



Legislative Fiscal Bureau

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2017

Joint Committee on Finance

Paper #642

Compensation (University of Wisconsin System)

[LFB 2017-19 Budget Summary: Page 460, #3]

CURRENT LAW

2015 Act 55 provided \$7,928,000 GPR in 2015-16 and \$13,385,500 GPR in 2016-17 to fund projected increases in fringe benefit costs for UW employees during the biennium. The Act also specified that the Board of Regents could not request any funds from the state's compensation reserve during the 2015-17 biennium to fund compensation and fringe benefit costs.

GOVERNOR

Provide \$126,500 GPR in 2017-18 and \$11,517,900 GPR in 2018-19 to fund the following: (1) the GPR portion of expected inflation in fringe benefit costs in each year of the biennium (\$10.0 million in 2017-18 and \$15.4 million in 2018-19); and (2) the GPR portion of general wage adjustments for UW employees equal to those provided for other state employees in 2018-19 (\$15.8 million in 2018-19). According to the Executive Budget Book, the amounts provided are the net of the estimated costs of (1) and (2) above and anticipated savings to the UW System from the Joint Committee on Finance approving a contract to self-insure health care costs for state employees (-\$9.9 million in 2017-18 and -\$19.7 million in 2018-19). The bill specifies that the Board of Regents could not request any funds from the state's compensation reserve during the 2017-19 biennium to fund compensation and fringe benefit costs.

DISCUSSION POINTS

1. The Governor's budget would increase the UW System's GPR general program operations appropriation ("GPR block grant") by \$15,794,500 GPR in 2018-19 to fund the GPR

portion of a 2% increase in the salaries of all UW employees on September 30, 2018, and an additional 2% increase in the salaries of all UW employees on May 26, 2019. Under a separate provision, the Governor's budget would provide \$15,431,200 GPR in the compensation reserve in 2018-19 to fund 2% salary increases for all other state employees on September 30, 2018, and May 26, 2019.

2. The Department of Administration (DOA) estimated the cost of providing salary increases for all UW employees using the UW System's October, 2014, payroll. Based on additional payroll data provided by the UW System, it is estimated that the GPR portion of the cost of providing 2% salary increases to all UW employees on September 30, 2018, and May 26, 2019, would be \$15,538,800 in 2018-19, or \$255,700 less than the amount provided for this purpose under the Governor's budget. The Committee could reduce the amount provided for this purpose by \$255,700 GPR in 2018-19 and still fund the GPR portion of the salary increases proposed by the Governor.

3. Most of the UW System's GPR positions are funded with a combination of state GPR and tuition revenues. Historically, when the Legislature has approved salary increases for the UW System, GPR funding has been provided through the state's compensation reserves to fund the GPR portion of the salary increases and the Board of Regents has increased tuition rates to generate the tuition portion of the salary increases. Based on payroll data provided by the UW System, it is estimated that providing 2% salary increases to GPR-funded UW employees on September 30, 2018, and May 26, 2019, would cost \$21,982,900 in 2018-19. As the Governor's budget would provide \$15,794,500 GPR in 2018-19, the Board of Regents would be responsible for funding the remaining \$6,188,400.

4. During its executive session on May 25, 2017, the Joint Committee on Finance adopted a motion that would continue the freeze on resident undergraduate tuition in 2017-18 and 2018-19. As resident undergraduate tuition will be frozen in 2018-19, the UW System would not be able to generate the additional tuition revenue necessary to fund the proposed salary increases. As an alternative, the Committee could provide an additional \$6,188,900 through the UW System's GPR block grant to fund the tuition portion of the proposed salary increases. (It is estimated that a 0.8% increase in base tuition charged to all students in 2018-19 would have generated the additional tuition revenue required to fund these costs.)

5. Under the Governor's proposal, salary increases for UW employees would take effect on September 30, 2018, and May 26, 2019. Because the salary increases would be implemented part way through the state's fiscal year, the full cost of the proposed salary increases would not be incurred until the 2019-20 fiscal year. While the bill provides \$15,794,500 GPR in 2018-19 to fund the GPR portion of the proposed salary increases in that year, the total cost of the GPR portion of those salary increases would be \$37,476,600 in 2019-20. It is anticipated that the UW System will request the difference between the GPR amount provided for the salary increases in 2018-19 and the full, annualized GPR cost of the salary increases (\$21,682,100) as part of its standard budget adjustments in the 2019-21 biennial budget.

