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Compensation Reserves Overview
(Budget Management and Compensation Reserves)

[LFB 2005-07 Budget Summary: Page 78, #1]

CURRENT LAW

For the 2003-05 biennium, all funds compensation reserves totaled $592,575,600 ($272,172,500 GPR; $320,403,100 Other Funds).

GOVERNOR

Provide, in the 2005-07 general fund condition statement, total compensation reserves of $227,696,800 in 2005-06 and $450,828,800 in 2006-07 for increases in state employee salaries and employer fringe benefit costs. Under the Governor's recommendations, total compensation reserve amounts by fund source and fiscal year are as shown in the following table:

AB 100 Compensation Reserves

Fund Source	2005-06	2006-07
GPR	$90,054,100	$178,302,800
FED	30,534,100	60,456,100
PR	91,033,200	180,241,400
SEG	16,075,400	31,828,500
TOTAL	$227,696,800	$450,828,800

DISCUSSION POINTS

1. The purpose of establishing compensation reserves is to indicate that monies are reserved in the budget to provide funding for increases in state employee salaries that will subsequently be provided to state employees, but for which funding is not included in individual agency budgets as a part of the biennial budget. In other words, these reserves are for employee pay increases that will be provided in the 2005-07 fiscal biennium and that will ultimately be paid as salary expenditures from agency budgets, just as employees' current salaries are financed. However, funds are not allocated at the time of budget development to individual agency budgets because neither the amount of any salary increases nor the specific amount of funding needed by each individual agency is known at the time of budget development. These will be set later in the biennium as a result of compensation plan and collective bargaining agreements that are approved for the 2005-07 biennium.

2. The funding levels provided within compensation reserves are intended to cover the increased employer salary and associated fringe benefit costs resulting from any compensation plan increases for non-represented employees and UW faculty and academic staff that are recommended by the Office of State Employment Relations (OSER) and approved by the Joint Committee on Employment Relations. In addition, funds must be reserved to pay for the costs of salary and associated fringe benefit costs that will be provided to represented state employees under collective bargaining agreements covering the state's 19 established bargaining units that are approved for the 2005-07 biennium. Also, premium levels for state employee health insurance are determined in the fall of each year to become effective the following January. The employers' share of any such premium increases are also not included in agency budgets for those January increases since the amount of any such increases are also not known at the time of budget development. Therefore, funds must also be included in compensation reserves for the expected increases in the employers' share of the costs of increased premiums for state employee health insurance.

3. In addition, sometimes, as is the case for this budget, there will be collective bargaining contracts that relate to current biennium that have not yet been settled and for which those employees are still being paid at their prior biennium salary levels. This is the case for the 2003-05 biennium where only eight of the 19 collective bargaining agreements for the 2003-05 budget biennium have been settled to date. The funding to cover the cost of these unsettled 2003-05 contracts, if they were to be settled within the 2003-05 biennium, would come from the compensation reserves established under the 2003-05 budget (2003 Act 33). If, however, those contracts are not settled by the end of this fiscal year, then funds to cover the costs of the salary increases and associated fringe benefits in those collective bargaining contracts, once approved in the 2005-07 biennium, must also be provided for in the total 2005-07 compensation reserve amounts.

4. Thus, in the 2005-07 biennium, all of these categories of costs will likely have to be funded from the compensation reserves pool under the pay plan supplements process. The pay plan supplements process operates as follows. The Department of Administration (DOA) requires state agencies, towards the end of each fiscal year, to document their need for any supplementation of

their existing budgets for the cost of any authorized pay increases (including associated fringe benefit costs such as social security and retirement contribution payments) provided to the agencies' employees and for the cost of the employers' share of any increased 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-day passive review process.

5. The schedule of compensation reserves within the condition statement section of the budget indicates reserve funding for each of the funding sources from which state employees' salaries 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 compensation plans. However, the actual fiscal impact of "releasing" funds from these indicated reserves is quite different between GPR funds and all the 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 actually all 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 revenues), the revenues are actually 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 in that account or fund and the expenditures of those revenues may be made only for the purposes authorized for that account or fund.

6. 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 supplement process, it is transferred from one central GPR appropriation to individual agency GPR appropriations for actual expenditure. In contrast, when PR, SEG or FED monies are "released" to state agencies under the pay plan supplement 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 pay plan supplements costs; what they need is the authorization to increase their total spending authority by the amount of the requested supplement.

