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June, 2023 Joint Committee on Finance Paper #216

General Wage Adjustments
(Budget Management and Compensation Reserves)

[LFB 2023-25 Budget Summary: Page 84, #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, including proposed pay increases which would be finalized in the forthcoming compensation plan.

DISCUSSION POINTS

1. This paper addresses amounts budgeted under compensation reserves for general wage adjustments. Separate budget papers have been prepared for the following provisions also budgeted under compensation reserves: (a) prior period and inflationary increases for state employee fringe benefits; (b) correctional security position compensation; (c) pay progression systems; and (d) market wage adjustments, including adjustments for IT positions and classified attorneys. In addition, a budget paper has been prepared relating to the continuation of pilot add-ons in the Departments of Administration (DOA), Corrections, Health Services, Military Affairs, Safety and Professional Services, and Veterans Affairs.

2. Under Assembly Bill 43/Senate Bill 70, funding is provided in the 2023-25 general fund condition statement for compensation reserves totaling $365,260,700 GPR in 2023-24 ($667,480,900 all funds) and $581,614,700 GPR in 2024-25 ($1,001,825,800 all funds) for cost increases related to state and UW System employee salaries and fringe benefits.

3. Amounts in compensation reserves include funding for two general wage adjustments general wage adjustments constituting 5% on July 1, 2023, and 3% on July 1, 2024, for state and UW System employees. Combined, these increases represent an 8.15% general wage increase for

employees over the 2023-25 biennium. Funding in compensation reserves includes $114,434,800 GPR in 2023-24 and $301,269,900 GPR in 2024-25, less a 5% reduction (described below), are included to support the general wage adjustments.

4. Under the bill, funding in compensation reserves was calculated as the sum of estimated cost increases for fringe benefits and estimated costs of proposed pay provisions, less a reduction of 5% of the total estimated costs. The Administration indicates the reason for the reduction is that, while estimated costs in compensation reserves for proposed pay increases are generally calculated based on filled positions only, agencies must demonstrate need for funding when requesting pay plan supplements. To the extent that agencies have vacant positions, available funding associated with the vacant positions must be utilized before a supplement would be provided from compensation reserves. The 5% reduction was applied to reflect a higher than usual level of position vacancies that may continue for some time.

5. On April 27, 2023, the Administration submitted errata materials that included the identification of an error in the calculation of cost for general wage adjustments in 2024-25. Specifically, bill funding in 2024-25 is $114,434,900 GPR higher than would be necessary to support the proposed general wage adjustments. As modified by the errata, funding for general wage adjustments would be $114,434,800 GPR in 2023-24 and $186,835,000 GPR in 2024-25.

6. Separately, the bill included the estimated costs of having to pay for a 27th payroll in 2023-24 for employees paid on a bi-weekly basis by providing funding to the supplemental appropriations established for this purpose. On May 2, 2023, in executive session, the Committee adopted Motion #12, which included funding for standard budget adjustments (as modified under the motion), 27th biweekly payroll, sum sufficient appropriation estimates, and debt service on appropriation obligation bonds. Under the motion, estimated costs for the 27th payroll period were included, with no assumed increases relating to general wage adjustments, as the Committee had not yet taken action regarding general wage adjustments. Thus, to account for the 27th payroll period, if a 5% general wage adjustment were provided on July 1, 2023, an additional $2,299,500 GPR in 2023-24 could be included in compensation reserves for the amount by which the general wage adjustment would increase the bi-weekly payroll cost.

7. The reestimated cost of general wage adjustments including 27th bi-weekly payroll would be $116,734,300 GPR in 2023-24 and $186,835,000 GPR in 2024-25. After applying a 5% reduction associated with a higher than usual level of position vacancies ($5,836,700 GPR in 2023-24 and $9,341,800 GPR in 2024-25), net funding to compensation reserves for the proposed general wage adjustments would be $110,897,600 GPR in 2023-24 and $177,493,200 GPR in 2024-25.

8. A review of consultant research shows that employers in general have, on average, provided 3.1% annual wage increases over the past 10 years. Most recently, in 2022, the average budgeted salary increase was 4.1%. Table 1 summarizes the research on pay increases.

TABLE 1

Employer Compensation Increases, 2013 - 2022

Calendar Year	U.S. Average Salary Budget Increases
2013	2.9%
2014	3.0
2015	3.0
2016	3.0
2017	3.0
2018	3.1
2019	3.2
2020	2.9
2021	3.0
2022	4.1
10-Year Average	3.1%

9. Over a similar period, the State of Wisconsin has provided lower wage increases with less frequency. Table 2 summarizes the general wage adjustments provided to state employees and percentage change in the consumer price index for all urban consumers (CPI-U) from 2013-14 to 2022-23 (through April, 2023).

