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Joint Committee on Finance

Paper #205

Program Operations Funding (Board of Commissioners of Public Lands)

[LFB 2023-25 Budget Summary: Pages 78-79, #2 & 4]

CURRENT LAW

The Board of Commissioners of Public Lands (BCPL) is a constitutionally created body consisting of the State Treasurer, the Attorney General, and the Secretary of State. The Board was established to accept public lands granted to Wisconsin at statehood by the federal government, including approximately 3.7 million acres of trust lands, and to oversee the sales of such trust lands and the investment of proceeds for the benefit of schools and libraries. Current staff responsibilities include managing the remaining school trust lands, totaling about 74,800 acres, and administering loans to local units of government from the corpus of the school trust funds to generate income for the funds. The Board is supported by 9.5 permanent GPR staff positions and other limited-term employees (LTEs).

DISCUSSION POINTS

A. Vacant Position Adjustment

1. The 2021-23 biennial budget provided BCPL with an annual allotment of \$811,400 for permanent position salary. In the summer of each even-numbered year, the adjusted base budget is calculated for all agencies based on total appropriations for the second year of that fiscal biennium, plus other necessary adjustments such as for employee compensation increases approved in the state compensation plan. As a result of these adjustments, BCPL has an adjusted base including \$844,200 GPR for permanent position salaries and \$297,300 GPR for fringe benefits for permanent positions and LTEs for purposes of beginning the 2023-25 biennial budget process.

2. Standard budget adjustments are also first calculated in August or September of each even-numbered year for each agency to submit as part of its requested budget for the next biennium.

Standard budget adjustments include, among other items, the full cost of salaries and fringe benefits for continuing positions. If positions are vacant when standard budget adjustments are calculated (August of 2022 for the 2023-25 biennium), the positions are budgeted at the minimum pay authorized for each position class.

3. In August 2022, BCPL had 1.8 vacant positions: the Deputy Commissioner of Public Lands and a 0.8 senior accountant. The Deputy Commissioner position has been vacant since August, 2021. The Board recruited applicants for the position in the 2021-23 biennium but struggled to find qualified applicants within the position's pay range. The accountant position was created in January, 2021, after the Board changed the classifications of a 0.5 real estate specialist position and a 1.0 archivist position to a 0.7 real estate specialist and a 0.8 accountant. The Board also has sought applicants for the accountant position but has struggled to compete for applicants within the approved pay band amid a tight labor market.

4. Standard budget adjustments would remove \$25,600 GPR annually (\$17,100 for salary and \$8,500 for fringe benefits) attributable to the 1.8 vacancies from the agency's base budget. Standard budget adjustments would set the Board's annual salary allotment for the 2023-25 biennium at \$827,100; the Board's fringe allotment for the biennium would be set at \$288,800 in each year of the 2023-25 biennium.

5. While BCPL intends to fill the vacant positions in the 2023-25 biennium, Board staff argue there would be insufficient funding to pay the positions at a salary level competitive in the market. Assembly Bill 43/Senate Bill 70 would provide \$69,400 annually, including \$51,500 for salaries and \$17,900 for fringe benefits, to provide the Board with a sufficient salary and fringe allotment to hire the 1.8 vacant positions at intended salary levels, within the respective position pay bands. The Committee could consider increasing the Board's salary and fringe allotment by \$69,400 annually to allow the Board to hire vacant positions above the minimal level [Alternative A1].

6. As of April 1, 2023, the Board had an annualized payroll of \$835,800. This amount includes the minimum authorized pay for the vacant positions. As described above, the Board's salary and fringe allotments under standard budget adjustments are \$827,100 and \$288,800, respectively, in each year of the 2023-25 biennium. Therefore, standard budget adjustments would provide the Board insufficient funding to pay existing employees. To fully fund existing staff, while leaving salary allotments for the vacant positions at the minimal level, the Committee could increase the Board's salary allotment by \$8,700 and fringe allotment by \$3,000, a total change of \$11,700, in each year of the 2023-25 biennium [Alternative A2]. Given that the Board has struggled to fill the 1.8 vacancies within the existing salary allotment, it is not clear whether the Board would have sufficient funding to conduct a recruitment for the 1.8 vacant positions in the 2023-25 biennium at the intended salaries under this alternative.