7. The review of compensation reserves is therefore usually viewed in terms of GPR funding levels. As indicated in the table on page 1, GPR compensation reserves in AB 100 total $268,356,900 ($90,054,100 in 2005-06 and $178,302,800 in 2006-07). Funding needs for approved salary increases, and for increases in the employers' share of health insurance costs and in other fringe benefit costs, would be expected to fall proportionately on the other fund sources in a similar manner, since the increases for a given employee do not differ based on the funding source for that employee's salary. For example, if all employees are granted a 1% salary increase, that increase is paid to each eligible employee, whether the employee is funded from GPR funding or from other fund sources.

8. Neither the Department of Administration nor the Office of State Employment

Relations has provided any details on the cost component items included within the compensation reserves amounts provided in AB 100. In particular, the Department of Administration's State Budget Office and the Office of State Employment Relations indicated in a memo to this office that with regard to any specific allocation of these reserve funds, such allocation of funds is subject to collective bargaining and therefore they could not comment in detail on potential use of these funds. In addition, it was stated that providing further detail on the precise assumptions related to the components of the compensation reserve would seriously jeopardize the state's bargaining position with the state employee unions and that this position is consistent with past administration policies. The memo concluded that this policy was being followed in order to protect the state's position at the bargaining table and to enable the administration to settle contracts that meet the needs of both the state and its unions.

9. However, based on past practices, these reserve amounts likely include funding for at least the following potential cost components: (a) funds for the employer share of state employee health insurance premium increases in the forthcoming fiscal biennium; (b) funds for the cost of 2005-07 pay increases that will be provided pursuant to compensation plans and collective bargaining agreements for the 2005-07 biennium but that have yet to be approved; (c) funds for the costs of yet to be settled collective bargaining contracts for 11 state collective bargaining units that do not yet have settled contracts for the 2003-05 biennium; and (d) possibly, funds for market adjustments or classification surveys for certain employee classifications that are judged as a group or subset to be below comparable salaries outside state government.

10. Further, the administration on May 4, 2005, submitted to the Joint Committee on Employment Relations (JCOER) its recommendations for the compensation plans for non-represented classified employees and for UW faculty and academic staff. The salary increase recommendations included in those plans are for a 2% across-the-board (ATB) increase effective for fiscal year 2005-06; a second 2% ATB increase effective for fiscal year 2006-07; and an additional 1% ATB increase effective April 1, 2007. The proposed compensation plans also would increase the required monthly employee health insurance (HI) premium contribution rates in calendar year 2007 as shown in the comparative table below:

Monthly Employee HI Contribution Rates
2003-05 and 2005-07
State Compensation Plans

	CY 2004		CY 2005 & CY 2006		CY 2007	
HMO Tier	Single	Family	Single	Family	Single	Family
Tier 1	$18	$45.00	$22	$55	$27	$68
Tier 2	47	117.50	50	125	60	150
Tier 3	100	250.00	100	250	143	358

11. Using these proposed salary increase levels, it is possible to estimate a pay plan cost if all employees were to receive an equivalent salary increase in the 2005-07 biennium. It is also possible to make an estimate of what increased employer health insurance costs might be and what the impact of insurance premium contributions from all employees at the proposed 2005-07 levels would be assuming these level of increases were to be included in all of the 2005-07 collective bargaining agreements. An allowance for potential funding that might be needed for unsettled 2003-05 collective bargaining contracts can also be made.

12. However, there is no basis on which to make an estimate of what amount of market adjustments may be proposed for 2005-07 compensation purposes nor what amounts might be proposed for other types of non-uniform salary adjustments or for other special additional wage adjustments above the levels proposed in the 2005-07 compensation plans that have been presented to JCOER for approval. These types of adjustments, if any, will not be known until tentative collective bargaining agreements for the 2005-07 biennium are presented to JCOER and the Legislature for approval.

13. For the purposes of this overview paper, this office has made an estimate of the amount of GPR compensation reserves that would be required to provide ATB salary increases to all state employees at the increase amounts proposed by OSER in the 2005-07 compensation plans. An estimate was also made of the amount of GPR compensation reserves that may be required to provide for increased costs in the employer share of premiums for state employee health insurance in the 2005-07 biennium. Finally, an allowance was included for the potential costs in 2005-07 of salary increases arising as a result of yet to be approved 2003-05 collective bargaining contracts for 11 state bargaining units.

14. This office's estimate is that GPR compensation reserves of about $73 million for 2005-06 and about $143 million for 2006-07 would be needed for the foregoing cost components. This would leave remaining GPR compensation reserve amounts of about $17 million for 2005-06 and about $35 million for 2006-07. Through the collective bargaining process, it could be agreed upon by the parties to allocate these funds in a variety of ways, including for such items as selected market adjustments for certain classifications or to implement wage surveys, or the funds could be used to address other compensation or fringe benefit purposes.

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