TABLE 2

General Wage Adjustments for State Employees and CPI-U Changes, 2013-14 to 2022-23

Fiscal Year	General Wage Adjustment	Consumer Price Index Change
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	2.1
2019-20	2.0	1.6
2020-21	2.0	2.3
2021-22	2.0	7.2
2022-23	2.0	5.9
Percent Change, FY 2014 to 2023	14.9%	29.2%

10. In reviewing Table 2, 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 addition, employees may earn pay increases by advancing to higher levels within a classification series or through promotion to a different type of position. Increases in salaries may be supported by a state agency through the utilization of existing resources during the biennium in which the increase occurs or through a supplement request. In the following biennium, standard budget adjustments would provide the agency any necessary funding to support employees' updated salary and fringe benefits costs.

11. Non-retirement separations of classified state employees have averaged 9.4% annually since 2015-16. Most recently, in 2021-22, the non-retirement separation rate of 11.7% was nearly twice the rate in 2012-13, 6.1%. Both the non-retirement and retirement separation rates in 2021-22 were higher than at any point in the last 10 years, for a total separation rate of 16.3%. Over the same 10-year period, Wisconsin rates of unemployment decreased from 6.9% in 2012-13 to 3.1% in 2021-22. As unemployment rates decrease, competition for a limited supply of workers between employers increases. As of April, 2023, the unemployment rate in Wisconsin is 2.4%. Table 3 summarizes state separation rates, by retirement and non-retirement separations, and unemployment rates in Wisconsin from 2012-13 to 2021-22.

TABLE 3

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
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	4.8
2015-16	9.1	4.3	13.4	4.1
2016-17	9.5	4.2	13.7	3.6
2017-18	9.7	3.9	13.6	3.1
2018-19	10.1	3.7	13.8	3.1
2019-20	8.7	3.6	12.2	5.1
2020-21	8.6	3.4	12.0	5.0
2021-22	11.7	4.6	16.3	3.1

12. Under the Wisconsin State Constitution, the compensation of a public officer may not be increased or decreased during the term of office, except that: (a) any increase in the compensation of members of the Legislature takes effect, for all Senators and Representatives, after the next general election beginning with the new Assembly term; and (b) any increase or decrease in the compensation

of Justices of the Supreme Court or judges of any other court become effective for all Justices or judges, upon the election or appointment of any Justice or judge. Further, under state statute, the salary of each elected district attorney is established at the rate that is in effect for their office in the state employee compensation plan on the second Tuesday of July preceding the commencement of their term of office. Therefore, state legislators will next be eligible for a pay increase in January, 2025; the State Superintendent would next be eligible for a pay increase when assuming office in July, 2025; other constitutional officers would be eligible for a pay increase in January, 2027; and elected district attorneys would be eligible for a pay increase when assuming office in January, 2025. Further, assistant attorneys general, assistant and deputy district attorneys, and assistant state public defenders, who are eligible to receive pay increases under a pay progression plan outside of the state compensation plan, would not be eligible to receive general wage adjustments.

13. The calculation of funding for general wage adjustments accounts for groups of employees who would be ineligible to receive the pay increases (assistant attorneys general, assistant and deputy district attorneys, and assistant state public defenders), or who would receive pay increases as elected officials on a later date (state legislators). For elected district attorney pay increases that would take effect in January, 2025, funding was provided directly to the District Attorneys appropriation for salaries and fringe benefits. Included in the general wage adjustment calculations are the base salaries of eligible groups of executive branch employees, judges and justices, and staff of the Legislature and the Courts. Funding in 2024-25 includes an estimate of the costs associated with compensation of state legislators, for pay increases that would take effect in January, 2025.

14. 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 2023-25 state employee compensation plan prepared by DPM, and then subsequently approved by JCOER. Similarly, pay plan recommendations separately requested by the Board of Regents 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 or fall 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.

15. With regard to the timing of the proposed general wage adjustments, the Administration indicates that July effective dates would be desired so as to not delay addressing the recruitment and retention challenges the state is experiencing. To the extent that the implementation of the 2023-25 compensation plan would follow the planned date for the first general wage adjustment, the intent would be for lump-sum payments to be provided to eligible employees for hours in pay status dating back to the first pay period of 2023-24.

16. With regard to the order of the proposed adjustments (5% first, 3% second), the Administration indicates that because state salaries and pay structure have not kept pace with pay of private or other public sector employers and state separation rates and vacancy rates have been increasing, a more significant across-the-board pay increase (5%) would first be provided for more immediate relief. In part, the stated goal of providing a larger pay increase first would be to ease the effect inflation has had on reducing the value of state employee wages, as the change in CPI has been greater than general wage adjustments provided in seven of the last 10 fiscal years. As shown in Table 2, the cumulative growth in CPI from 2013-14 to 2022-23 (through April, 2023) was 29.2%, compared to a 14.9% increase over the same period for general wage adjustments.

