

BUDGET MANAGEMENT AND COMPENSATION RESERVES

Budget Change Items

1. REQUIRED GENERAL FUND STRUCTURAL BALANCE [LFB Paper 174]

Joint Finance: Provide that s. 20.003(4m) of the statutes, which requires that no bill may be passed by the Legislature if the bill would cause estimated general fund expenditures to exceed estimated revenues in the second year of the biennium, would not apply to the action of the Legislature in adopting any legislation during the 2019-20 legislative session.

2. COMPENSATION RESERVES [LFB Papers 170, 171, 172, 173, and 285]

Governor: Provide, in the 2019-21 general fund condition statement, total compensation reserves of \$55,174,300 in 2019-20 and \$211,067,000 in 2020-21 for cost increases related to state and UW System employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table.

<u>Fund Source</u>	<u>2019-20</u>	<u>2020-21</u>
General Purpose Revenue	\$24,886,600	\$94,358,600
Federal Revenue	8,245,500	31,849,400
Program Revenue	17,062,100	66,896,100
Segregated Revenue	<u>4,980,100</u>	<u>17,962,900</u>
Total	\$55,174,300	\$211,067,000

The GPR and all funds compensation reserve amounts under the bill related to state and UW System employee fringe benefits include the following: (a) \$2,876,100 GPR (\$6,598,900 all funds) in 2019-20 and \$17,841,100 GPR (\$40,932,300 all funds) in 2020-21 to support prior period and inflationary increases for fringe benefits; (b) -\$6,456,700 GPR (-\$14,691,500 all funds) in 2019-20 and -\$8,694,700 GPR (-\$19,855,100 all funds) in 2020-21 associated with savings from the state's high deductible health care plan; (c) -\$1,530,600 GPR (-\$3,458,700 all funds) in 2019-20 and -\$2,640,700 GPR (-\$5,967,000 all funds) in 2020-21 associated with 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; and (d) -\$102,600 GPR (-\$234,300 all funds) in 2019-20 and -\$205,000 GPR (-\$468,200 all funds) in 2020-21 associated with savings from additional health insurance opt-outs that could result from a modification to an exclusion of employees who opted out of the state's health insurance coverage in 2015 from receiving annual opt-out incentive payments. [For additional information regarding the proposed modification to the 2015 opt-out incentive exclusion, see "Employee Trust Funds."]

The GPR and all funds compensation reserve amounts under the bill related to salaries for

employees include the following: (a) \$20,448,300 GPR (\$47,305,800 all funds) in 2019-20 and \$61,705,600 GPR (\$142,765,200 all funds) in 2020-21 intended to support a 2% general wage adjustment (GWA) for state and UW System employees on January 1, 2020, as well as another 2% general wage adjustment for state and UW System employees on January 1, 2021; (b) \$3,602,100 GPR (\$7,334,800 all funds) in 2019-20 and \$20,160,900 GPR (\$41,052,600 all funds) in 2020-21 to institute a new pay progression system that is intended to increase the starting hourly wage for correctional officers and sergeants, youth counselors/advanced, and psychiatric care technicians/advanced as well as to reduce pay compression issues between levels (such as officers and sergeants) and improve pay at all years of service for individuals in these positions at the Department of Corrections and Department of Health Services; (c) \$6,050,000 GPR (\$12,319,300 all funds) annually to support market wage and parity adjustments for state employees in the classified service; (d) \$93,300 GPR (\$190,000 all funds) in 2020-21 to support an increase of minimum starting pay for all non-UW executive branch employees to \$15 per hour by January 1, 2021; and (e) \$48,100 GPR (\$97,900 all funds) in 2020-21 to institute a pay progression system for the professional forensic science staff at the State Crime Labs in the Department of Justice to address recruitment and retention issues. As a result of instituting a pay progression system for crime laboratory positions, individuals in those positions would not be eligible for the second general wage adjustment. Funding for the GWA was reduced accordingly in 2020-21.

