Budget Management and Compensation Reserves

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May, 2019 | Joint Committee on Finance | Paper #170

Compensation Reserves Overview and Fringe Benefit Costs (Budget Management and Compensation Reserves)

[LFB 2019-21 Budget Summary: Page 54, #1]

CURRENT LAW

For the 2017-19 biennium, all funds compensation reserves total $6,818,700 in 2017-18 ($3,080,500 GPR and $3,738,200 other funds) and $117,167,500 in 2018-19 ($52,081,600 GPR and $65,085,900 other funds). These funds are reserved for cost increases related to state and University of Wisconsin (UW) System employee salaries and fringe benefits.

GOVERNOR

Provide, in the 2019-21 general fund condition statement, total compensation reserves of $55,174,300 in 2019-20 ($24,886,600 GPR and $30,287,700 other funds) and $211,067,000 in 2020-21 ($94,358,600 GPR and $116,708,400 other funds) for cost increases related to state and UW System employee salaries and fringe benefits. Compensation reserve amounts by fund source and fiscal year are shown in Table 1.

TABLE 1

Compensation Reserves Under the Bill, By Fund Source

Fund Source	2019-20	2020-21
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	4,980,100	17,962,900
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, as shown in Table 2, 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. [A separate budget paper addresses the proposed modification to the 2015 opt-out incentive exclusion under "Employee Trust Funds."]

TABLE 2

GPR Compensation Reserves for Fringe Benefit-Related Expenses

	2019-20	2020-21
Fringe Benefits-Related		
Prior Period and Inflationary Increases for State Employee Fringe Benefits	$2,876,100	$17,841,100
High Deductible Health Care Plan Savings	-6,456,700	-8,694,700
Opt-out Incentive Savings (Current Law)	-1,530,600	-2,640,700
2015 Opt-Out Exclusion Modification Savings	-102,600	-205,000
Total	- $5,213,800	$6,300,700

DISCUSSION POINTS

Overview of Compensation Reserves

1. 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.

2. In the 2019-21 biennium, to the extent necessary, costs of unbudgeted pay and fringe benefit adjustments would be funded from the compensation reserves under the pay plan supplementation process. Under the pay plan supplementation process, 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 fringe benefit costs such as 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.

3. 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 plans for compensation. However, the actual fiscal impact of "releasing" funds from these indicated reserves is different between GPR funds and any 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 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 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 to that account or fund and the expenditures of those revenues may be made only for the purposes authorized for that account or fund.

4. 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 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.

5. The review of compensation reserves, therefore, usually focuses on GPR funding amounts. Given these factors, this paper and other budget papers addressing amounts budgeted to compensation reserves will focus primarily on projections for the GPR share of compensation reserves. As indicated in Table 1, GPR compensation reserves under the bill for state agencies, including the UW System, total $24,886,600 GPR in 2019-20 and $94,358,600 GPR in 2020-21. Table 3 identifies the various components of the net compensation reserve calculation, as a portion of total GPR compensation reserves under the bill.

TABLE 3

GPR Compensation Reserves for State and UW System Employees

	2019-20	2020-21
Fringe Benefits-Related		
Prior Period and Inflationary Increases for State Employee Fringe Benefits	$2,876,100	$17,841,100
High Deductible Health Care Plan Savings	-6,456,700	-8,694,700
Opt-out Incentive Savings (Current Law)	-1,530,600	-2,640,700
2015 Opt-Out Exclusion Modification Savings	-102,600	-205,000
Subtotal	- $5,213,800	$6,300,700
Salary-Related		
General Wage Adjustments	20,448,300	61,705,600
Market Wage and Parity Adjustments	6,050,000	6,050,000
Minimum Pay Increase to $15 per Hour	0	93,300
Correctional Positions Pay Progression	3,602,100	20,160,900
Crime Lab Positions Pay Progression	0	48,100
Subtotal	$30,100,400	$88,057,900
Grand Total	$24,886,600	$94,358,600

6. This paper addresses amounts budgeted under compensation reserves for fringe benefit cost increases, net of estimated fringe benefit cost savings under current law. Separate budget papers have been prepared for the following provisions: (a) reserves for general salary-related provisions, including general wage adjustments, market wage and parity adjustments, and a proposed increase in hourly starting wage for non-UW executive branch employees to at least $15; (b) a pay progression system for certain correctional security positions; (c) a pay progression system for professional forensic science staff of the Crime Labs; and (d) savings from additional health insurance opt-outs that could result from a statutory 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. [In executive action by the Committee on May 14, 2019, the Committee did not adopt the proposed opt-out exclusion modification.]

Fringe Benefits

7. Table 4 summarizes the component parts of current law fringe benefit cost increases and decreases budgeted to compensation reserves. Estimated GPR cost savings in 2019-20 are approximately $5.1 million greater than estimated cost increases. The net result of the estimates would be to offset a portion of cost increases funded under compensation reserves in 2019-20 for salary-related provisions. Fringe benefit cost increases funded from GPR are anticipated to exceed estimated cost savings in 2020-21 by approximately $6.5 million. Net funding over the 2019-21 biennium for these components would total $1,394,500 GPR.

TABLE 4

GPR Compensation Reserves for Current Law Fringe Benefit-Related Expenses

	2019-20	2020-21	Biennium
Prior Period and Inflationary Increases for State Employee Fringe Benefits	$2,876,100	$17,841,100	$20,717,200
High Deductible Health Care Plan Savings	-6,456,700	-8,694,700	-15,151,400
Opt-out Incentive Savings (Current Law)	-1,530,600	-2,640,700	-4,171,300
Total	-$5,111,200	$6,505,700	$1,394,500

8. Amounts budgeted for prior period and inflationary increases include the employer share of premium costs in the forthcoming fiscal biennium for state employee health insurance, the employer share of contributions to the state retirement fund for employees' future state retirement benefits, 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.

9. Estimated savings identified in Table 4 are associated with anticipated increases in the number of employees who elect health care coverage under a high deductible health plan as well as increases in the number of employees who elect not to receive health care coverage and instead apply to receive a $2,000 annual opt-out stipend.

10. This office has reviewed the calculations utilized to estimate the funding amounts shown in Table 4. With regard to the calculations utilized to estimate the prior period and inflationary costs increases and savings associated with employees opting out of the state's health insurance coverage under current law, the calculations appear reasonable.

Pension Appropriation Obligation Bond Payments

11. With regard to pension appropriation obligation bond debt service payments made by the state, agency fringe benefit rates include a component to account for agency assessments to fund these debt service payments. Fringe benefit rates for the 2019-21 biennium are based, in part, on the amount of the scheduled debt service payment to be made in 2019-20, as estimated when fringe benefit rates were developed for submission of agency budget requests in September, 2018. Budgeted allocations to compensation reserves include a calculation of the amount of funding that would be needed for the difference between the payment for 2019-20 (budgeted in fringe benefit rates) and the payment to be made in 2020-21. However, the amount of agency assessments needed to fund the 2019-20 payment has since been reestimated. As a result, funding to compensation reserves in 2019-20 could be adjusted to reflect the reduction in funds needed to make payments in 2019-20 from what was initially accounted for in agency fringe benefit rates. [The amount of the 2020-21 payment is not anticipated to change.] Following is a description of the appropriation from which pension obligation bond payments are made and an explanation of the reason for the reduction in assessments to state agencies for the 2019-20 payment.

12. The annual debt service payments on the pension appropriation obligation bonds are payable from a GPR appropriation in the amounts appropriated by the Legislature each year. The required appropriation level equals the maximum possible payment that could be made in a given year under the debt structure associated with these obligations and all ancillary agreements related to the obligations. The indenture for the pension appropriation obligation bonds requires that the annual appropriation amount include amounts that would be payable on bonds issued at a maximum variable rate of 35%. As a result, the annual budgeted GPR amounts are partially offset by lapses from the appropriation since the actual debt service obligations and related agreements may be lower than the amounts required to be appropriated.

The indenture for the pension appropriation obligation bonds requires the creation of a stabilization fund with a required minimum balance of $32.9 million. The stabilization fund was established due to the large amount of variable rate obligations initially issued under the indenture in 2003. The purpose of the required minimum fund balance was to make up for any potential shortfall of funds upon deposit in the indenture for payment of debt service or other required payments.

In 2018, the amount of variable rate exposure under the indenture was minimal. Therefore, with rating agencies' approvals and other confirmations and consents, the state amended the indenture to allow for a reduction to the required balance of the stabilization fund. As a result, funds were released from the stabilization fund and applied as provided in the indenture, resulting in approximately $31.7 million available for application towards a $169.9 million debt service payment for 2019-20.

13. The $31.7 million release from the stabilization fund, which is to be applied towards the debt service payment in 2019-20, will result in a reduction to state agency assessments of $13,629,300 GPR ($30,969,900 all funds). The remainder of the $31.7 million reduction ($768,500) is attributable to the UW Hospitals and Clinics Authority and Wisconsin Economic Development Corporation, which do not have authorized state agency positions for which fringe benefits would be budgeted through state agency appropriations and which are also not funded from compensation reserves. Therefore, $13,629,300 GPR could be subtracted from compensation reserves to reflect lower fringe benefit costs for state agencies in 2019-20.

High Deductible Health Plan

14. With regard to estimates of savings associated with the state's high deductible health care plan, upon further review it appears that the underlying cost to provide health care coverage through the high deductible health plan, as currently structured, is approximately equivalent to the cost to provide health care coverage through the more traditional plan design. While premium rates paid by the state for the high deductible health plan are lower than premiums for other more traditional plans available, state employees also currently qualify for an annual employer contribution to a health savings account of $750 for a single plan or $1,500 for a family plan. Accounting for the total cost of premiums and health savings account contributions, on average the costs per employee are approximately equal for the two plan types. Therefore, although the number of employees participating in the high deductible health plan has increased over the past several years, it is unlikely that the state will experience savings from participation in the plan as it is currently structured.