6. In December, 2016, the Board of Regents approved a pay plan request for all UW employees, including UW-Madison employees, of 2% in 2017-18 and 2% in 2018-19. The Regents

requested that these increases be fully funded through the state's compensation reserve. The Regents' request did not specify whether the requested increases would be distributed on an across-the-board basis or through some alternate method. At the time, it was estimated that these salary and variable fringe benefit increases could cost approximately \$78 million GPR over the biennium (\$26 million in 2017-18 and \$52 million in 2018-19).

7. The Regents supported their request with data from the College and University Professionals Association for Human Resources. That data showed that salary increases for employees at public colleges and universities averaged 2% in each year from 2011-12 to 2015-16. In total, average salaries at public institutions increased by 10.4% over that time period. By comparison, JCOER approved 1% salary increases for all state workers in 2013-14 and 2014-15 and no increases during the 2011-13 or 2015-17 biennia.

8. The Board of Regents has the authority to adjust employee salaries outside of the approved pay plan to correct salary inequities, fund job reclassifications or promotions, recognize competitive factors and, beginning in the current biennium, to recognize merit. These salary adjustments must be funded by the institutions using their base resources. According to reports provided to the Regents, salary adjustments provided for reasons other than promotions, title changes, and changes in duties, totaled 0.5% of base payroll in 2011-12, 1.2% of base payroll in 2012-13, 1.8% in 2013-14, 0.9% in 2014-15, and 0.9% in 2015-16. When these increases are considered, average salaries at UW institutions increased by 7.5% from 2011-12 to 2015-16, compared to 10.4% for employees at all public institutions over the same time period, and salaries increased by an average of 1.5% annually compared to 2% at all public institutions. It should be noted that only a fraction of UW employees receive base salary adjustments in any year. Excluding salary increases for promotions, title changes, and changes in duty, 18.5% of UW employees received a base salary adjustment in 2015-16. As these base adjustments must be funded through institutional reallocations, the percentage of employees who receive base adjustments and the amount of those adjustments vary significantly by institution. By contrast, the pay plan approved by JCOER provides additional funding for salaries to all UW institutions.

9. The Board of Regents has consistently identified faculty compensation as a key concern. UW leaders have indicated that the comparatively low salaries offered by UW institutions can make recruitment and retention of faculty difficult, especially for those in high-demand fields. The table below shows the difference between average UW faculty salaries and faculty salaries at peer institutions in 2014-15. This data was included in the materials provided to the Regents when they considered the resolution related to their pay plan recommendation.

**Difference Between Average UW Faculty Salaries and
Faculty Salaries at Peer Institutions, 2014-15**

	<u>Adjusted for Cost of Living</u>	<u>Unadjusted</u>
Madison	-18.3%	-8.4%
Milwaukee	-10.2	-11.4
Comprehensives	-20.8	-16.2
UW Colleges	-18.3	-8.4
UW-Extension	-27.9	-10.4

Source: UW Board of Regents materials, December, 2016.

10. In addition to the funding provided for the proposed salary increases for all UW employees, the Committee could provide additional funding to address faculty salary issues. It is estimated that a 1% increase in GPR-funded faculty salaries, beginning on July 1, 2018, would cost \$5.2 million GPR in 2018-19 if fully funded with state GPR.

11. Under the bill, funding for the GPR portion of the proposed salary increases would be provided through the UW System's GPR block grant. Consistent with this, the bill would prohibit the UW System from requesting any funds from the state's compensation reserve during the 2017-19 biennium to fund compensation and fringe benefit costs. However, the UW System's pay plan would still be subject to approval by the Joint Committee on Employment Relations (JCOER) and the Governor. As an alternative, the Committee could permit the Board of Regents to approve a pay plan for UW System employees. This pay plan would be funded by the GPR provided by the bill to fund the GPR portion of the proposed salary increases and any other resources available to the Regents. This change could allow the Regents to address salary issues within the UW System that are different than those experienced by other state agencies. While JCOER approved a separate pay plan for UW faculty and academic staff through the 2013-15 biennium and has approved a separate pay plan for all UW employees beginning in the 2015-17 biennium, the salary increases provided in those pay plans have generally been the same as the salary increases provided for all other state employees.

12. As part of their 2015-17 biennial budget request, the Board of Regents requested that the Board and the UW-Madison Chancellor be granted the authority to approve compensation plans for all UW employees. Under the Regents' proposal, general wage adjustments for UW employees would continue to be funded through the state's compensation plan. The Board did not include a similar request in their 2017-19 biennial budget request.