With regard to the 2% general wage adjustments for state and UW System employees, amounts in compensation reserves include general wage adjustments on January 1, 2020, and January 1, 2021, for state legislators, constitutional officers, judges and justices, assistant and deputy district attorneys, assistant state public defenders, assistant and deputy attorneys general, elected district attorneys, and staff of the Legislature and the Courts. The Department of Justice is also authorized under current law to utilize existing resources to support annual salary increases for assistant attorneys general under a pay progression plan. It should be noted that state legislators and elected district attorneys would become eligible for a pay increase under the Wisconsin State Constitution when assuming office in January, 2021. Elected officials qualifying for any increased salary amounts at that time would generally be those elected in November, 2020. Additionally, constitutional officers may not receive a salary modification until the officer completes his or her current term of office. The State Superintendent would be eligible for a pay increase when assuming office in July, 2021, while other constitutional officers would be eligible for a pay increase in January, 2023. Further, it should be noted that additional funding for salary increases for assistant and deputy district attorneys and assistant state public defenders is provided separately elsewhere in the budget. Information relating to these increases may be found under sections of this document for "District Attorneys" and "Public Defender."

Generally, compensation reserves represent reserves 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 the individual agency budgets as a part of the biennial budget. The reserve funds are not allocated at the time of budget development to individual agencies because neither the amount of any salary or fringe benefit cost increases, nor the specific amount of funding needed by each individual agency, is known at the time of budget development. Typically, amounts within compensation reserves are funds to pay for: (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; (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.

Joint Finance: Modify amounts provided in 2019-21 for compensation reserves by -\$26,679,700 in 2019-20 and \$431,100 in 2020-21. As a result, compensation reserves would total \$28,494,600 in 2019-20 and \$211,498,100 in 2020-21. Total compensation reserves, as modified by the Joint Committee on Finance, are identified by fund source in the following table.

**Compensation Reserves, By Fund Source,
As Modified by the Joint Committee on Finance**

<u>Fund Source</u>	<u>2019-20</u>	<u>2020-21</u>
General Purpose Revenue	\$13,351,800	\$94,545,400
Federal Revenue	4,077,100	31,916,600
Program Revenue	7,850,100	67,044,100
Segregated Revenue	<u>3,215,600</u>	<u>17,992,000</u>
Total	\$28,494,600	\$211,498,100

Delete the provision associated with savings from additional health insurance opt-outs that could result from a modification to an exclusion of employees who opted out of the state's health insurance coverage in 2015 from receiving annual opt-out incentive payments and restore funding of \$102,600 GPR (\$234,300 all funds) in 2019-20 and \$205,000 GPR (\$468,200 all funds) in 2020-21.

Reestimate funding for fringe benefits by -\$13,629,300 GPR (-\$30,969,900 all funds) in 2019-20 to reflect a reduction in agency assessments for pension obligation bond payments. Further, direct that the Group Insurance Board, in consultation with the Department of Administration's Division of Personnel Management, make modifications to the high deductible health plan to realize state employer savings of \$14,691,500 (all funds) in 2019-20 and \$19,855,100 (all funds) in 2020-21, as estimated in the Governor's recommended budget.

Reestimate funding for two general wage adjustments of 2% each on January 1, 2020, and January 1, 2021, for state and UW System employees by -\$870,600 GPR (-\$1,772,800 all funds) in 2019-20 and -\$2,033,200 GPR (-\$4,140,100 all funds) in 2020-21. Reduce funding for market wage and parity adjustments by \$4,050,000 GPR (\$8,246,800 all funds) annually.

Delete \$93,300 GPR (\$190,000 all funds) in 2020-21 associated with a provision to increase minimum starting pay for all non-UW executive branch employees to \$15 per hour by January 1, 2021. [The Division of Personnel Management would not be prohibited from including the minimum pay proposal in the 2019-21 state compensation plan, subject to Joint Committee on Employment Relations approval, if it determined the proposal could be implemented without additional funding.]