15. As noted above, pension obligation bond payments by agencies are expected to be lower than previously budgeted by $13,629,300 GPR ($30,969,900 all funds) in 2019-20. In addition, savings of $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 lower costs under the state's high deductible health care plan are unlikely to be achieved. Therefore, the Committee could make adjustments to compensation reserves totaling -$12,283,800 GPR in 2019-20 and $15,200,400 GPR in 2020-21 (a net of $1,522,100 for the biennium) to reflect these amounts and account for actual costs agencies may incur associated with fringe benefits as well as any salary-related provisions the Committee may choose to separately approve. [Alternative 1]

16. On the other hand, it may be possible for some savings associated with the high deductible health plan to be realized if the plan is modified. There are many ways in which a health plan design could be modified to lower employer costs. Determining the most appropriate means by which this could be accomplished may be challenging, and could benefit from analysis and recommendations from the consulting actuary to the Department of Employee Trust Funds and Group Insurance Board. Therefore, in addition to approving the Governor's adjustments to compensation reserves as initially recommended (including savings from the high deductible health plan) and reestimating pension obligation bond payments in 2019-20, the Committee could 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. Modifications to the plan design could include deductible amounts, copays, coinsurance, employee premiums, or the amount of the health savings account contribution. [Alternative 2]

17. If the Committee takes no action regarding current law fringe benefit cost increases and decreases budgeted to compensation reserves, and additionally provides funding to compensation reserves for other provisions, total funding provided to compensation reserves would be higher in 2019-20 and lower in 2020-21. Under this alternative, additional funds would be available in compensation reserves in 2019-20 and agencies would need to manage a portion of fringe benefit and salary cost increases within their appropriated budgets in 2020-21. [Alternative 3]

ALTERNATIVES

1. Approve the Governor's recommendation to provide adjustments to compensation reserves associated with fringe benefit cost increases, less savings estimated under current law from opt-out incentive stipend payments. Reestimate funding for fringe benefits to reflect a reestimate of pension obligation bond payments in 2019-20 and to eliminate high deductible health plan savings in both years of the biennium. Provide total funding adjustments of -$12,283,800 GPR in 2019-20 and $15,200,400 GPR in 2020-21.

ALT 1	**Change to**	
	Base	**Bill**
GPR	$2,916,600	$1,522,100

2. In addition to providing adjustments to compensation reserves as recommended by the Governor, reestimate pension obligation bond payments in 2019-20 to provide total adjustments of -$18,740,500 GPR in 2019-20 and $6,505,700 GPR in 2020-21. 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. [This alternative retains the Governor's assumed savings associated with high deductible health plans.]

ALT 2	**Change to**	
	Base	**Bill**
GPR	- $12,234,800	- $13,629,300

3. Take no action.

ALT 3	**Change to**	
	Base	**Bill**
GPR	$0	- $1,394,500

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May, 2019 | Joint Committee on Finance | Paper #171

Reserves for General Salary-Related Provisions (Budget Management and Compensation Reserves)

[LFB 2019-21 Budget Summary: Page 54, #1]

CURRENT LAW

For the 2017-19 biennium, all funds compensation reserves total $6,818,700 in 2017-18 ($3,080,500 GPR and $3,738,200 other funds) and $117,167,500 in 2018-19 ($52,081,600 GPR and $65,085,900 other funds). These funds are reserved for cost increases related to state and University of Wisconsin (UW) System employee salaries and fringe benefits. Amounts in compensation reserves in the 2017-19 biennium include funding for two general wage adjustments of 2%, both provided in 2018-19, as well as $2,100,000 GPR annually for market wage adjustments.

GOVERNOR

Provide to compensation reserves the following amounts associated with general state employee salary-related provisions: (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) $6,050,000 GPR ($12,319,300 all funds) annually to support market wage and parity adjustments for state employees in the classified service; and (c) $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. Funding amounts are summarized in Table 1.

TABLE 1

GPR Compensation Reserves for General Salary-Related Provisions

	2019-20	2020-21
General Wage Adjustments	$20,448,300	$61,705,600
Market Wage and Parity Adjustments	6,050,000	6,050,000
Minimum Pay Increase to $15 per Hour	0	93,300
Total	$26,498,300	$67,848,900

DISCUSSION POINTS

1. This paper addresses amounts budgeted under compensation reserves for general salary-related provisions not targeted to specific position classifications. Separate budget papers have been prepared for the following provisions also budgeted under compensation reserves: (a) fringe benefit cost increases, net of estimated fringe benefit cost savings under current law; (b) a pay progression system for certain correctional security positions; (c) a pay progression system for professional forensic science staff of the State Crime Labs; and (d) savings from additional health insurance opt-outs that could result from a statutory 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.

General Wage Adjustments

2. Amounts in compensation reserves include two general wage adjustments of 2% each on January 1, 2020, and January 1, 2021, for state and UW System employees. Combined, these increases represent a 4.04% general wage increase for employees over the 2019-21 biennium. With regard to the timing and amount of the pay increases, the administration indicates the dates of implementation "strike a balance between providing competitive pay increases and moderating the costs by providing the increases halfway through each fiscal year."

3. Both the Department of Administration and the UW System Board of Regents point to research by consulting firms that shows employers in general, including the educational institutions considered to be salary peers of the UW-Madison, have on average provided 3% annual wage increases over the eight years (3.0% for employees generally, 3.0% for peer institution faculty, and 2.1% for peer institution staff). Table 2 summarizes the research on pay increases presented by the administration and the Board of Regents.

TABLE 2

Comparison of Compensation Increases, 2011 - 2018

Calendar Year	U.S. Average Salary Budget Increases	Fiscal Year	UW-Madison salary Peers Average Compensation Increases Faculty	Staff
2011	2.8%	2010-11	2.5%	1.5%
2012	2.8	2011-12	2.9	2.0
2013	2.9	2012-13	2.6	1.9
2014	3.0	2013-14	3.0	2.3
2015	3.0	2014-15	3.2	2.4
2016	3.0	2015-16	3.1	2.4
2017	3.0	2016-17	3.1	2.2
2018	3.1	2017-18	3.3	2.4
Eight-Year Average	3.0%		3.0%	2.1%

4. Over a similar period, the State of Wisconsin has provided lower wage increases with less frequency. Therefore, the administration argues that general wage adjustments of 2% are recommended as "a moderate measure to maintain competitiveness" as an employer. Table 3 summarizes the general wage adjustments provided to state employees and percentage change in the consumer price index for all urban consumers (CPI-U) from 2010-11 to 2018-19 (through March, 2019).

TABLE 3

General Wage Adjustments for State Employees and CPI-U Changes, 2010-11 to 2018-19

Fiscal Year	General Wage Adjustment	Consumer Price Index Change
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	1.8
2017-18	0.0	2.3
2018-19	4.0	1.7
Percent Change, FY 2010 to 2019	6.1%	16.4%

5. In reviewing Table 3, it should be noted that state employees may be eligible to receive salary increases separate from general wage adjustments, at the employer's discretion or the approval of the Division of Personnel Management (DPM) in DOA. For example, under the state's compensation plan certain employees may receive pay progression increases, discretionary merit compensation, equity or retention adjustments, and market wage and parity adjustments. In 2017-18, base pay and lump sum awards were provided to 5,269 state employees (out of 33,687.11 authorized positions, excluding the UW System, the Courts, and the Legislature) 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 may be supported by a state agency through the utilization of existing resources during the biennium in which the award is made or through a supplement request. In the subsequent biennium, standard budget adjustments would provide the agency any necessary funding to support employees' updated salary and fringe benefits costs.

6. In addition, non-retirement separations from state employment have been increasing since 2011-12, from just over 6% in 2011-12 to almost 10% in 2017-18. Over the same period, Wisconsin rates of unemployment have decreased from 7.4% in 2011-12 to 3.1% in 2017-18. As unemployment rates decrease, competition for a limited supply of workers between employers increases. As of March, 2019, the unemployment rate in Wisconsin is 2.9%. Table 4 summarizes state separation rates, by retirement and non-retirement separations, and unemployment rates in Wisconsin from 2010-11 to 2017-18.

TABLE 4

State Employee Separation Rates and Unemployment Rates in Wisconsin

	State Employee Separation Rates			
Fiscal Year	Non-Retirement Separations	Retirements	Total Separations	Wisconsin Rate of Unemployment
2010-11	3.9%	6.8%	10.7%	8.1%
2011-12	6.1	4.5	10.6	7.4
2012-13	6.1	2.9	9.0	6.9
2013-14	6.8	3.1	9.9	6.1
2014-15	7.7	4.3	12.0	4.9
2015-16	9.1	4.3	13.4	4.3
2016-17	9.5	4.2	13.7	3.6
2017-18	9.7	3.9	13.6	3.1

7. The calculation of bill funding for general wage adjustments includes the base salaries of 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. 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, and the Department of Justice is authorized under current law to utilize existing resources to support annual salary increases for assistant attorneys general under a pay progression plan. As a result, assistant and deputy district attorneys, assistant state public defenders, and assistant attorneys general would not be eligible to receive general wage adjustments. However, the administration indicates that correctional positions who would receive pay increases under a separate compensation proposal would continue to be eligible for both general wage adjustments provided for in the bill.

8. A separate provision in compensation reserves provides $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.

9. Several adjustments could be made to funding for the recommended general wage adjustments to reflect other provisions in the budget, in addition to the timing of eligibility for certain elected officials to receive pay increases. After accounting for timing and eligibility of employees (assistant and deputy district attorneys, assistant state public defenders, assistant and deputy attorneys general) and elected officials (state legislators, constitutional officers, and district attorneys) to be provided pay increases, it is estimated that funding needed for the two 2% general wage adjustments would be $19,577,700 GPR in 2019-20 and $59,672,400 GPR in 2020-21.

10. It should be noted that passage of a budget bill that includes funding in compensation reserves for pay increases would not itself effectuate a general wage adjustment for state employees or a salary increase for state elected officials. Rather, 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 the Joint Committee on Employment Relations (JCOER). Therefore, general wage adjustments would not be effectuated unless such increases were included in the 2019-21 state employee compensation plan prepared by DPM, and then subsequently approved by JCOER. Similarly, pay plan recommendations separately requested by the Board of Regents, UW System President, and the UW-Madison Chancellor must ultimately be approved by JCOER. The compensation plan and pay plan recommendations of the UW System are typically reviewed by JCOER in the summer of odd-numbered years. Funding is included in the budget bill to support a general wage adjustment if such an increase is anticipated in the upcoming compensation plan. If funding in the budget bill for pay increases is not approved, general wage adjustments may not ultimately be included in the state compensation plan, and pay increases for UW System employees would be limited.

11. An employee's contribution to a state agency's mission tends to increase with length 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 may also improve. 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.

12. The administration argues that not providing general wage adjustments would erode the state's ability to recruit and retain employees because it would: reduce the state's market competitiveness in a strong economy with low unemployment rates; damage the reputation of the state as an employer that respects and values its employees; cause resentment among employees who do not receive an increase and who observe significant pay adjustments for other employees in targeted occupations; and result in the continuation of increased rates of position separations.