7. If the vacant Deputy Commissioner position had been filled at the last incumbent's salary on the date that full funding for continuing position salaries was calculated, BCPL would have received an increase of \$20,400 for salaries and \$4,500 for fringe benefits under standard budget adjustments. This would equal a difference of \$50,500 annually as compared to standard budget adjustments. Since the 0.8 senior accountant position was created after a partial change of classification of other positions, the Board has not had an incumbent in the position. While position

classification changes are routine adjustments agencies may make, funding increases for changed position classifications are seldom provided until standard budget adjustments are made at the beginning of each biennium. Under this perspective, it could be argued that the Committee should provide a funding increase only for the Deputy Commissioner position. The Committee could fully fund all existing positions (\$11,700) and provide a vacant position adjustment for the Deputy Commissioner position (\$50,500) by increasing BCPL's operations appropriation by \$62,200 [Alternative A3].

8. As noted above, the Board intends to recruit the positions in the 2023-25 biennium. Once the positions are filled, the incumbents' salaries as of August, 2024, will form the basis for standard budget adjustments for the 2025-27 biennial budget. If the Committee takes no action [Alternative A4], BCPL would be required to reduce non-wage expenses to pay salaries and fringe benefits for any positions filled during the biennium at a level higher than currently budgeted. Since a portion of the Board's supplies and services budget was reallocated to fully fund vacant positions in 2021 Act 58 as described in the following section, Board staff argue there has been limited flexibility to reduce such expenses. Therefore, the Board would likely need to keep positions vacant for extended periods in order to reduce expenses. The Board indicates that this would likely require agency employees to take on additional work and to postpone certain job tasks such as developing due diligence reports on new investments, managing certain fund investments and land management activities.

B. Investment and Land Management Expenses

9. 2021 Act 58 reallocated \$76,500 annually from BCPL's supplies and services budget allotment to the salary and fringe allotments to provide adjustments for vacant positions funded at the minimal level under standard budget adjustments for the current biennium. Additionally, Act 58 further reduced the agency's supplies and services budget by \$97,800, a total reduction of \$177,200 from the base. The Board has an adjusted base supplies and services budget of \$444,800 annually in the 2023-25 biennium.

10. The following table compares BCPL's budgeted and actual supplies and services expenditures since 2015-16. As shown in the table, BCPL has consistently underspent its supplies and services budget. However, expenditures have generally increased, and have appeared to equal allotted current amounts. Board staff report expecting to expend substantially all budgeted supplies and services funding in 2022-23.

TABLE 1

Supplies and Services Expenditures

<u>Fiscal Year</u>	<u>Budgeted</u>	<u>Actual</u>
2015-16	\$609,900	\$336,004
2016-17	614,500	345,831
2017-18	616,900	378,742
2018-19	619,100	405,694
2019-20	621,400	413,197
2020-21	623,700	472,415
2021-22	441,500	434,957
2022-23	441,500	N/A
2023-24*	444,800	N/A
2024-25*	444,800	N/A

*Adjusted base

11. BCPL reports that recent policy changes have increased supplies and services expenditures. Since 2005, the Board has been authorized to "bank" the proceeds from land sales in order to acquire more productive timberland. BCPL has used this authority to concentrate its land holdings within a "consolidation zone" in northeastern Wisconsin. BCPL reports that the consolidation strategy has made land management more efficient and has increased timber harvest revenues. However, the Board has incurred greater land management and timber sale preparation expenses, which are largely funded through the supplies and services allotment. BCPL notes that it has cut land appraisals and reduced the number of land transactions the Board has pursued.