17. With regard to the percentage amounts that would be provided, consultant research shows that salary increases in the U.S. are forecast to grow by 4.6% in 2023. In January, 2023, Wisconsin Manufacturers and Commerce reported that 84% of respondents to its winter employer survey planned to provide an hourly wage increase in 2023 of 3% or more, and 34% planned to provide an increase of more than 4%.

18. It could be argued that not providing general wage adjustments would erode the state's ability to recruit and retain employees because it would further reduce the state's market competitiveness in an economy with low unemployment rates and result in the continuation of increased rates of position separations. In addition, given that other employers have provided greater average pay raises in recent years, inflation has exceeded the percentage increases provided by general wage adjustments in each of the past three fiscal years, and the rate of state separations in 2021-22 was greater than in any of the previous nine fiscal years, it could be argued that the proposed pay increases would be within reason. Therefore, the Committee could provide $110,897,600 GPR in 2023-24 and $177,493,200 GPR in 2024-25 to support a general wage adjustment of 5% on July 1, 2023, and a general wage adjustment of 3% on July 1, 2024. [Alternative 1] Estimated all funds costs would be $171,297,700 in 2023-24 and $271,898,300 in 2024-25.

19. The Committee could modify the percentage increases of the general wage adjustments for which funding is budgeted in compensation reserves. For example, if the Committee wished to provide for general wage adjustments with a comparable cumulative effect over the biennium, but which would more evenly distribute costs across fiscal years, two general wage adjustments of 4% each could be provided, for a cumulative increase of 8.16% (compared to 8.15%). Therefore, the Committee could provide $88,718,100 GPR in 2023-24 and $177,713,500 GPR in 2024-25 for two adjustments of 4% each on July 1, 2023, and July 1, 2024. [Alternative 2] This alternative includes funding for the 27th pay period in 2023-24, and is also net of a 5% reduction associated with higher than usual position vacancy rates. Estimated all funds costs would be $137,038,100 in 2023-24 and $272,231,900 in 2024-25.

20. With regard to timing of adjustments, the Committee could provide funding to support increases at the beginning of each calendar year rather than at the beginning of each fiscal year. Budgeting for raises in January of each year would provide for more evenly spaced, gradual compensation increases since the most recent general wage adjustment was provided in January, 2023. In addition, providing for pay increases in January of each year would reduce state costs during the 2023-25 biennium associated with the general wage adjustments. Note, however, that the increase provided in January, 2025, would result in an out-year commitment of funding since only half for the pay increase would occur in 2024-25. In contrast, the advantages of providing general wage

adjustments at the beginning of each fiscal year would include: more effective retention of employees, since pay increases would be provided sooner; and minimal out-year commitment associated with the pay increases. The cost of providing general wage adjustments in January of each year would be: (a) for a 5% adjustment followed by a 3% adjustment, $54,356,500 GPR in 2023-24 ($83,409,100 all funds) and $143,251,200 GPR in 2024-25 ($219,350,600 all funds) [Alternative 3]; and (b) for two adjustments of 4% each, $43,485,300 GPR in 2023-24 ($66,727,300 all funds) and $132,488,900 GPR in 2024-25 ($202,835,500 all funds) [Alternative 4].

21. If the Committee takes no action, general wage adjustments would likely not be provided. [Alternative 5]

ALTERNATIVES

1. Provide $110,897,600 GPR in 2023-24 and $177,493,200 GPR in 2024-25 to support a general wage adjustment of 5% on July 1, 2023, and a general wage adjustment of 3% on July 1, 2024.

ALT 1	Change to Base
GPR	$288,390,800

2. Provide $88,718,100 GPR in 2023-24 and $177,713,500 GPR in 2024-25 for two adjustments of 4% each on July 1, 2023, and July 1, 2024.

ALT 2	Change to Base
GPR	$266,431,600

3. Provide $54,356,500 GPR in 2023-24 and $143,251,200 GPR in 2024-25 to support a general wage adjustment of 5% on January 1, 2024, and a general wage adjustment of 3% on January 1, 2025.

ALT 3	Change to Base
GPR	$197,607,700

4. Provide $43,485,300 GPR in 2023-24 and $132,488,900 GPR in 2024-25 for two adjustments of 4% each on January 1, 2024, and January 1, 2025.

ALT 4	Change to Base
GPR	$175,974,200

5. Take no action.

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