13. In addition to the above considerations, given that other employers have provided greater average pay raises in recent years, the Committee could approve the Governor's recommendation, as reestimated, to provide $19,577,700 GPR in 2019-20 and $59,672,400 GPR in 2020-21 to compensation reserves for two 2% general wage adjustments on January 1, 2020, and January 1, 2021. The annual cost of the raises in 2021-22 is estimated at $82,527,100 GPR. [Alternative A1]

14. Due to the implementation dates of the proposed increases occurring in the middle of the fiscal year, the state would not incur the full annual cost of the general wage adjustments in 2020-21. As a result, the Governor's recommendation would result in an out-year commitment. Based on the reestimates above, the cost of the wage increases during the 2021-23 biennium, less funding provided in 2020-21 that would be included as base funding in the 2021-23 biennium (also known as the out-year commitment), would be $20,157,300 GPR in 2021-22 and $20,171,500 GPR in 2022-23. This represents the additional cost to support the wage increases in the 2021-23 biennial budget.

15. The Committee could modify the percentage increase or the timing of the general wage adjustments for which funding is budgeted in compensation reserves. With regard to timing, for example, the Committee could provide funding to support increases at the beginning of each fiscal year rather than at the beginning of each calendar year. While supporting pay increases earlier in the fiscal year increases the costs of the provision during the 2019-21 biennium, it also reduces the out-year commitment associated with the adjustments. It should be noted, however, that a modest out-year commitment would still exist if the general wage adjustments were moved to the beginning of the fiscal year, because increases provided to elected officials (legislators and district attorneys) in January, 2021, would need to be supported on an annual basis and Constitutional officers would first become eligible for pay increases in the 2021-23 biennium. If the Committee wishes to minimize the out-year commitment, it could provide $39,155,300 GPR in 2019-20 and $79,826,700 in 2020-21 to fund two 2% wage increases on July 1, 2019, and July 1, 2020. The out-year commitment would be reduced to $3,000 GPR in 2021-22 and $17,200 GPR in 2022-23. [Alternative A2]

16. In December, 2018, the UW Board of Regents recommended that two general wage adjustments of 3% each be provided to UW System employees on July 1, 2019, and July 1, 2020. The Board of Regent's recommended pay increases are based on a comparison with compensation

practices of peer institutions, noted previously. 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 to compensation reserves to fund the GPR portion of the salary increases. Prior to 2013-14, the Board of Regents could increase tuition rates to generate the tuition portion of the salary increases. However, the Board of Regents noted that the UW System tuition freeze, which has been in place since the 2013-15 biennial budget, has limited the institutions' ability to fund the tuition-funded share of pay increases. Therefore, at its December meeting, the Board of Regents additionally recommended that the pay increases for positions funded from GPR and tuition moneys be fully funded through GPR in compensation reserves. If implemented, the Board of Regents recommendation would require that additional GPR funding be provided to compensation reserves, given that the Governor's budget included raises of only 2%, provided on later dates, and only partially funded from GPR (38.45% of all UW System position funding, including federal and segregated funds).

17. It should be noted that, under a separate provision, the Governor recommended allowing the Board of Regents and the Chancellor of UW-Madison to provide supplemental pay plans in the 2019-21 biennium, in addition to the 2019-21 state compensation plan, for employees of the UW System and employees assigned to UW-Madison. Under the proposal, the Board would be prohibited from requesting supplemental funding to pay the costs of the supplemental pay plans. The Board would additionally be prohibited from requesting any funding of increases in salary and fringe benefit costs provided in these plans through the UW System agency budget request. Further, the proposal would allow the Board of Regents to allocate all or a portion of its base budget for performance based funding ($26,250,000 GPR annually) to fund the supplemental pay plans in each fiscal year of the 2019-21 biennium.

18. The administration believes that if adjustments of less than 2% each were provided, "the state would risk further weakening of its ability to retain quality employees in an increasingly competitive labor market." However, employees would likely appreciate receiving some amount of general wage adjustment, rather than receiving no general wage adjustment. If the Committee wishes to provide a lesser amount of funding for general wage adjustments for state and UW System employees, it could consider providing: (a) $9,788,800 GPR in 2019-20 and $29,737,400 in 2020-21 for two increases of 1% each on January 1, 2020, and January 1, 2021 [Alternative A3]; or (b) $19,577,700 in 2019-20 and $39,715,700 in 2020-21 for two increases of 1% each on July 1, 2019, and July 1, 2020 [Alternative A4].

19. Table 5 identifies the following alternatives for the Committee's consideration: the Governor's recommendation to provide two 2% GWAs at the beginning of each calendar year, as reestimated [Alternative A1]; two 2% GWAs at the beginning of each fiscal year [Alternative A2]; two 1% GWAs at the beginning of each calendar year [Alternative A3]; and two 1% GWAs at the beginning of each fiscal year [Alternative A4]. For each of these alternatives, the table identifies: (a) the change to base funding, equal to total funding that would be provided to compensation reserves for the provision; (b) the change to bill during the 2019-21 biennium; and (c) the out-year commitment associated with the alternative. If the Committee takes no action, general wage adjustments will likely not be provided. [Alternative A5]

TABLE 5

GPR Cost of General Wage Adjustments for State and UW System Employees

Alternative	Change to Base (Total Funding) 2019-20	2020-21	2019-21 Biennium	Change to Bill 2019-20	2020-21	2019-21 Biennium	Out-Year Commitment 2021-22	2022-23
Alternative A1 Two 2% GWAs January 1, 2020, and January 1, 2021 (Governor, reestimated)	$19,577,700	$59,672,400	$79,250,100	-$870,600	-$2,033,200	-$2,903,800	$20,157,300	$20,171,500
Alternative A2 Two 2% GWAs July 1, 2019, and July 1, 2020	$39,155,300	$79,826,700	$118,982,000	$18,707,000	$18,121,100	$36,828,100	$3,000	$17,200
Alternative A3 Two 1% GWAs January 1, 2020, and January 1, 2021	$9,788,800	$29,737,400	$39,526,200	-$10,659,500	-$31,968,200	-$42,627,700	$9,979,800	$9,985,000
Alternative A4 Two 1% GWAs July 1, 2019, and July 1, 2020	$19,577,700	$39,715,700	$59,293,400	-$870,600	-$21,989,900	-$22,860,500	$1,500	$6,700

Market Wage and Parity Adjustments

20. Funding budgeted to compensation reserves in the bill includes $6,050,000 GPR annually for market wage and parity adjustments for classified employees. Market wage and parity adjustments exist to provide pay increases to employees within certain classifications in which recruitment and retention problems have been identified due to issues such as state salaries being below market levels. The biennial state employee compensation plan identifies the employee classifications that are eligible for market wage and parity adjustments in the relevant biennium.

21. Including funding within compensation reserves for market wage and parity 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 would be eligible for market wage and parity adjustments, as well as increase the level of adjustments provided, since agencies would be able to request supplemental funding to support market wage and parity adjustments.

22. The 2017-19 biennial budget included $2,100,000 GPR annually in compensation reserves for market wage adjustments. Funding provided for this purpose has been fully utilized. Most of the market wage adjustments funded from compensation reserves were in the amounts of $0.30, $0.50, or $0.70 per hour, based on job level. The administration indicates that providing these adjustments helped prevent the state from falling further behind market wages. Due to limits on available funding, market wage adjustments were prioritized to classifications which were identified

as having wages more than 25% below market rates in Wisconsin, as well as to specific recruitment and retention challenges identified by agencies as high priority.

23. The Division of Personnel Management believes additional funding would greatly assist in addressing continued market wage and parity adjustment needs that exceed the amount of previously provided funds. Occupational areas that could be targeted through the 2019-21 compensation plan with additional funds include: professional social services, administrative support, blue collar professions, skilled technicians, professional science, and professional education. If less funding is provided for this purpose, the targeted professions may need to be prioritized (not necessarily in the order listed above).

24. The administration believes that a reduction in the recommended funding of $6,050,000 GPR annually would result in further increases in position separations, additional costs to recruit and train new employees, and a reduction in quantity and quality of work due to inexperience. Further, DPM indicates that while a number of agencies with positions funded from sources other than GPR may be able to provide market wage and parity adjustments through existing resources, agencies with positions funded from GPR may be at a disadvantage without a source of supplemental funding, creating inequities between agencies funded from GPR and agencies funded from other sources.

25. Providing for market wage and parity 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 may improve, 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 $6,050,000 GPR annually in compensation reserves for market wage and parity adjustments. [Alternative B1]

26. Alternatively, the Committee could provide a reduced level of funding in compensation reserves for market wage and parity adjustments. As noted previously, in the 2017-19 biennium, $2,100,000 GPR annually is provided to compensation reserves for market wage adjustments. The Committee could provide: (a) $5,000,000 GPR annually [Alternative B2]; (b) $4,000,000 GPR annually [Alternative B3]; (c) $3,000,000 GPR annually [Alternative B4]; or (d) $2,000,000 GPR annually [Alternative B5].

27. If the Committee takes no action and funding is not provided for market wage and parity adjustments in compensation reserves, DPM could still propose market wage and parity adjustments for certain classifications in the 2019-21 compensation plan, to the extent such adjustments could be supported with the agencies' existing resources. [Alternative B6] For agencies that are not able to support market wage and parity adjustments with existing resources, market wage and parity adjustments would be awarded at a lower level or to a fewer number of position classifications, or both. Further, when market wage and parity adjustments are proposed for certain classifications, funding generally must be available for 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 can

present a barrier in providing certain classifications market wage and parity adjustments.

Minimum Pay for State Employees

28. The Governor recommends increasing minimum pay for state employees in the executive branch (not including the UW System) to $15 per hour. The bill does not include language to accomplish this goal. Rather, the increase would be included through language in the state compensation plan for the 2019-21 biennium. The administration estimates that approximately 410 permanent employees (approximately 1.4% of permanent employees overall) currently earn less than $15 per hour. The administration argues that "employees that work full-time for the state deserve a wage rate that allows them to meet basic housing and living expenses with minimal need for public or charitable assistance."

29. The proposal is planned for implementation in January, 2021. The implementation date is based, in part, on anticipated market wage and parity adjustments for which many employees earning less than $15 per hour would be eligible, as well as the proposed general wage adjustments that would occur in January, 2020, and January, 2021. These increases to employees' base wages would reduce the amounts by which employee pay would need to be increased in order to reach a minimum of $15 per hour. Based on the administration's argument that the lowest-paid state employees should be better compensated to meet basic living expenses, the Committee could approve the Governor's recommendation to provide $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. [Alternative C1]

30. If the Committee takes no action with regard to the proposal to fund a minimum pay increase to $15 per hour, the provision may or may not be included in the compensation plan. [Alternative C2] While the cost to implement the minimum pay increase proposal appears to be relatively modest, the administration indicates that some agencies may have difficulty providing the increases without a pay plan supplement. If funding is made available for this purpose in compensation reserves, agencies may request funding for this purpose through the supplemental pay process. However, if funding is not provided to compensation reserves for this purpose, agencies may be required to fund such increases in minimum pay for employees within their appropriated budgets, and could have difficulty doing so.