Increase funding for the pay progression system for correctional officers/sergeants, youth counselors/advanced, and psychiatric care technicians/advanced by \$6,599,500 GPR (\$13,438,200 all funds) in 2019-20 and \$5,443,400 GPR (\$11,084,000 all funds) in 2020-21 to support an hourly increase of \$1.66 for correctional officers, youth counselors, and psychiatric care technicians and to increase pay for correctional sergeants, youth counselors-advanced, and psychiatric care technicians-advanced in a manner similar to the administration's proposal, effective January 1, 2020. Specify that employees at institutions with a \$5 per hour add-on in effect would be ineligible to receive the increase until 2020-21.

Provide \$313,000 GPR (\$637,300 all funds) in 2019-20 and \$714,900 GPR (\$1,455,800 all funds) in 2020-21 for a long-term service award program administered for all protective service positions of the Department of Corrections and the Department of Health Services through the 2019-21 state compensation plan beginning January 1, 2020. One-time lump sum awards (bonuses) would be provided under the program as follows: (a) after completion of 10 years of service, \$250; (b) after completion of 15 years of service, \$500; (c) after completion of 20 years of service, \$750; and (d) after completion of 25 years of service and every five years thereafter, \$1,000.

The following table identifies the components of the compensation reserves calculation, as recommended by the Governor, as well as the modifications made by the Joint Committee on Finance.

**GPR and All-Funds Compensation Reserves Components,
as Modified by the Joint Committee on Finance**

	<u>Governor</u>			<u>Joint Finance Modifications</u>			<u>Compensation Reserves Total</u>		
	<u>2019-20</u>	<u>2020-21</u>	<u>2019-21 Biennium</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2019-21 Biennium</u>	<u>2019-20</u>	<u>2020-21</u>	<u>2019-21 Biennium</u>
Prior Period and Inflationary Increases for State									
Employee Fringe Benefits	\$2,876,100	\$17,841,100	\$20,717,200	-\$13,629,300	\$0	-\$13,629,300	-\$10,753,200	\$17,841,100	\$7,087,900
General Wage Adjustments	20,448,300	61,705,600	82,153,900	-870,600	-2,033,200	-2,903,800	19,577,700	59,672,400	79,250,100
Correctional Officers Pay Plan	3,602,100	20,160,900	23,763,000	6,599,500	5,443,400	12,042,900	10,201,600	25,604,300	35,805,900
Market Wage and Parity Adjustments	6,050,000	6,050,000	12,100,000	-4,050,000	-4,050,000	-8,100,000	2,000,000	2,000,000	4,000,000
Long-Term Service Award Program	0	0	0	313,000	714,900	1,027,900	313,000	714,900	1,027,900
Minimum Pay Increase to \$15 per Hour	0	93,300	93,300	0	-93,300	-93,300	0	0	0
Crime Lab Pay Progression	0	48,100	48,100	0	0	0	0	48,100	48,100
High Deductible Health Care Plan Savings	-6,456,700	-8,694,700	-15,151,400	0	0	0	-6,456,700	-8,694,700	-15,151,400
Opt-Out Incentive Savings	-1,530,600	-2,640,700	-4,171,300	0	0	0	-1,530,600	-2,640,700	-4,171,300
2015 Opt-Out Exclusion Repeal Savings	<u>-102,600</u>	<u>-205,000</u>	<u>-307,600</u>	<u>102,600</u>	<u>205,000</u>	<u>307,600</u>	<u>0</u>	<u>0</u>	<u>0</u>
Compensation Reserves Total - GPR	\$24,886,600	\$94,358,600	\$119,245,200	-\$11,534,800	\$186,800	-\$11,348,000	\$13,351,800	\$94,545,400	\$107,897,200
Compensation Reserves Total - All Funds	\$55,174,300	\$211,067,000	\$266,241,300	-\$26,679,700	\$431,100	-\$26,248,600	\$28,494,600	\$211,498,100	\$239,992,700