13. DOA estimates that the GPR portion of fringe benefit costs for UW System employees will increase by \$10.0 million in 2017-18 and by \$15.4 million in 2018-19. These increases are based on estimates of increases in health insurance costs, the amounts required to repay the UW System's portion of pension obligation bonds, the repeal of the tax on health care premiums under the Affordable Care Act, the repeal of a current law that allows the domestic partners of state employees to receive health insurance benefits, the estimated number of UW employees who will

opt into a high-deductible health plan, and other factors. DOA further estimates that if the Joint Finance Committee approves a contract to self-insure for state employee health benefits beginning in calendar year 2018, the GPR portion of the UW System's fringe benefit costs would decrease by \$9.9 million in 2017-18 and \$19.7 million in 2018-19. Separate budget papers address the self-insurance contracts, health insurance inflation, the repeal of the tax on health care premiums under the Affordable Care Act, and the repeal of a current law that allows the domestic partners of state employees to receive health insurance benefits.

14. In fiscal year 2015-16, fringe benefit expenditures for UW System positions funded with state GPR and tuition revenues were \$38.8 million less than initially budgeted. According to UW System staff, these savings were the result of an increase in vacant positions due to the \$125 million GPR base budget reduction in that year and changes in the health insurance program that became effective in January, 2016. These savings were attributable to tuition revenues which had been allocated to fund anticipated increases in fringe benefits costs, not state GPR. These savings were distributed to the institutions based on a number of factors, including the proportion of the savings that were generated by each institution, the difference in average compensation at the institution and at peer institutions, the program revenue balances held by the institution, and the size of the institution. It is estimated that fringe benefit expenditures for UW System positions funded with state GPR and tuition revenues could be \$26 million less than initially budgeted in the current fiscal year. UW System staff have indicated that the majority of these funds will be distributed to the institutions and that a portion of the funding will be retained by UW System Administration to support activities related to the UW System's newly adopted strategic plan, known as 2020FWD.

15. DOA estimated increases in health insurance costs for UW employees, which account for most of the estimated increase in fringe benefit costs, using an estimate of actual health insurance costs for calendar year 2016 which reflect the savings described above. However, if there is concern that fringe benefit costs for UW employees may continue to decrease and that the GPR amount provided in the budget may exceed actual increases in the GPR portion of fringe benefit costs during the 2017-19 biennium, the Committee could transfer funding provided in the UW System's GPR block grant for increases in fringe benefit costs to the state's compensation reserve and permit the Board of Regents to request pay plan supplements during the biennium. Under this alternative, the UW System would receive additional funding in the 2017-18 and 2018-19 fiscal years based on its actual fringe benefit costs, instead of based on DOA's estimates of future costs. In this scenario, if the GPR portion of fringe benefit expenditures were less than estimated, the savings would accrue to the state, not the UW System. Conversely, if the Committee wishes to limit the amount of additional GPR provided for fringe benefit costs for UW System employees, the Committee could approve the Governor's proposal. In this case, the UW System would be responsible for funding any increases in the GPR portion of fringe benefit costs above the amounts estimated by DOA. If actual fringe benefit cost increases are less than estimated, the UW System would retain the additional funding provided.

16. The UW System President has requested that funding for UW compensation and fringe benefit increases be provided through the state's compensation reserve, not through the UW System's GPR general program operations appropriation. Under this alternative, the UW System's GPR general program operations appropriation would be decreased by \$126,500 in 2017-18 and

\$11,517,900 in 2018-19. The amounts provided in the state's compensation reserve would be determined by decisions made by the Committee regarding self-insurance, reestimates of health insurance inflation, negotiation savings, reestimate savings from the repeal of the tax on health care premiums under the Affordable Care Act, and use of reserve funds (separate paper).

17. As an alternative, the bill could be modified to allow the Board of Regents to continue to request funding for fringe benefit costs from the compensation reserve while permitting the Regents to approve pay plans for UW employees, which would be funded with moneys provided through the UW System's general program operations appropriation and other available resources. Under this alternative, funding provided to the UW System for estimated increases in fringe benefit costs could be transferred to the compensation reserve. The bill provides \$126,500 GPR in 2017-18 and -\$2,208,400 GPR in 2018-19 to the UW System to fund estimated changes in fringe benefit costs and variable fringe costs associated with the proposed salary increases in 2018-19. These amounts include the increase in fringe benefit costs associated with the proposed salary increases and are net of the estimated savings resulting from the proposed self-insurance contract. The funding provided for the proposed salary increases, less the variable fringe, would remain in the UW System GPR general programs operations and current law would be modified to allow the Board of Regents, instead of JCOER, to approve pay plans for UW employees. This alternative would provide the UW System with full funding of the GPR portion of the proposed salary increases and increase the Regents' authority to determine salary increases for UW employees while also allowing the UW System to access the funding provided for fringe benefit increases for non-UW employees during the 2017-19 biennium. It should be noted that the bill would provide minimal funding for fringe benefit cost increases for non-UW employees if the self-insurance contract were to be approved.

