments provide a 2 percent increase in each of the next two calendar years and will help the state retain and attract its necessary workforce."

14. The administration's calculation for the cost of the general wage adjustment assumes that state employee base payroll will be increased by \$4,200,000 GPR annually associated with market adjustments. The Committee's decision to provide funding for market adjustments in compensation reserves could be considered separate from the decision to provide funding for general wage adjustments. To this point, this paper provides separate alternatives associated with funding for GWAs and funding for market adjustments. After removing the increase to base payroll associated with market adjustments, the cost of providing two 2% GWAs on September 30, 2018, and May 26, 2019, respectively, is reduced to \$15,295,200 GPR in 2018-19 (a reduction to the bill of \$136,000 GPR in 2018-19).

15. Amounts included in compensation reserves for GWAs include funding to support a 2% GWA for state legislators and executive constitutional officers (not including District Attorneys) for when these elected officials become eligible for a pay increase under the Wisconsin State Constitution. Under the State Constitution, elected officials (except judges and justices) become eligible for a salary modification at the beginning of a new term of office, except that members of the Senate become eligible for a salary modification beginning with a new term of the Assembly. Elected officials will generally begin a new term of office in January, 2019, and, therefore, amounts have been budgeted to provide a 2% GWA for elected officials who begin a new term of office in January, 2019. Unlike for other state employees, funding is not included in compensation reserves to support a second 2% GWA for elected officials since that increase would occur on May 26, 2019, after the new term of office begins. [Compensation reserves do not include funding for a GWA for elected District Attorneys (DAs) since DAs will not begin a new term of office during the 2017-19 biennium.]

16. It should be noted that passage of the budget bill will not effectuate a GWA for state employees or a salary increase for state elected officials during the 2017-19 biennium since salaries for most state employees, including state elected officials, are established in the state employee compensation plan. The compensation plan, which is separate from the budget bill, is established by DPM and approved by JCOER. Therefore, any GWAs would not be effectuated unless such increases were included in the 2017-19 state employee compensation plan prepared by DPM, and

then subsequently approved by JCOER. The compensation plan is typically reviewed by JCOER in the summer of odd-numbered years. Funding is included in the budget bill to support a GWA if such a GWA is anticipated in the upcoming compensation plan.

17. Due to the delayed effective date of the proposed GWAs, the state would not realize the full cost of these GWAs during the 2017-19 biennium. As a result, the Governor's recommendation would result in a significant out-year commitment. The cost of both 2% GWAs for non-UW state employees during the 2019-21 biennium, less funding provided in 2018-19 for GWAs that would be included as base funding in the 2019-21 biennium (also known as the out-year commitment), would be \$22,871,800 GPR in 2019-20 and \$23,001,000 GPR in 2020-21. It is anticipated that these costs would be included in the 2019-21 biennial budget as a part of standard budget adjustments.

18. In recent years, general wage adjustments have not been provided to state employees on a consistent basis. Table 3 compares the GWAs provided to these employees over the last 10 fiscal years (2006-07 through 2016-17) with changes in the consumer price index for all urban consumers (CPI-U).

TABLE 3

**General Wage Adjustments for General State Employees
as Compared to CPI-U Changes, 2006-07 thru 2016-17**

<u>State Fiscal Year</u>	<u>General Wage Adjustment</u>	<u>Consumer Price Index Change</u>
2006-07	2.25%	2.6%
2007-08	2.0	3.7
2008-09	1.0	1.4
2009-10	0.0	1.0
2010-11	0.0	2.0
2011-12	0.0	2.9
2012-13	0.0	1.7
2013-14	1.0	1.6
2014-15	1.0	0.7
2015-16	0.0	0.7
2016-17*	0.0	1.7
Cumulative	7.5%	18.7%

*The CPI-U percent change for 2016-17 is based on data through April, 2017.

19. In reviewing Table 3, it should be noted that state employees may be eligible to receive salary increases separate from GWAs, at the employer's discretion and the approval of DPM. For example, certain employees may receive pay progression increases, discretionary merit compensation, equity or retention adjustments, and market and parity adjustments. In 2015-16, base pay and lump sum awards were provided to 4,673 state employees (out of 33,502.12 total state

employees, excluding UW System, Court System, and legislative employees) as discretionary merit compensation and equity and retention adjustments. Increases in salaries through discretionary merit compensation and equity and retention adjustments are approved by DPM and typically supported by a state agency through the utilization of existing resources during the biennium in which the award is made. In the subsequent biennium, standard budget adjustments would provide the agency necessary funding to support the employee's updated salary and fringe benefits costs.