ALTERNATIVES

A. General Wage Adjustments

1. Approve the Governor's recommendation, as reestimated, to provide $19,577,700 GPR in 2019-20 and $59,672,400 GPR in 2020-21 to compensation reserves for two general wage adjustments of 2% each on January 1, 2020, and January 1, 2021, for state and UW System employees.

ALT A1	Base	Change to Bill
GPR	$79,250,100	- $2,903,800

2. Modify the proposal to provide $39,155,300 GPR in 2019-20 and $79,826,700 in 2020-21 to fund two 2% wage increases on July 1, 2019, and July 1, 2020.

ALT A2	Base	Change to Bill
GPR	$118,982,000	$36,828,100

3. Modify the proposal to provide $9,788,800 GPR in 2019-20 and $29,737,400 in 2020-21 for two 1% wage increases on January 1, 2020, and January 1, 2021.

ALT A3	Base	Change to Bill
GPR	$39,526,200	- $42,627,700

4. Modify the proposal to provide $19,577,700 in 2019-20 and $39,715,700 in 2020-21 for two increases of 1% each on July 1, 2019, and July 1, 2020.

ALT A4	Base	Change to Bill
GPR	$59,293,400	- $22,860,500

5. Take no action.

ALT A5	Base	Change to Bill
GPR	$0	- $82,153,900

B. Market Wage and Parity Adjustments

1. Approve the Governor's recommendation to provide $6,050,000 GPR annually in compensation reserves for market wage and parity adjustments.

ALT B1	Base	Change to Bill
GPR	$12,100,000	$0

2. Modify the proposal to provide $5,000,000 GPR annually for market wage and parity adjustments.

ALT B2	Change to Base	Change to Bill
GPR	$10,000,000	- $2,100,000

3. Modify the proposal to provide $4,000,000 GPR annually for market wage and parity adjustments.

ALT B3	Change to Base	Change to Bill
GPR	$8,000,000	- $4,100,000

4. Modify the proposal to provide $3,000,000 GPR annually for market wage and parity adjustments.

ALT B4	Change to Base	Change to Bill
GPR	$6,000,000	- $6,100,000

5. Modify the proposal to provide $2,000,000 GPR annually for market wage and parity adjustments.

ALT B5	Change to Base	Change to Bill
GPR	$4,000,000	- $8,100,000

6. Take no action.

ALT B6	Change to Base	Change to Bill
GPR	$0	- $12,100,000

C. Minimum Pay for State Employees

1. Approve the Governor's recommendation to provide $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.

ALT C1	**Change to Base**	**Change to Bill**
GPR	$93,300	$0

2. Take no action.

ALT C2	**Change to Base**	**Change to Bill**
GPR	$0	- $93,300

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May, 2019 Joint Committee on Finance Paper #172

Compensation for Certain Correctional Positions (Budget Management and Compensation Reserves)

[LFB 2019-21 Budget Summary: Page 54, #1]

CURRENT LAW

For the 2017-19 biennium, all funds compensation reserves total $6,818,700 in 2017-18 ($3,080,500 GPR and $3,738,200 other funds) and $117,167,500 in 2018-19 ($52,081,600 GPR and $65,085,900 other funds). These funds are reserved for cost increases related to state and University of Wisconsin (UW) System employee salaries and fringe benefits.

GOVERNOR

Provide to compensation reserves $3,602,100 GPR in 2019-20 and $20,160,900 GPR 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.

DISCUSSION POINTS

Background

1. Correctional officers are employed by the Department of Corrections and Department of Health Services and are responsible for providing security for inmates, residents, staff, and the public within an adult correctional institution or in support of treatment for patients, residents, staff, and the public within a secure treatment facility. Similar to correctional officers, youth counselors are

responsible for performing a combination of security and rehabilitation work in a juvenile correctional facility. Correctional sergeants are also employed by the Department of Corrections and Department of Health Services and function as leadworkers to correctional officers within adult correctional institutions, community corrections, and secure treatment facilities of mental health institutes. Similar to correctional sergeants, youth counselors-advanced are responsible for performing responsible leadwork or advanced level security and rehabilitation work in a juvenile institution or a field unit of the corrective sanctions program. Psychiatric care technicians and psychiatric care technicians-advanced are employed by the Department of Health Services and are responsible for interacting with mentally ill inmates/patients to promote the development and improvement of daily living and social skills and to facilitate behavior change. Table 1 summarizes the number of authorized full-time equivalent (FTE) positions in 2018-19 for each classification type by agency and fund source.

TABLE 1

Authorized Full-Time Equivalent Correctional Security Positions Under Pay Proposal by Agency and Fund Source, 2018-19

Agency and Position Classification	GPR FTEs	PR FTEs	Total FTEs
Department of Corrections			
Correctional Officer	3,040.00	1.00	3,041.00
Correctional Sergeant	1,604.25	1.00	1,605.25
Youth Counselor	1.75	109.00	110.75
Youth Counselor-Advanced	0.50	58.05	58.55
Subtotal Corrections	4,646.50	169.05	4,815.55
Department of Health Services			
Correctional Officer	94.00	6.00	100.00
Correctional Sergeant	30.00	0.00	30.00
Psychiatric Care Technician	180.13	196.28	376.41
Psychiatric Care Technician-Advanced	529.89	42.11	572.00
Subtotal Health Services	834.02	244.39	1,078.41
Total	5,480.52	413.44	5,893.96

2. While the use of overtime is necessary in the operation and management of twenty-four hour, seven-day-a-week correctional institutions and mental health treatment facilities, high overtime costs have been an ongoing issue for the Department of Corrections and, to a lesser extent, the Department of Health Services. Under the 2007-09 biennial budget, statutory language was created requiring the Department of Corrections to report to the Joint Committee on Finance every two years on the amount and costs of overtime at each of its adult correctional institutions. In reviewing the most recent report submitted on January 8, 2019, the Department paid $50,642,784 for 1,805,106 hours of overtime at adult institutions in fiscal year 2017-18. The most common reasons for overtime in 2017-18 were: position vacancies, sick leave coverage, and medical vigils.

3. In comparison to other reasons indicated for overtime usage, position vacancies constituted the largest share of overtime hours worked at adult institutions by reported category in

2017-18, accounting for 844,195 overtime hours (at a cost of approximately $23,561,100). This is 46.8% of all overtime included in the report and a 34% increase in the use of overtime to cover position vacancies when compared to fiscal year 2015-16 (approximately 629,800 overtime hours). The average vacancy rates for all positions at all institutions, including the juvenile correctional schools, between fiscal years 2011-12 and 2016-17 ranged from 7.50% to 10.65%. The average vacancy rate for all institutions in 2017-18 was 11.74%. Waupun Correctional Institution had the highest vacancy rate in 2017-18 at 19.98%. In the first half of 2018-19, the average vacancy rate across all institutions has been 13.36%.

4. A majority of the vacancies are in security positions. In April, 2019, approximately 16% of correctional officer/sergeant and youth counselor/advanced positions at the Department of Corrections were vacant and approximately 8.5% of correctional officer/sergeant and psychiatric care technician/advanced positions at the Department of Health Services were vacant.

5. The Department of Corrections and the Department of Administration's Division of Personnel Management (DPM) conducted research on pay of correctional employees. This research included comparisons of pay with that of correctional positions in other states as well as comparisons with employers in other fields that compete for the same pool of workers locally in Wisconsin. While a comparison to correctional position pay in other states may be informative, comparisons to pay and work conditions of competing local employers is likely more relevant for state employee recruitment and retention purposes. However, it is difficult to determine precisely which employers and professions are in direct competition for individuals who might work as correctional officers/sergeants, youth counselors/advanced, and psychiatric care technicians/advanced. For example, comparisons have been made to retail distribution centers at which starting pay may be higher, with more favorable working conditions and hours. Other examples may include construction or manufacturing work. Based on this type of comparative approach, the Department of Corrections and DPM believe that pay for correctional officers lags behind competing employers by approximately $2 per hour. This hourly pay difference, however, does not take into account work environment, hours, or other employment conditions.

6. Vacancy rates and associated overtime expenses can additionally be attributed to overall economic conditions. Over the past several years, the unemployment rate has decreased in Wisconsin from around 7.4% in 2011-12 to 2.9% in March, 2019. Correctional position vacancy rates and overtime attributable to position vacancies are observed to have an inverse relationship to unemployment rates. In 2011-12, the vacancy rate at adult correctional institutions was approximately 6.5% and overtime hours associated with position vacancies constituted 20.5% of overtime hours overall. In 2017-18, the vacancy rate at adult correctional institutions was approximately 11.2% and overtime hours associated with position vacancies constituted 46.8% of overtime hours overall. As of April, 2019, the vacancy rate for adult institutions was approximately 14.5%. Table 2 summarizes available data for adult corrections position vacancy rates, overtime hours and costs, and unemployment rates in Wisconsin from 2011-12 to 2018-19 (through March or April, 2019). Expenditures for overtime and the percentage of overtime hours attributable to position vacancies are only available for even-numbered fiscal years, through the overtime report submitted to the Legislature every other year.

TABLE 2

Adult Correctional Institutions Vacancy Rates and Overtime, 2011-12 to 2018-19

Fiscal Year	Vacancy Rate (%)	Overtime Hours for Vacancies (%)	Overtime Total Hours	Overtime Total Costs (All Funds)	Unemployment Rate, WI (%)
2011-12	6.5%	20.5%	1,026,250	$31,064,300	7.4%
2012-13	6.9	--	--	--	6.9
2013-14	6.9	28.1	1,201,947	33,539,400	6.1
2014-15	7.4	--	1,286,930	--	4.9
2015-16	9.8	40.4	1,558,679	43,176,700	4.3
2016-17	10.2	--	1,666,057	--	3.6
2017-18	11.2	46.8	1,805,106	50,642,800	3.1
2018-19 (March/April)	14.5%	--	--	--	2.9%

7. Table 3 provides data for overtime hours and overtime expenditures at secure treatment facilities of Department of Health Services mental health institutes from 2012-13 to 2015-16, in addition to unemployment rates in Wisconsin over the same period. Table 3 includes Mendota Mental Health Institute, Winnebago Mental Health Institute, Sand Ridge Secure Treatment Center, and Wisconsin Resource Center.