ALTERNATIVES

A. Funding for Salary Increases

1. Approve the Governor's recommendation.
2. Modify the Governor's recommendation to reduce the amount provided for salary increases in 2018-19 by \$255,700 GPR. The total amount that would be provided for salary increases in 2018-19 would be \$15,538,800 GPR, which is the estimated amount of funding required to fund the GPR portion of the proposed increase based on the UW System's October, 2016, payroll base.

ALT A2	Change to	
	Base	Bill
GPR	\$15,538,800	- \$255,700

3. Modify the Governor's recommendation to provide an additional \$6,188,400 in 2018-19 to fund the tuition portion of the proposed salary increases. (This amount is net of the reestimate in Alternative 2.) This would be consistent if resident undergraduate tuition is frozen in the 2018-19

year. (This amount could be reduced by \$3,032,500 if the self-insurance contract is approved.)

ALT A3	Change to	
	Base	Bill
GPR	\$6,188,400	\$6,188,400

4. Modify the Governor's recommendation to provide \$25,815,000 GPR in 2017-18 and \$36,779,900 GPR in 2018-19 to fully fund 2% salary increases for UW employees in the beginning of the 2017-18 and 2018-19 fiscal years. This alternative is consistent with the pay plan recommendations approved by the Regents in December, 2016.

ALT A4	Change to	
	Base	Bill
GPR	\$78,389,400	\$62,594,900

5. In addition to Alternatives 1, 2, or 3, provide additional funding to the UW System in 2018-19 to address faculty salary issues. Provide an amount equal to:

a. 1% of GPR/fees faculty salaries, beginning on July 1, 2018.

ALT A5a	Change to	
	Base	Bill
GPR	\$5,172,600	\$5,172,600

b. 2% of GPR/fees faculty salaries, beginning on July 1, 2018.

ALT A5b	Change to	
	Base	Bill
GPR	\$10,345,200	\$10,345,200

c. 3% of GPR/fees faculty salaries, beginning on July 1, 2018.

ALT A5c	Change to	
	Base	Bill
GPR	\$15,517,800	\$15,517,800

6. Delete provision.

ALT A6	Change to	
	Base	Bill
GPR	\$0	- \$15,794,500

B. Pay Plan Approval

1. Authorize to Board of Regents to approve a pay plan for all UW System employees. Delete current law requiring the Administrator of the Division of Personnel Management under DOA to submit a proposed pay plan for UW System employees to the Joint Committee on Employment Relations (JCOER) and language regarding approval of that proposal by JCOER and the Governor.
2. Retain current law.

C. Compensation Reserve

1. Approve the Governor's recommendation to prohibit the Board of Regents from requesting funds from the state's compensation reserve during the 2017-19 biennium to fund compensation and fringe benefit costs. Approve the Governor's recommendation to provide funding for increases in salary and fringe benefit costs for UW employees through the UW System's GPR general program operations appropriation instead of the state's compensation reserve.
2. Modify the Governor's recommendation to permit the Board of Regents to request funds from the state's compensation reserve during the 2017-19 biennium to fund fringe benefit costs only. Reduce the amount provided in the UW System's GPR general program operations appropriation by \$126,500 in 2017-18 and increase that amount by \$2,208,400 in 2018-19. The amounts provided in the state's compensation reserve would be determined by decisions made by the Committee regarding self-insurance, reestimates of health insurance inflation, negotiation savings, reestimate savings from the repeal of the tax on health care premiums under the Affordable Care Act, and use of reserve funds (separate paper).
3. Delete the provision, which would allow the Board of Regents to request funds from the state's compensation reserve during the 2017-19 biennium to fund compensation and fringe benefit costs. Reduce the amounts provided in the UW System's GPR general program operations appropriation by \$126,500 in 2017-18 and \$11,517,900 in 2018-19. The amounts provided in the state's compensation reserve for UW System salary and fringe benefit increases would be determined by decisions made by the Committee regarding UW System compensation (alternatives A.1. through A.6.), self-insurance, reestimates of health insurance inflation, negotiation savings, reestimate savings from the repeal of the tax on health care premiums under the Affordable Care Act, and use of reserve funds (separate paper).

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