20. In 2014-15, the average non-retirement rate of separation from state service across all job groups for permanent employees in the classified service totaled 7.6% (11.9% with retirements). In 2015-16, the average non-retirement rate of separation from state service across all job groups for permanent employees in the classified service totaled 9.2% (13.4% with retirements). These figures exclude UW System employees.

21. An employee's contribution to a state agency's mission tends to increase with time of service as an employee gains experience and expertise. With experience, the ability of these employees to handle increasing and more complicated workloads grows, and the quality of service that these employees can provide to the state and affected members of the public also improves. Moreover, when employee turnover is reduced, agencies can minimize the resources that must be applied to the recruitment and training of new employees. Finally, in retaining qualified staff, increased compensation can be a tangible way for the state to indicate that the staff, and the work the staff performs, is valued.

22. Based on these considerations, the Committee could approve the Governor's recommendation to provide funding in compensation reserves to support two 2% GWA for non-UW System state employees on September 30, 2018, and May 26, 2019, respectively. Under this alternative, \$15,295,200 GPR would be provided in compensation reserves in 2018-19 to support the adjustments to reflect the updated calculation of the two 2% GWAs, as discussed in point #14 [Alternative A1]. As a result, funding in compensation reserves would be reduced by \$136,000 GPR in 2018-19.

23. The Committee could also modify the level or the timing of the GWAs for which funding is budgeted in compensation reserves, in one of the following manners. With regards to the timing of the GWAs, for example, the Committee could provide funding to support GWAs at the beginning of each fiscal year or at the beginning of each calendar year. Note that supporting GWAs earlier in the fiscal year increases the costs of the GWAs during the 2017-19 biennium, but reduces the out-year commitment associated with the adjustments. Also note that a modest out-year commitment exists even if the GWAs are moved to the beginning of the fiscal year since increases to elected officials provided in January, 2019, would need to be supported on an annual basis and it is anticipated that the 2019-21 state employee compensation plan would increase the salaries of elected District Attorneys and other elected officials to match the GWAs provided to other state employees.

24. Table 4 identifies the following alternatives for the Committee's consideration: two 2% GWAs at the beginning of each fiscal year [Alternative A2]; two 1% GWAs at the beginning of each fiscal year [Alternative A3]; two 2% GWAs at the beginning of each calendar year [Alternative A4]; two 1% GWAs at the beginning of each calendar year [Alternative A5]; and two

1% GWAs on the dates recommended by the Governor (September 30, 2018, and May 26, 2019) [Alternative A6]. For each of these alternatives, the table identifies: (a) the change to bill during the 2017-19 biennium; (b) the total funding in compensation reserves that would be budgeted for GWAs; and (c) the out-year commitment associated with each alternative. Table 4 also compares these alternatives to the Governor's recommendations (Alternative A1). [Note that for Alternatives A4 and A5, specific dates are identified to align with state employee pay periods.]

TABLE 4

GPR Cost of General Wage Adjustments for Non-UW State Employees

<u>Alternative</u>	<u>Change to Bill</u>			<u>Total Funding in Compensation Reserves for GWAs</u>			<u>Out-Year Commitment</u>	
	<u>2017-18</u>	<u>2018-19</u>	<u>2017-19 Biennium</u>	<u>2017-18</u>	<u>2018-19</u>	<u>2017-19 Biennium</u>	<u>2019-20</u>	<u>2020-21</u>
Alternative A1 Two 2% GWAs September 30, 2018, & May 26, 2019, (Governor)	\$0	-\$136,000	-\$136,000	\$0	\$15,295,200	\$15,295,200	\$22,871,800	\$23,001,000
Alternative A2 Two 2% GWAs July 1, 2017, & July 1, 2018	18,852,400	22,730,000	41,582,400	18,852,400	38,161,200	57,013,600	92,600	178,400
Alternative A3 Two 1% GWAs July 1, 2017, & July 1, 2018	9,426,200	3,554,900	12,981,100	9,426,200	18,986,100	28,412,300	46,100	88,800
Alternative A4 Two 2% GWAs January 7, 2018, & January 6, 2019	8,701,100	12,364,900	21,066,000	8,701,100	27,796,100	36,497,200	10,457,700	10,543,500
Alternative A5 Two 1% GWAs January 7, 2018, & January 6, 2019	4,350,600	-1,576,800	2,773,800	4,350,600	13,854,400	18,205,000	5,177,800	5,220,500
Alternative A6 Two 1% GWAs September 30, 2018, & May 26, 2019	0	-7,790,800	-7,790,800	0	7,640,400	7,640,400	11,348,800	11,413,000

25. On the other hand, given the cost of providing GWAs to all non-UW System state employees, the Committee could eliminate funding in compensation reserves associated with GWAs [Alternative A7]. This alternative would reduce funding in compensation reserves by \$15,431,200 GPR in 2018-19.