TABLE 3

Secure Treatment Facilities of Mental Health Institutes Overtime Hours and Expenditures, 2012-13 to 2015-16

Fiscal Year	Overtime Total Hours	Overtime Total Costs (All Funds)	Unemployment Rate, WI (%)
2012-13	120,207	$3,651,700	6.9%
2013-14	149,173	4,634,100	6.1
2014-15	155,419	5,230,500	4.9
2015-16	198,743	6,417,200	4.3

8. In addition to several 2017-19 compensation plan provisions relating to employee pay which were proposed by DPM and approved by the Joint Committee on Employment Relations (described in further detail later), the Department of Corrections has taken several measures to recruit additional employees including: (a) developing and implementing a digital recruitment campaign for display on social media, employment websites, and search engine advertisements that mention specific compensation incentives such as sign-on bonuses; (b) in-person recruitment events at correctional institutions, job centers, technical colleges, high schools, law enforcement and corrections events, universities, and public libraries; (c) newspaper advertisements; (d) radio advertising; and (e) posting of flyers at local establishments.

9. For some correctional institutions, recruitment challenges include the location of the facility relative to the residences of potential new hires. Several prisons are located in areas that necessitate outreach beyond the local residential population due to size. Therefore, when recruiting individuals to fill positions, employment conditions must attract individuals who are willing to relocate or commute. For some individuals, a permanent move or lengthy commute may constitute a significant adjustment.

10. While some correctional employees volunteer to perform necessary overtime hours, other employees may be subject to mandatory performance of overtime. According to the administration, many correctional employees who quit after working for a short time do so due to requirements to perform overtime on a regular basis. Although overtime may be viewed as a source of additional income for many employees, not all employees want to work long hours consistently. Work-life balance is reportedly a reason often cited by individuals who choose to seek employment elsewhere.

11. Position vacancies may additionally increase over the next five to 10 years due to growing numbers of retirement-eligible employees. At the four maximum security correctional facilities with high vacancy rates (Waupun, Columbia, Dodge, and Green Bay), the percentage of security employees who are eligible to retire are estimated at: (a) 4% to 11% of current staff; (b) 20% to 36% within five years; and (c) 33% to 49% within 10 years. Therefore, improvement of employee recruitment and retention now could serve as a preventive measure with regard to further position vacancy increases in future years.

2017-19 Compensation Plan Provisions

12. The state's biennial compensation plan, prepared by DPM and approved by the Legislature's Joint Committee on Employment Relations (JCOER), establishes the compensation levels and various other pay, benefit, and work conditions for most state employees. For each job classification in the classified state service, provisions in the compensation plan address both general and specific aspects of: (a) base pay; (b) overtime and supplemental pay; and (c) incentive pay.

13. Among its various provisions, the 2017-19 compensation plan established the following minimum and maximum salaries (effective January 6, 2019) for: (a) correctional officers/youth counselors/psychiatric care technicians, $16.65 to $27.68 per hour; and (b) correctional sergeants/youth counselors-advanced/psychiatric care technicians-advanced, $17.45 to $30.39 per hour. These salary ranges incorporate the compensation plan's 2% general wage adjustment provided to all classified state employees beginning in July, 2018, and another 2% increase provided in January, 2019. In addition, the 2017-19 compensation plan included the following pay provisions which affect correctional security positions.

14. *Sign-on Bonus*. The 2017-19 compensation plan allowed for agencies, under certain circumstances, to offer employee recruitment sign-on bonuses of up to $2,000 with the approval of the DPM's Bureau of Merit Recruitment and Selection Director. The Division has further defined the requirements for such bonuses in a DPM Policy Bulletin made available to state agencies.

15. *Pilot Supplemental Pay Provisions and Youth Counselor Add-on*. The 2017-19

compensation plan allowed, at the sole discretion of the DPM administrator, the creation of pilot (temporary) add-on programs to address specific severe recruitment, retention or employment issues that may arise before a meeting of JCOER may be convened.

16. *Pay Range Progressions*. The 2017-19 compensation plan created a pay progression schedule for correctional officers, sergeants, youth counselors/advanced, and psychiatric care technicians/advanced. The pay progression schedule provided for specific hourly increases for: (a) correctional officers, youth counselors, and psychiatric care technicians after six months, 12 months, 18 months and 24 months of adjusted continuous service; and (b) sergeants, youth counselors-advanced, and psychiatric care technicians-advanced after 24 months of continuous service.

17. *Pay Equity Placement.* The 2017-19 compensation plan created a pay equity placement provision for correctional officers, sergeants, youth counselors/advanced, and psychiatric care technicians/advanced. The pay equity placement provision specified that effective January 20, 2019, correctional officers, sergeants, youth counselors, youth counselors-advanced, psychiatric care technicians and psychiatric care technicians-advanced would have their pay increased to a specific hourly amount based on the calendar year in which they began continuous service. Employees whose current pay rate was equal to or greater than the amount specified, or those who began service in 2015 or more recently, would maintain their current pay rate.

18. Many compensation plan provisions apply to entire groups of employees, such as all classified employees, or entire position classifications or pay ranges. For example, the provisions described above as "pay range progressions" and "pay equity placement" apply to all six position classifications in pay ranges 05-31 and 05-32. Likewise, the Governor's recommendations to institute a pay progression system for correctional positions would apply to all correctional officers/sergeants, youth counselors/advanced, and psychiatric care technicians/advanced.

19. Other compensation plan provisions may apply to specific locations, institutions, and even specific individuals meeting certain criteria. The compensation provisions described above as "sign-on bonus" and "pilot supplemental pay provisions" are by design intended to apply under specific circumstances, rather than to all employees or particular position classifications generally. The Department of Corrections has requested, and received approval from DPM, to utilize these pay incentives to address unusually high position vacancy rates at particular correctional institutions as follows.

20. *Sign-on Bonus - Correctional Officers*. The Department of Corrections currently has a sign-on bonus program in effect at the Waupun Correctional Institution (WCI), Columbia Correctional Institution (CCI) and Dodge Correctional Institution (DCI) for correctional officers until June 22, 2019. Under the program, $1,000 is provided with the first paycheck after graduation from the service academy to individuals committed to work at WCI, CCI or DCI, and $1,000 is provided with the paycheck that follows successful completion of the probationary period.

21. *Pilot Supplemental Pay Provisions for Corrections*. With regard to the hourly add-on program modifications recently highlighted by the administration, the Department of Corrections currently has a supplemental $5 per hour add-on program in effect at WCI, CCI, DCI, the Green Bay Correctional Institution (GBCI), the Taycheedah Correctional Institution (TCI), and Lincoln

Hills/Copper Lake Schools for correctional officers, sergeants, youth counselors and youth counselors-advanced. The add-on is: (a) in effect until June 20, 2020; (b) only applicable for hours worked (not applicable to leave hours); and (c) not permanent. The site-specific hourly add-on was designed to address high vacancy rates at the state's maximum-security institutions (except the Wisconsin Secured Program Facility) and at the juvenile correctional schools. While the add-on does not address all correctional officer/sergeant, youth counselor/advanced, or psychiatric care technician/advanced positions, the intent is to assist facilities with the most acute needs.

Prior to April, 2019, other hourly add-on pay incentives were utilized for correctional security positions, at lower rates and at fewer institutions. From May 29, 2016, to January 7, 2017, a $0.50 per hour add-on was approved for WCI, CCI, GBCI, and Lincoln Hills/Copper Lake Schools. In 2018 and 2019 (through April 27, 2019), a $1 per hour add-on program was implemented for the same facilities (WCI, CCI, GBCI, and Lincoln Hills/Copper Lake Schools) and was also expanded to include DCI. The hourly add-on was increased to $5 and expanded to TCI effective April 28, 2019.

22. As a reference point, Table 4 provides position vacancy rates of the Department as of April, 2019, by correctional institution for the facilities to which the $5 add-on applies, as well as other correctional institutions. As shown in the table, the institutions to which the pay incentive applies have significantly higher rates of security position vacancies (19.8% to 31.8%) compared to other correctional institutions (11.6%). In comparison, approximately 8.5% of correctional officer/sergeant and psychiatric care technician/advanced positions at the Department of Health Services were vacant in April, 2019.

TABLE 4

Corrections Vacancy Rates by Institution for Correctional Officer/Sergeant and Youth Counselor/Advanced Positions, April, 2019

Institution	Vacancy Rate
Waupun Correctional Institution	31.8%
Columbia Correctional Institution	28.2
Dodge Correctional Institution	26.5
Lincoln Hills School	22.0
Copper Lake School	21.8
Taycheedah Correctional Institution	20.2
Green Bay Correctional Institution	19.8
Other Institutions	11.6%
All Institutions	16.0%

23. In its request to DPM to increase the hourly add-on rate and expand the incentive to TCI, the Department of Corrections provided the following explanation relating to the adult correctional institutions to which it would apply:

> Recently a similar add-on was approved for Columbia, Dodge, Green Bay, and Waupun Correctional Institutions due to exceptionally high vacancy rates in Correctional Officer & Sergeant positions. These institutions comprise the majority of our maximum security institutions. At the time of the initial request, TCI and the Wisconsin Secure Program Facility (WSPF) were left out because the vacancy rates at those two institutions was not as severe. Upon further review, the vacancy rates at TCI have been trending upward, and we have determined that not including them could ultimately prove detrimental to their ability to continue to achieve mission objectives and maintain public safety.
>
> Despite having a maximum security element, TCI has historically not experienced the high vacancy rates observed at CCI, DCI, GBCI, and WCI. However, given TCI's geographic proximity to those institutions (only 24 miles from DCI & WCI) and its status as a maximum security facility, combined with poor recruitment results in that area and an upward trend in vacancy rates since approximately January, 2018, we are anticipating similar concerns in the immediate future if they are not also included in the recently approved add-on.

With regard to juvenile correctional schools, the Department additionally provided the following justification for increasing the hourly add-on rate:

> This add-on is being requested for operational needs due to high vacancy rates in Youth Counselor and Youth Counselor – Advanced positions at LHS/CLS. The vacancy rates are hindering our ability to maintain a safe and secure environment for juvenile inmates and staff. The Department has determined that these schools are in dire need of recruitment and retention incentives that exceed the previously approved $1.00/hour add-on that was approved in January, 2018.
>
> The announcement regarding the closure of the schools may be contributing to our inability to attract enough new recruits or retain our current employees, so we believe this pay incentive is needed to make LHS/CLS once again an attractive employer. Additionally, the Department is required to comply with the consent decree that was put in place after recent litigation. Without proper staffing, it will be impossible for the institution to comply with the requirements in the decree.

