



## Legislative Fiscal Bureau

One East Main, Suite 301 • Madison, WI 53703 • (608) 266-3847 • Fax: (608) 267-6873  
Email: [fiscal.bureau@legis.wisconsin.gov](mailto:fiscal.bureau@legis.wisconsin.gov) • Website: <http://legis.wisconsin.gov/lfb>

---

June, 2021

Joint Committee on Finance

Paper #230

### Compensation Reserves Overview and Fringe Benefit Costs (Compensation Reserves)

[LFB 2021-23 Budget Summary: Page 116, #1]

---

#### CURRENT LAW

Funding is allocated to compensation reserves for cost increases related to state and University of Wisconsin (UW) System employee salaries and fringe benefits. Such costs typically include: (a) proposed pay increases, which would be finalized in the forthcoming compensation plan; and (b) inflationary cost increases for fringe benefits.

#### DISCUSSION POINTS

1. Under Assembly Bill 68/Senate Bill 111, funding is provided in the 2021-23 general fund condition statement for compensation reserves totaling \$54,066,100 GPR in 2021-22 (\$88,072,600 all funds) and \$117,807,800 GPR in 2022-23 (\$187,173,200 all 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 by Fund Source, 2021 AB 68/SB 111**

<u>Fund Source</u>	<u>2021-22</u>	<u>2022-23</u>
General Purpose Revenue	\$54,066,100	\$117,807,800
Federal Revenue	9,253,800	18,875,700
Program Revenue	15,391,900	31,395,800
Segregated Revenue	<u>9,360,800</u>	<u>19,093,900</u>
Total	\$88,072,600	\$187,173,200

2. On May 6, 2021, in executive session, the Committee removed various provisions from further consideration, including proposals to: decrease the health insurance waiting period for new employees; add June 19 as a paid holiday for state and UW System executive branch employees; provide paid parental leave for state and UW System executive branch employees; provide sick leave for limited-term employees of non-UW executive branch agencies; and modify the vacation allowance structure for non-UW executive branch employees. In addition, subsequent to introduction of the budget, the administration indicated that the cost to increase minimum pay to \$15 per hour and implement a market stratification was calculated incorrectly. The reestimated cost of the proposal is \$2,211,000 GPR annually (rather than \$3,879,900 GPR annually). The remaining items for the Committee to consider, including the cost reestimate, are shown in Table 2.

**TABLE 2**

**GPR Compensation Reserves for State and UW System Employees,  
Excluding Items Removed from Consideration**

	<u>2021-22</u>	<u>2022-23</u>
<b>Fringe Benefits-Related</b>		
Prior Period and Inflationary Increases for State Employee Fringe Benefits	\$17,511,700	\$35,748,900
Opt-out Incentive Savings	<u>-1,467,700</u>	<u>-2,503,400</u>
Subtotal	\$16,044,000	\$33,245,500
<b>Salary-Related</b>		
General Wage Adjustments	\$21,717,000	\$65,734,500
Market Wage and Parity Adjustments	5,000,000	5,000,000
Minimum Pay Increase to \$15 per Hour, with Market Stratification (Reestimated)	2,211,000	2,211,000
Night and Weekend Differential Increase	0	2,388,800
Nursing Assistant and Resident Care Technician Pay Progression	<u>52,700</u>	<u>68,000</u>
Subtotal	\$28,980,700	\$75,402,300
Grand Total	\$45,024,700	\$108,647,800

3. This paper provides an overview of compensation reserves and addresses the remaining fringe benefits-related items identified in Table 2. 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, minimum pay increase to \$15 per hour and associated market stratification, and night and weekend differential pay; and (b) a pay progression system for nursing assistants and resident care technicians.

**Overview of Compensation Reserves**

4. 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 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.

5. In the 2021-23 biennium, to the extent necessary, costs of unbudgeted pay and fringe benefit adjustments would be funded from compensation reserves under the pay plan supplementation process. Under the pay plan supplementation process, the Department of Administration (DOA) 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.

6. The schedule of compensation reserves (shown in Table 1) indicates reserve funding in AB 68/SB 111 for each funding source from which state employees' salaries and benefits may be funded. The respective designations of GPR, FED, PR, and SEG funding amounts are included to provide an indication of the all-funds impact of 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 consists primarily of general tax revenues. In contrast, 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.

7. As a consequence of this difference, when GPR that is set aside in 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 FED, PR, or SEG 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 expenditure from the relevant appropriations associated with the 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 spending authority by the amount of the requested supplement.

8. 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.

## Fringe Benefits

9. As shown in Table 2, the GPR and all funds compensation reserve amounts under the bill related to state and UW System employee fringe benefits in particular include: (a) \$17,511,700 GPR (\$27,260,000 all funds) in 2021-22 and \$35,748,900 GPR (\$56,071,900 all funds) in 2022-23 to support prior period and inflationary increases for fringe benefits; and (b) -\$1,467,700 GPR (-\$2,449,200 all funds) in 2021-22 and -\$2,503,400 GPR (-\$4,177,500 all funds) in 2022-23 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.

10. 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, and the accumulated sick leave conversion credit program. Estimated savings are associated with anticipated 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.

11. This office has reviewed the calculations utilized to estimate the funding amounts associated with the fringe benefit items remaining after the Committee's May 6, 2021, actions and determined that the calculations appear reasonable. Therefore, the Committee could provide \$16,044,000 GPR (\$24,810,800 all funds) in 2021-22 and \$33,245,500 GPR (\$51,894,400 all funds) in 2022-23 to compensation reserves to fund increases in fringe benefit costs for the 2021-23 biennium, net of estimated cost savings associated with opt-out stipends. [Alternative 1]

12. If the Committee takes no action regarding current law fringe benefit cost increases and decreases budgeted to compensation reserves, agencies would need to manage any fringe benefit cost increases within appropriated budgets. [Alternative 2]

## ALTERNATIVES

1. Provide \$16,044,000 GPR (\$24,810,800 all funds) in 2021-22 and \$33,245,500 GPR (\$51,894,400 all funds) in 2022-23 to compensation reserves to fund increases in fringe benefit costs for the 2021-23 biennium, net of estimated cost savings associated with opt-out stipends.

ALT 1	Change to Base
GPR	\$49,289,500

2. Take no action.

Prepared by: Rachel Janke