Market Wage Adjustments

26. In addition to funding for general wage adjustments, the budget bill includes \$4,200,000 GPR annually in compensation reserves to support market wage adjustments. Market adjustments are distinct from other types of wage adjustments that may be provided to state employees. Market adjustments exist to provide pay increases to employees within certain classifications in which recruitment and retention problems have been identified due to state salaries being below market levels. The biennial state employee compensation plan identifies the employee classifications that are eligible for market adjustments in the relevant biennium.

27. Given that DPM has not yet submitted the proposed employee compensation plan for the 2017-19 biennium to JCOER for approval, DPM is unable to identify the classifications that would be eligible for market adjustments under the upcoming compensation plan. However, DPM staff indicate that it intends to target adjustments to classifications for which the average pay is at least 25% below the market average. Further, DPM indicates that if it is unable to provide adjustments to all classifications that are below 25% the market average, it will further narrow its focus to classifications that agencies have identified as having retention issues and those classifications that have historically not received market increases.

28. Given that the bill provides an equal amount of funding in both years of the 2017-19 biennium for market adjustments (\$4.2 million annually), it is anticipated that funding in 2018-19 would be utilized to support adjustments provided in 2017-18. When asked how the administration determined the level of funding in compensation reserves for market adjustments, the administration indicated the following:

"Due to economic factors in Wisconsin and around the nation, there have been few increases to employee pay since 2008. As a result, the State has experienced recruitment and retention problems where the State pays less than competitors. While the budget development process is underway, DPM is similarly underway on planning the biennial Compensation Plan...The State Budget Office and DPM work together to determine need versus availability of funding to arrive at the amount allotted to the Compensation Reserve."

29. If funding is not provided in compensation reserves, DPM could still propose certain classifications for market adjustments in the 2017-19 compensation plan. However, funding for such adjustments would need to be supported with the agencies' existing resources. To the extent that agencies are not able to support market adjustments with existing resources, market adjustments would be awarded at a lower level or to a fewer number of position classifications, or both. Further, DPM notes that when market adjustments are proposed for certain classifications, funding generally must be available for market adjustments at all agencies that employ positions in that classification. This prevents an employee in a classification at one agency from earning a different salary than another employee with the same classification at a separate agency, which could create equity issues. The need for funding availability across all agencies with similar classifications is a barrier in providing certain classifications market adjustments.

30. Including funding within compensation reserves for market pay adjustments would assist agencies provide these adjustments to their employees. In addition, if funding is provided in compensation reserves, DPM could expand the number of classifications that could be eligible for

market adjustments, as well as increase the level of adjustments provided, since all agencies would be able to request supplemental funding to support market adjustments.

31. No funding was provided in compensations reserves for market adjustments during the 2015-17 biennium. In contrast, the 2013-15 biennial budget included \$8,214,300 GPR for market adjustments in 2014-15. Reviewing the number of classifications that were eligible for market adjustments in these two biennia, as well as the level of market adjustments authorized, could provide some insight into the effect of including funding in compensation reserves for such adjustments. [In reviewing the information below, note that currently there are 1,604 state employee classifications in the classified service.]

32. The 2015-17 state employee compensation plan identifies 43 employee classifications within the Department of Revenue, the Department of Financial Institutions, the Department of Administration, and the Department of Employee Trust Funds as eligible for market pay adjustments. These 43 classifications primarily work as tax specialists and officers, revenue auditors, consumer credit examiners, financial examiners, securities examiners, aircraft mechanics, and trust funds specialists. Market adjustments for these employees under the compensation plan range from \$1 per hour (\$2,080 annually) to \$3 per hour (\$6,240 per hour). The adjustments became effective on either June 28, 2015, or March 6, 2016, depending on the classification. Funding for such adjustments was supported with the agencies' existing resources.

33. The 2013-15 biennial budget included \$8,214,300 GPR in 2014-15 for market adjustments. Funding provided for market adjustments was in addition to funding provided in the 2013-15 compensation reserves for two 1% general wage adjustments.