24. The Department's estimate of the salary cost to increase and expand the hourly add-on is between $12.2 million and $13.4 million for adult institutions and between $1.1 million and $1.2 million for juvenile correctional schools. Associated expenses for variable fringe benefits and protective service add-on (19.47%) would increase costs for adult institutions and juvenile correctional schools by $2.6 million to $2.8 million. With regard to the means by which the Department is funding the $5 per hour add-on, the Secretary of Corrections indicated that the cost of the add-on at adult institutions will be absorbed by the agency and that "Due to the complexity of the method in which the LHS/CLS budget is calculated, it is expected that the cost to house juveniles will increase slightly to off-set the cost of the add-on for LHS/CLS."

25. Most correctional officer/sergeant positions of the Department (approximately 99.5%) are funded from the agency's annual appropriation for adult correctional services general program operations. In 2017-18, this appropriation was budgeted $776,316,300 GPR. At the close of the fiscal year, expenditure authority of $7,900 GPR remained for the appropriation (approximately 0.001%). In 2018-19, the appropriation's budget for permanent position salaries is $393,476,500 GPR. As a

share of the budget, estimated annual cost increases of $12 million to $13 million for adult institutions equal approximately 3% of permanent position salaries.

26. The cost of the hourly add-on incentive for adult correctional institutions would be funded from the appropriation's allocations to permanent position salaries and fringe benefits. State agencies are budgeted funding for all authorized position salaries and fringe benefits, including vacant positions, less an amount assumed for turnover. When positions remain vacant, an agency may utilize its budget for position salaries to pay overtime expenses so that necessary work may be performed. The hourly add-on incentive may likewise be supported from budget allocations for salaries. Overtime and other expenses for compensation additionally incur costs for variable fringe benefits and, in the case of correctional security positions, protective service add-on. Further, position vacancy rates of the Department of Corrections have increased since 2017-18. If the Department is successful in recruiting and retaining employees, the cost of the pay increases could be offset by decreases in overtime hours and associated expenditures.

27. Due to a number of variable factors that impact recruitment and retention such as labor market competition and unemployment rates, it is unknown if these pay incentives have directly affected vacancy rates. However, overtime hours of the Department of Corrections recorded in the first half of 2018-19 are noticeably higher than the overtime hours recorded in the first half of any of the past five fiscal years.

Pay Progression Proposal

28. The administration indicates that one or more of the above pay provisions included in the 2017-19 compensation plan may remain in place for at least some period of time under the 2019-21 compensation plan. However, the details of the 2019-21 compensation plan will depend, in part, on the amount of funding placed in compensation reserves for the correctional position pay progression proposal. The extent to which pay for these positions can be increased to the targeted goals will also depend upon the Committee's decision regarding funding for general wage adjustments, due to the inclusion of these positions among those which would be eligible for general wage adjustments. With less or no funding for general wage adjustments, the cost to increase pay for the targeted correctional position classifications to the specific levels upon which the plan is based would increase.

29. The pay progression proposal for 2019-21 would target the following position pay ranges, encompassing six position classifications: (a) range 05-31, which includes correctional officer, youth counselor, and psychiatric care technician; and (b) range 05-32, which includes correctional sergeant, youth counselor-advanced, and psychiatric care technician-advanced. The proposal would consist of two components, described below.

30. *Hourly Pay Increase or Lump-Sum Payment*. All positions would receive some amount of pay in addition to what is currently earned. The vast majority of positions would receive a fixed hourly pay increase, implemented on the same date for all positions, based on the pay range of their classification. Therefore, most positions could expect to receive a fixed hourly increase identical to other positions in their classification (and other classifications in their pay range). Classifications in the correctional sergeant pay range would receive the higher of two fixed amounts, due to the

experience and structure of the classifications relative to the correctional officer pay range.

For a small percentage of positions (fewer than 100 employees), it is anticipated that providing the full fixed hourly increase would result in the employee earning an hourly rate that is higher than the maximum allowable for the pay range. Therefore, for these employees, their hourly pay would be increased to the maximum allowable, and the remainder of the fixed increase would be applied toward a lump sum payment that would be equivalent to the difference in terms of what could have been earned with a full hourly pay increase. The lump sum portion of pay for these employees would not be base-building.

31. *Length of Service-Based Pay Progression.* The second component of the proposal would ensure that employees who arrive at specific lengths of service (work anniversaries) earn a minimum specified hourly rate. This would be most comparable to the "pay range progressions" included in the 2017-19 compensation plan for the positions in these pay ranges. However, in contrast to the provision in the 2017-19 compensation plan, the 2019-21 proposal as envisioned: (a) would have one schedule of minimum hourly rates for work anniversaries (rather than three with different effective dates); (b) would begin with 12-month anniversaries (rather than six months); (c) might extend as far as 15-year anniversaries (rather than two years at most); and (d) would include minimum hourly rates for both position classification pay ranges for each anniversary (rather than including minimum hourly rates for the correctional officer range for every anniversary while including a minimum hourly rate for the correctional sergeant range at two years only). If an employee who reached a work anniversary were being paid at a rate lower than the minimum at that time, their hourly rate would be increased to match the specified rate. If the employee were being paid at a rate equal to or greater than the minimum for their work anniversary, they would not receive a pay increase. This practice is identical to the current provision in the compensation plan.

32. *Other Features*. In addition to providing the above types of pay increases, the proposal would expand the percentage difference between the pay rates of the two affected ranges, to emphasize the promotional nature of becoming a correctional sergeant, youth counselor-advanced, or psychiatric care technician-advanced. Further, maximum rates of pay for both ranges would be increased.

Cost Estimate

33. Costs of the proposal were estimated based on: (a) the approximate number of filled positions in the six classifications in 2018-19; (b) adjusted continuous service dates (seniority dates) of the affected employees; (c) two 2% general wage adjustments for all employees in the positions on January 1, 2020, and January 1, 2021; (d) an approximate implementation date for fixed hourly or lump sum pay increases in late April or early May, 2020; (e) an approximate implementation date for pay progression in December, 2020; and (f) approximate funding allocations of GPR and PR for positions at the Department of Corrections and the Department of Health Services. Funding calculations include the cost of variable fringe (15.3%) and protective service add-on (4.17%).

34. Because the cost estimates assume the positions would benefit from two general wage adjustments of 2% each, the cost to implement the proposal would increase if funding recommended by the Governor for general wage adjustments were reduced or eliminated. In addition, because the

cost estimates are based on filled positions only, if additional positions are filled, some costs associated with pay increases could be incurred which have not been budgeted.

35. Funding for the pay proposal does not assume cost increases or decreases associated with overtime. If vacancy rates decrease, overtime costs could decrease. On the other hand, if vacancy rates remain relatively stable, overtime costs could increase based on higher rates of hourly pay. Ultimately, the effect of the proposal is unknown at this time. In part, vacancy rates will depend on economic conditions generally, particularly with regard to unemployment rates. However, it should be noted that the administration assumed savings for overtime costs under the Department of Corrections' budget in a separate provision reestimating overtime costs. Further, it should be noted that, although vacancy rates directly affect overtime costs overall, there are other reasons that require work to be performed using overtime. Other reasons reported by the Department of Corrections include but are not limited to: medical vigils; service overtime; special posts; sick leave; construction projects; trips; training; personnel/employment relations; and security emergency. Therefore, reductions in position vacancies would not completely eliminate overtime expenses. Department of Corrections overtime costs will be addressed in a separate budget paper, as will overtime costs of the Department of Health Services.

Alternatives to Proposal

36. In testimony provided at an agency briefing before the Committee, the Secretary of the Department of Corrections indicated that the pay progression proposal would increase minimum hourly pay for correctional officers from $16.65 to $18.22. Because the implementation date of the proposal would occur subsequent to a planned general wage adjustment of 2% for all employees including the correctional security positions (increasing minimum pay from $16.65 to approximately $16.99), funding for the proposal is estimated to support a fixed dollar increase of approximately $1.23 for correctional officers.

37. As noted previously, the Department and DPM believe that hourly pay for correctional security positions is about $2 per hour less than what comparable employers offer (not accounting for work environment, hours, or other employment conditions). To further increase starting pay for correctional officers to $18.65 rather than $18.22 ($2 per hour more than the current minimum), a fixed hourly increase could be provided in the amount of $1.66 (accounting for a general wage adjustment of 2%). While the amount of the raise in fixed hourly pay, relative to what the bill would support, would be approximately equivalent to a 35% increase from what the administration proposed (from $1.23 to $1.66), based on information provided by the administration, the actual cost of the pay proposal would increase by approximately 27% due to interaction with other features of the pay proposal. Based on the assumption that two 2% general wage adjustments would be provided January 1, 2020, and January 1, 2021, it is estimated that the cost to increase officer pay by $1.66 per hour, in addition to the length of service-based pay progression component of the plan, would total $4,574,700 GPR in 2019-20 and $25,604,300 GPR in 2020-21. To provide an approximate increase in correctional security position minimum hourly pay of $2, the Committee could provide funding in these amounts to compensation reserves. [Alternative 2] It should be noted that under this alternative, the number of employees who would receive lump sum payments rather than full hourly pay raises would increase because the fixed hourly pay raise would be larger and would, therefore, bring

additional employees close to the maximum rate of pay.

38. A number of individuals have suggested that a more appropriate level of starting pay for correctional officers would be $19 per hour. To further increase starting pay for correctional officers to $19 rather than $18.22, a fixed hourly increase could be provided in the amount of $2.01 (accounting for a general wage adjustment of 2%). Similar to the alternative above, while the amount of the raise in fixed hourly pay, relative to what the bill would support, would be approximately equivalent to a 63% increase from what the administration proposed (from $1.23 to $2.01), based on information provided by the administration, the actual cost of the pay proposal would increase by approximately 48% due to interaction with other features of the pay proposal. Based on the assumption that two 2% general wage adjustments would be provided January 1, 2020, and January 1, 2021, it is estimated that the cost to increase officer pay by $2.01 per hour, in addition to the length of service-based pay progression component of the plan, would total $5,331,100 GPR in 2019-20 and $29,838,100 GPR in 2020-21. To provide an approximate increase in correctional security position pay to $19 per hour, the Committee could provide funding in these amounts to compensation reserves. [Alternative 3] As with the above alternative, it should be noted that under this alternative, the number of employees who would receive lump sum payments rather than full hourly pay raises would increase because the fixed hourly pay raise would be larger and would, therefore, bring additional employees close to the maximum rate of pay.