12. Additionally, 2015 Act 60 expanded the range of investments that the Board may purchase with the trust funds. Prior to 2015, BCPL was required by statute to invest in low-risk financial instruments, such as government-issued bonds. In November of 2016, Commissioners approved a new investment strategy that emphasized increasing long-term returns while maintaining sufficient liquidity to provide stable distributions to beneficiaries.

13. As a result of the Board's investment policy, along with a positive investment climate, the values of each trust fund have generally grown. Table 2 shows distributions from the common school fund, the largest trust fund under BCPL's management, since 2008-09. As shown in the table, in the seven fiscal years between 2008-09 and 2015-16, the common school fund distributions grew by a total of 7%, an average growth rate of 1% each year. In the seven years since 2015-16, distributions have grown by 38%, an average growth rate of 5% each year.

TABLE 2

Common School Fund Distributions

<u>Fiscal Year</u>	<u>Distribution</u>	<u>Year-over-Year Return</u>
2008-09	\$35,300,000	1%
2009-10	32,000,000	-9
2010-11	33,599,999	5
2011-12	32,500,000	-3
2012-13	30,100,000	-7
2013-14	30,200,000	0
2014-15	35,500,000	18
2015-16	37,700,000	6
2016-17	32,100,000	-15
2017-18	35,700,000	11
2018-19	36,200,000	1
2019-20	43,450,000	20
2020-21	39,000,000	-10
2021-22	40,600,000	4
2022-23	52,000,000	28

14. BCPL's changed investment policy has incurred additional costs for due diligence reporting, investment accounting, and legal work related to new investments. BCPL estimates that contracted due diligence reports on new investments cost approximately \$15,000 and outside legal work costs \$25,000. In order to hold spending within the budgeted supplies allotment, the Board has reduced these expenses and pursued lower cost, lower yield investments for the trust funds.

15. Assembly Bill 43/Senate Bill 70 would increase the Board's supplies and services budget by \$65,000 annually. Board staff report that this would enable the Board to pursue additional due diligence reports, outside legal work, and other contracted costs for investment management. The Committee could consider increasing BCPL's supplies and services allotment by \$65,000 annually [Alternative B1].

16. Many other state agencies are experiencing increased costs due to inflation. To offset these price increases, Assembly Bill 43/Senate Bill 70 as introduced would provide many agencies with a 5% increase to the supplies and services line of their general program operations appropriation. Agencies were considered for the proposed adjustment if they had expended 95% or more of their supplies and services budget in 2021-22 and no other inflationary adjustment provision was included in the Governor's budget recommendations. In 2021-22, BCPL expended 98.5% of its supplies and services budget. The Committee could consider increasing the Board's supplies and services budget by \$22,100 to provide a 5% operations adjustment [Alternative B2].

17. If the Committee takes no action [Alternative B3], BCPL will be required to maintain operations expenditures within current budgeted levels. As shown above, under the adjusted base, the Board has minimal flexibility to reduce supplies and services expenditures. The Board would likely

be required to maintain vacant positions in order to reallocate funding for supplies and services.

ALTERNATIVES

A. Vacant Positions Adjustment

1. Provide \$69,400 annually, including \$51,500 for salaries and \$17,900 for fringe benefits for current and planned BCPL staffing in the 2021-23 biennium.

ALT A1	Change to Base
GPR	\$138,800

2. Provide \$11,700 annually to fully fund filled positions for the 2023-25 biennium.

ALT A2	Change to Base
GPR	\$23,400

3. Provide \$62,200 annually to fully fund filled positions and to provide a vacant position adjustment for the Deputy Commissioner vacancy in the 2023-25 biennium.

ALT A3	Change to Base
GPR	\$124,400

4. Take no action.

B. Investment and Land Management Expenses

1. Provide \$65,000 annually to increase BCPL's supplies and services budget.

ALT B1	Change to Base
GPR	\$130,000

2. Provide \$22,100 annually to increase BCPL's supplies and services budget.

ALT B2	Change to Base
GPR	\$44,200

3. Take no action.

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