34. The 2013-15 compensation plan identified 220 employee classifications which would be eligible for market adjustments and for which agencies could receive supplemental funding from compensation reserves to support such adjustments. The 220 classifications ranged in functions. However, in reviewing the list of 220 classifications, it would appear as though a focus was placed on classifications related to IT, health care, psychologists, forensic sciences, financial and tax services, and state capitol police. Since funding was provided in compensation reserves in 2014-15 for market adjustments, the compensation plan provided that these 220 classifications were eligible for a market adjustment at the beginning of 2014-15. In addition to these 220 classifications, the 2013-15 compensation plan identified 36 classifications for which agencies could provide market adjustments through the utilization of existing resources. For all 256 classifications, market adjustments ranged from \$0.64 per hour (\$1,331 annually) to \$5.75 per hour (\$11,960 per hour), and included both hourly pay increases and lump sum awards.

35. Providing for market adjustments allows the state to compete as an employer with the private sector and other units of government in recruiting and retaining qualified employees. With more experienced and qualified staff, the services the state provides to Wisconsin improves, and those services may be provided in a more efficient and effective manner. Finally, with greater recruitment and retention efforts, the state can minimize the resources that must be allocated toward the recruitment and training of new staff. In recognition of these considerations, the Committee could approve the Governor's recommendation to include \$4,200,000 GPR annually in compensation reserves for market adjustments [Alternative B1].

36. Alternatively, the Committee could provide a reduced level of funding in compensation reserves for market adjustments. For example, the Committee could reduce funding in compensation reserves for market adjustments by 50%, or \$2,100,000 GPR annually [Alternative B2].

37. On the other hand, the Committee could eliminate all funding in compensation reserves for market adjustments [Alternative B3]. In addition to funding for market adjustments, the bill includes funding for general wage adjustments for state employees. Further, even if funding is not provided for market adjustments in compensation reserves, DPM could include market adjustments in the 2017-19 state employee compensation plan, to the extent that agencies could support such adjustment with existing resources.

ALTERNATIVES

A. General Wage Adjustments

1. Provide \$15,295,200 GPR in 2018-19 in compensation reserves to support a 2% general wage adjustment for non-UW System state employees on September 30, 2018, as well as another 2% GWA for non-UW System state employees on May 26, 2019.

ALT A1	Change to	
	Base	Bill
GPR	\$15,295,200	- \$136,000

2. Provide \$18,852,400 GPR in 2017-18 and \$38,161,200 GPR in 2018-19 in compensation reserves to support a 2% GWA for non-UW System state employees on July 1, 2017, as well as another 2% GWA for non-UW System state employees on July 1, 2018.

ALT A2	Change to	
	Base	Bill
GPR	\$57,013,600	\$41,582,400

3. Provide \$9,426,200 GPR in 2017-18 and \$18,986,100 GPR in 2018-19 in compensation reserves to support a 1% GWA for non-UW System state employees on July 1, 2017, as well as another 1% GWA for non-UW System state employees on July 1, 2018.

ALT A3	Change to	
	Base	Bill
GPR	\$28,412,300	\$12,981,100

4. Provide \$8,701,100 GPR in 2017-18 and \$27,796,100 GPR in 2018-19 in compensation reserves to support a 2% GWA for non-UW System state employees on January 7, 2018, as well as another 2% GWA for non-UW System state employees on January 6, 2019.

ALT A4	Change to	
	Base	Bill
GPR	\$36,497,200	\$21,066,000

5. Provide \$4,350,600 GPR in 2017-18 and \$13,854,400 GPR in 2018-19 in compensation reserves to support a 1% GWA for non-UW System state employees on January 7, 2018, as well as another 1% GWA for non-UW System state employees on January 6, 2019.

ALT A5	Change to	
	Base	Bill
GPR	\$18,205,000	\$2,773,800

6. Provide \$7,640,400 GPR in 2018-19 in compensation reserves to support a 1% GWA for non-UW System state employees on September 30, 2018, as well as another 1% GWA for non-UW System state employees on May 26, 2019.

ALT A6	Change to	
	Base	Bill
GPR	\$7,640,400	- \$7,790,800

7. Provide no funding in compensation reserves during the 2017-19 biennium intended to support general wage adjustments for non-UW System state employees.

ALT A7	Change to	
	Base	Bill
GPR	\$0	- \$15,431,200

B. Market Wage Adjustments

1. Approve the Governor's recommendation to include \$4,200,000 GPR annually in compensation reserves for market wage adjustments.

ALT B1	Change to	
	Base	Bill
GPR	\$8,400,000	\$0

2. Include \$2,100,000 GPR annually in compensation reserves for market wage adjustments.

ALT B2	Change to	
	Base	Bill
GPR	\$4,200,000	- \$4,200,000

3. Provide no funding in compensation reserves during the 2017-19 biennium for market wage adjustments.

ALT B3	Change to	
	Base	Bill
GPR	\$0	- \$8,400,000

Prepared by: Michael Steinschneider