39. The administration indicates that, while a minimum pay increase to approximately $19 per hour for correctional officers could be greatly beneficial in attracting employees, an increase beyond $19 per hour could cause problems with respect to pay compression and equity among employees in the same classification who have greater years of experience, and among other position classifications such as supervisors of correctional security staff and state law enforcement. Therefore, additional alternatives are not provided to increase minimum pay beyond $19 per hour.

40. In addition to changes in overall compensation, the Committee could also consider providing funding to support the potential continuation or expansion of hourly add-on pay incentives for correctional positions, as deemed appropriate by DPM. As noted before, several correctional institutions have significantly higher rates of security position vacancies (19.8% to 31.8%) compared to other correctional institutions (11.6%). Therefore, targeting those specific institutions for additional pay incentives, rather than increasing pay further for all positions, may be beneficial. While the Department of Corrections has committed to funding the $5 per hour add-on incentive for WCI, CCI, DCI, GBCI, TCI, and Lincoln Hills/Copper Lake Schools for correctional officers, sergeants, youth counselors and youth counselors-advanced through June 20, 2020, if the incentive proves to be effective, it may be prudent to extend the period for which the add-on would apply or expand the add-on (or a variant of the add-on) to other institutions. Due to the manner in which the hourly add-on incentive is currently structured in the compensation plan, the administration has the flexibility to modify the program as needed, such as increasing (or decreasing) the hourly amount, determining to which institutions or positions it should apply, and deciding the effective dates for the program. If the program were no longer needed, the administration could eliminate it entirely.

41. Because it is unknown at this time what changes to the hourly add-on program DPM might deem appropriate, the amount of funding that may be useful cannot be precisely determined.

However, as noted previously, the Department estimated that the annualized cost to increase and expand the add-on, not including variable fringe benefits and protective service add-on, would be approximately $12 million to $13 million for adult institutions. Therefore, the Committee could choose to provide some amount of additional funding to compensation reserves to potentially extend or expand the hourly add-on program for 2020-21: (a) $12 million GPR in 2020-21 [Alternative 4a]; (b) $8 million GPR in 2020-21 [Alternative 4b]; or (c) $4 million GPR in 2020-21 [Alternative 4c]. If funding provided for the program were not needed, unspent moneys would lapse from compensation reserves to the general fund in 2020-21.

42. Finally, under the 2001-03 biennial budget, a provision was included prohibiting the Department of Corrections from using billboards or similar structures to recruit its employees. On April 25, 2019, 2019 Assembly Bill 191/Senate Bill 172 was introduced on a bipartisan basis, which would repeal the statutory prohibition relating to correctional employee recruitment using billboards or similar structures. Given that the Department of Corrections is attempting to improve its recruitment of employees to fill critical position vacancies and that there is currently legislative support to provide the Department with this option for recruitment, the Committee could specify that the prohibition be repealed. [Alternative 5]

43. If the Committee takes no action, it is unlikely a significant pay increase will be provided to the correctional security positions targeted by the pay proposal. [Alternative 6]

ALTERNATIVES

1. Approve the Governor's recommendation to provide to compensation reserves $3,602,100 GPR in 2019-20 and $20,160,900 GPR 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.

ALT 1	**Change to**	
	Base	**Bill**
GPR	$23,763,000	$0

2. Modify the proposal to provide $4,574,700 GPR in 2019-20 and $25,604,300 GPR in 2020-21 to further fund a $1.66 per hour pay increase for correctional officers, youth counselors, and psychiatric care technicians, to adjust minimum pay from $16.65 to $18.65 (a $2 increase in starting pay), and to increase pay for correctional sergeants, youth counselors-advanced, and psychiatric care technicians-advanced in a manner similar to the administration's proposal. [Funding for this alternative assumes an implementation date of late April or early May, 2020, and approval of two general wage adjustments of 2% each, which were separately recommended by the administration and for which the targeted correctional position classifications would be eligible.]

ALT 2	Change to	
	Base	Bill
GPR	$30,179,000	$6,416,000

3. Modify the proposal to provide $5,331,100 GPR in 2019-20 and $29,838,100 GPR in 2020-21 to further fund a $2.01 per hour pay increase for correctional officers, youth counselors, and psychiatric care technicians, to adjust minimum pay from $16.65 to $19.00, and to increase pay for correctional sergeants, youth counselors-advanced, and psychiatric care technicians-advanced in a manner similar to the administration's proposal. [Funding for this alternative assumes an implementation date of late April or early May, 2020, and approval of two general wage adjustments of 2% each, which were separately recommended by the administration and for which the targeted correctional position classifications would be eligible.]

ALT 3	Change to	
	Base	Bill
GPR	$35,169,200	$11,406,200

4. In addition to any other alternative, provide the following amount of funding in 2020-21 to compensation reserves to potentially extend or expand the hourly add-on program for correctional officers/sergeants, youth counselors/advanced, or psychiatric care technicians/advanced [if funding provided for the program were not needed, unspent moneys would lapse from compensation reserves to the general fund in 2020-21]:

a. $12 million GPR.

ALT 4a	Change to	
	Base	Bill
GPR	$12,000,000	$12,000,000

b. $8 million GPR.

ALT 4b	Change to	
	Base	Bill
GPR	$8,000,000	$8,000,000

c. $4 million GPR.

ALT 4c	Change to	
	Base	Bill
GPR	$4,000,000	$4,000,000

5. In addition to any other alternative, repeal the prohibition on recruiting correctional employees through billboards.

6. Take no action.

ALT 6	Change to	
	Base	Bill
GPR	$0	- $23,763,000

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May, 2019 | Joint Committee on Finance | Paper #173

Compensation for Certain State Crime Lab Positions (Budget Management and Compensation Reserves)

[LFB 2019-21 Budget Summary: Page 54, #1]

CURRENT LAW

For the 2017-19 biennium, all funds compensation reserves total $6,818,700 in 2017-18 ($3,080,500 GPR and $3,738,200 other funds) and $117,167,500 in 2018-19 ($52,081,600 GPR and $65,085,900 other funds). These funds are reserved for cost increases related to state and University of Wisconsin (UW) System employee salaries and fringe benefits.

GOVERNOR

Provide to compensation reserves $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.

DISCUSSION POINTS

Background

1. The state crime laboratories ("State Crime Labs") are administered under the Division of Forensic Sciences of the Department of Justice (DOJ) and include facilities in Madison, Milwaukee, and Wausau. The State Crime Labs provide testing and analysis of evidence for communities throughout the state. The Madison lab serves 24 counties in southern Wisconsin, the Milwaukee lab serves eight counties in the metropolitan area, and the Wausau lab serves 40 counties in northern Wisconsin.

2. Staff of the State Crime Labs test evidence submitted by law enforcement agencies, coroners, medical examiners, District Attorneys, state correctional facilities, state agencies, the Attorney General, and the Governor. Additionally, the State Crime Labs conduct analysis upon the request of a defendant in felony cases when approved by the presiding judge. Services provided by the State Crime Labs include crime scene response, toxicology, drug identification, DNA analysis, firearms and tool marks analysis, fingerprint and footwear analysis, comparison of fingerprint sets, photographic analysis, and forensic imaging.

3. Performance of these services results in a final report where the analyst renders an expert opinion on the evidence analyzed. Depending on proceedings in the court, an analyst may be required to testify at hearings and trials upon the request of either the defense or prosecution on their report and about their expert opinion.

4. In September, 2018, the National Forensic Science Technology Center at Florida International University delivered a needs assessment report regarding the State Crime Labs under a contract with DOJ. The report addressed subjects such as autonomy of the labs, advancement opportunities and compensation of staff, work scheduling, communication, and quality of work. With regard to compensation of the professional forensic science staff, the report observed pay differences between newer employees and those with substantially more experience, such that experienced employee compensation is perceived to be low relative to pay for newer employees. The report indicated that the pay compression issue "has caused strife between staff members and has lowered morale within the individual units." The report also indicated "a high rate of turnover attributed to the pay issue resulting in a trickle-down effect to productivity because the laboratory is in a constant state of training." The Center recommended that the pay structure be reviewed and adjusted as soon as possible.

5. In its response to the compensation recommendation, DOJ indicated that it is has limited discretion in setting pay, such as pay on transfer, sign-on bonuses, and assigning positions to pay schedules and ranges. The Department noted that it has attempted to correct inequities through merit and retention awards, but that it is restricted in the number and size of awards. The Department further indicated that it would propose "a statutory, merit-based pay progression that gives DOJ the autonomy to give pay increases according to market forces and the performance of our employees."

6. It should be noted that, as a general rule, compensation for the State Crime Lab positions targeted by the proposal at the senior and advanced level is higher for employees with more years of experience and lower for employees with fewer years of experience. However, a review of position compensation confirms the perception that, for entry level positions in particular, certain employees with many years of experience earn less than certain other employees in the same position classification who have less experience. While some of these pay differences may be based upon merit, DOJ indicates that the primary reason for the differences is that recent hires must be appointed at higher rates due to labor market conditions and that the agency is limited in the extent to which it can give longer-tenured employees raises sufficient to meet the pay level of newer hires.

7. In its 2019-21 agency budget request, DOJ requested unspecified statutory changes "to establish a progressive pay structure and adjust current pay rates for science and technical staff of the state crime laboratories." The budget request did not provide additional details regarding the nature

of the pay structure or changes to pay rates. Further, DOJ did not request funding for the changes. Rather, the agency indicated in its request that the cost of the pay adjustments would be absorbed within its base budget.

8. It should be noted that at the time of the agency budget request, DOJ used funding from the discretionary settlement fund to support the cost of pay progression for assistant attorneys general. Under 2017 Act 369, enacted subsequent to the agency request, all settlement funds are required to be deposited in the general fund. The act additionally reduced the discretionary settlement appropriation expenditure authority to $0 annually. Therefore, this is no longer a potential source of funding for pay progression for the State Crime Labs. [The Act 369 provision is currently the subject of litigation.]

Pay Proposal

9. The state's biennial compensation plan, prepared by the Department of Administration's Division of Personnel Management (DPM) and approved by the Legislature's Joint Committee on Employment Relations (JCOER), establishes the compensation levels and various other pay, benefit, and work conditions for most state employees.

10. Under the bill, amounts budgeted to compensation reserves include $48,100 GPR in 2020-21 to implement a pay progression system for certain professional forensic science staff of the State Crime Labs. The administration initially indicated that the proposal would target the following position classification series in pay ranges 15-03 and 15-04: controlled substance analyst; DNA analyst; fingerprint and footwear examiner; firearms and toolmark examiner; forensic imaging specialist; forensic science training coordinator; toxicologist; and trace evidence examiner. Additionally, the proposal would include several supervisory staff.

11. The administration argues that a pay progression system for these positions should be instituted because:

> "DOJ invests significant resources in the necessary training and certifications required for its employees to be able to complete their duties and to provide expert testimony. As the field grows and as DOJ's need for these employees grows, competition for this limited resource has also grown. As staff expertise and knowledge expands with more seniority (time doing these duties), so too grows their ability to offer credible, defensible work products that can be relied upon in the criminal justice process."

12. The bill also includes funding in compensation reserves for two general wage adjustments of 2% each, which would be provided to most state employees. The administration indicates that the affected positions of the State Crime Labs would be eligible for the first 2% general wage adjustment on January 1, 2020. The administration indicated that the planned implementation date of the pay progression proposal for the positions would coincide with the second proposed general wage adjustment, on January 1, 2021. The administration indicates that the positions would not be eligible for the second general wage adjustment due to the implementation of the pay progression proposal.

13. With regard to the details of the proposal, such as the basis upon which different amounts

of pay increases may be provided to individuals, the administration indicates that DPM is still working with DOJ "to actualize their pay progression system. Full details will be provided in the Compensation Plan upon presentation to JCOER." Therefore, specific features of the proposal as it might appear in the 2019-21 compensation plan, such as how the proposal might address pay compression or whether seniority would be a consideration, are unknown at this time.

14. Funding of $48,100 GPR for the pay progression proposal was calculated based on a 2% salary increase for all affected employees, including the associated cost of variable fringe benefits. With regard to the Governor's recommendation, the administration indicated that any costs that may be incurred due to the pay progression proposal above the amount equivalent to a 2% raise would be funded by DOJ within the agency's budgeted appropriations.

15. Subsequent to introduction of the Governor's recommended 2019-21 budget, DOJ prepared materials outlining a State Crime Lab pay progression plan developed by the agency for submission to DPM and, ultimately, JCOER for approval. In addition to the position classifications noted above in pay ranges 15-03 and 15-04 and certain supervisory staff, the plan would include technicians in pay range 06-13 that are classified as laboratory technician 2 and fingerprint technician-entry. The proposal outlined by DOJ would establish a six step pay progression for affected positions, and would include provisions for hourly add-on pay. Further, DOJ would request that DPM create position classifications for forensic sciences technical unit leader and forensic sciences technician leadworker. The Department requests that the proposal be funded through compensation reserves, or through a direct increase to its general program operations appropriation. The Department estimates the GPR cost of the proposal at $291,800 GPR in 2020-21.

16. It should be noted that the administration's calculations, which were intended to reflect a 2% salary increase on January 1, 2021, were based on prior pay rates of several affected positions; did not account for pay increases associated with the first proposed general wage adjustment; and did not include several position classifications that would be eligible for a pay increase under DOJ's proposal. However, because the administration proposes that funding for the 2% raises for affected State Crime Lab employees be funded through a reallocation of funds budgeted for general wage adjustments, correcting these discrepancies would have a net effect of $0 GPR in 2020-21.

17. Given that the September, 2018, report prepared for DOJ documented a potential need to address issues relating to compensation of certain State Crime Lab positions to improve recruitment and retention, the Committee could approve the Governor's recommendation to provide $48,100 GPR in 2020-21 ($97,900 all funds) for the pay progression proposal. [Alternative 1] Under this alternative, if the actual cost of 2% raises for affected State Crime Lab positions were greater than $48,100 GPR in 2020-21 and the Committee separately approves funding for general wage adjustments, the administration could reallocate funding from the amount approved for general wage adjustments.

18. On the other hand, 2% salary increases do not constitute a pay progression system. Further, DOJ has indicated that it believes it will not be able to fund its pay progression plan without additional GPR funding. Given that the needs assessment documented challenges relating to compensation of State Crime Lab employees, and that it can take several years to train skilled employees who perform essential services such as crime scene response, toxicology, DNA analysis, and preparation of expert testimony for the state in court cases, the Committee could modify the

provision and instead fund the proposal $291,800 GPR in 2020-21. [Alternative 2] Under this alternative, the details of the proposal would be included in the 2019-21 state compensation plan as recommended by DPM, and would be subject to JCOER approval.

19. If funding is not provided for the proposal, the administration indicates that the pay system may possibly still be implemented in the 2019-21 state compensation plan "as long as DOJ verified to DPM that it would cover the full cost of the implementation." Therefore, the Committee could take no action. [Alternative 3] If DOJ is not able to cover the full cost of implementing the plan, the proposed amounts to be provided to employees under the plan as currently constructed may be reduced, or the pay progression plan may be eliminated.

ALTERNATIVES

1. Approve the Governor's recommendation to provide $48,100 GPR in 2020-21 ($97,900 all funds) for the State Crime Labs pay progression proposal.

ALT 1	Change to	
	Base	**Bill**
GPR	$48,100	$0

2. Modify the proposal to instead provide $291,800 GPR in 2020-21 to compensation reserves for DOJ's State Crime Lab pay progression proposal. The details of the proposal would be included in the 2019-21 state compensation plan as recommended by DPM, and would be subject to JCOER approval.

ALT 2	Change to	
	Base	**Bill**
GPR	$291,800	$243,700

3. Take no action.

ALT 3	Change to	
	Base	**Bill**
GPR	$0	- $48,100

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May, 2019 | Joint Committee on Finance | Paper #174

Required General Fund Structural Balance
(Budget Management and Compensation Reserves)

CURRENT LAW

Under s. 20.003(4m) of the statutes, no bill may be adopted by the Legislature if the bill would cause general fund net appropriations to exceed general fund revenues in the second year of the fiscal biennium.

GOVERNOR

No provision.

DISCUSSION POINTS

1. The "required general fund structural balance" provision was first enacted by 2001 Act 109. As initially enacted, the provision directed that no bill could be adopted by the Legislature that would cause net general fund appropriations to exceed general fund revenues in either year of the biennium.

2. The intent of the provision was to ensure that, for each fiscal year, revenues would exceed net appropriations, which would produce a structural balance in the general fund. To meet the statutory test, any opening balance (monies brought forward from the previous fiscal year) was to be ignored. Thus, the provision compared only estimated revenues collected in any given year with net appropriations in that year. The following table presents two hypothetical examples of the general fund balance and structural balance under the provision.

TABLE 1

		Example A	Example B
1	Opening Balance	$200,000,000	$200,000,000
2	Revenues	$15,000,000,000	$15,000,000,000
3	Net Appropriations	$15,100,000,000	$14,900,000,000
4	Balance (1 + 2 - 3)	$100,000,000	$300,000,000
5	Structural Balance (2 - 3)	-$100,000,000	$100,000,000

In example "A" and "B", the opening balance (1) is $200 million and revenues (2) equal $15 billion. Net appropriations (3) are $15.1 billion in "A" and $14.9 billion in "B".

Both examples reflect a positive balance (4) for the year. To meet the statutory requirement, however, the opening balance is ignored and the structural balance only compares revenues (2) with net appropriations (3). As shown, "A" indicates an imbalance of $100 million whereas "B" would meet the statutory test.

3. The 2001 Act 109 provision remained unchanged until the 2009-11 budget. That budget (2009 Act 28), modified the requirement to have it apply to the second year of any biennium rather than to each year. The statutory provision has not been changed since Act 28. However, the 2013-15 budget (2013 Act 20), the 2015-17 budget (2015 Act 55), and the 2017-19 budget (2017 Act 59) each stated that the provision would not apply to any legislation adopted in those respective biennia.

4. The reason that the structural balance provision was suspended for 2013-15, 2015-17, and 2017-19 was due to the fact that, at the time of budget deliberations, there was a relatively large projected balance carried into the second year of those biennia ($464 million in 2014-15, $162 million in 2016-17), and $555 million in 2018-19. The Legislature used a part of those opening balances to address revenue and spending priorities.

5. The purpose of the provision is to ensure that budgeted expenditures do not exceed projected revenues. Thus, a balance is established which many would support as sound fiscal management. In addition, because the budget in the ensuing biennium is constructed from the second year of the current biennium (the base year), having a structural balance in the base year negates the use of revenue growth to address a structural shortfall from the previous biennium.

6. The provision, however, limits the options that the Legislature may have on use of balances that are carried forward from year to year. The following table shows the condition of the general fund for 2018-19 at time of adoption of the 2017-19 budget.

TABLE 2

2018-19 General Fund Condition
(In Millions)

1	Opening Balance	$555
2	Revenues	$17,120
3	Net Appropriations	$17,352
4	Balance (1 + 2 - 3)	$323
5	Structural Balance (2 - 3)	-$232

To meet the structural balance requirement for the 2017-19 biennium, the Legislature would have had to increase revenues by $232 million or cut net appropriations by that amount (or some combination of the two) for the 2018-19 fiscal year. Essentially, the statutory structural balance provision can significantly reduce the Legislature's ability to use balances to assist in budget deliberations.

7. It is very likely that the Legislature will be unable to meet the structural balance requirement for the 2019-21 biennium. Table 3 shows the general fund condition statement for 2020-21 under the Governor's budget recommendations as introduced (AB 56/SB 59).

TABLE 3

2020-21 General Fund Condition -- AB 56/SB 59
(In Millions)

1	Opening Balance	$938
2	Revenues	$18,665
3	Net Appropriations	$19,498
4	Balance (1 + 2 - 3)	$105
5	Structural Balance (2 - 3)	-$833

In order to meet the statutory requirement for the 2019-21 biennium, the Legislature would need to increase revenues under the Governor's budget by $833 million or reduce net appropriations by that amount (or some combination of the two) in 2020-21. It is likely, then, as with the 2013-15, 2015-17, and 2017-19 budgets, the statute will again need to be suspended.

8. Because it is unlikely that the Legislature will be able to meet the statutory test for 2019-21, it may need to suspend the requirement for 2019-21 as was done for 2013-15, 2015-17, and 2017-19. (Alternative 1)

Finally, given the fact that the provision has been suspended in the last three biennia and will likely need to be suspended in 2019-21, the Committee may decide to repeal the statutory provision. (Alternative 2)

ALTERNATIVES

1. Suspend the provision for the 2019-21 biennium.

2. Repeal the statutory requirement.

3. Take no action.

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BUDGET MANAGEMENT AND COMPENSATION RESERVES

LFB Summary Item Addressed in a Separate Paper

Item #	Title
1	Modify 2015 Opt-Out Stipend Exclusion (Paper #285)