

BUDGET MANAGEMENT AND COMPENSATION RESERVES

Budget Change Items

1. TRANSFER TO THE BUDGET STABILIZATION FUND

Joint Finance: Transfer \$550,000,000 from the general fund to the budget stabilization fund in 2022-23. The table below shows the balance of the budget stabilization fund after the estimated year-end transfer in 2020-21, as well as the transfer in 2022-23 under the bill, notwithstanding any interest or other deposits that may accrue to the fund.

Estimated Budget Stabilization Fund Balance (Millions)

Current Balance (As of May, 2021)	\$762.4
Estimated Year-End 2020-21 Transfer	<u>807.9</u>
Balance After Estimated Transfer	\$1,570.3
Transfer Under Joint Finance	<u>550.0</u>
Balance After All Transfers (2022-23)	\$2,120.3

2. REQUIRED GENERAL FUND STRUCTURAL BALANCE

Joint Finance: Provide that s. 20.003(4m) of the statutes, which requires that no bill may be passed by the Legislature if the bill would cause estimated general fund expenditures to exceed estimated revenues in the second year of the biennium, would not apply to the action of the Legislature in adopting any legislation during the 2021-22 legislative session.

3. COMPENSATION RESERVES [LFB Papers 230, 231, and 232]

Governor: Provide, in the 2021-23 general fund condition statement, total compensation reserves of \$88,072,600 in 2021-22 and \$187,173,200 in 2022-23 for cost increases related to state and UW System employee salaries and fringe benefits. Total compensation reserve amounts by fund source and fiscal year are shown in the following table.

<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

The schedule of compensation reserves above indicates GPR funding that would be reserved for anticipated cost increases to state agencies and the UW System under the administration's plans for compensation, including prior period and inflationary increases for fringe benefits. The GPR funding reserve is a component of the general fund condition statement. Amounts for FED, PR, and SEG reflect the estimated all-funds impact to state agencies (excluding UW System) of such cost increases for compensation, which would be paid from FED, PR, and SEG revenue balances in agency appropriations.

The GPR compensation reserve amounts under the bill related to state and UW System employee fringe benefits include the following: (a) \$17,511,700 in 2021-22 and \$35,748,900 in 2022-23 to support prior period and inflationary increases for fringe benefits; (b) \$2,462,700 in 2021-22 and \$2,526,100 in 2022-23 to reduce the health insurance waiting period for new permanent and project employees by one month; (c) \$1,081,100 annually to provide sick leave for limited-term employees of non-UW executive branch agencies; and (d) -\$1,467,700 in 2021-22 and -\$2,503,400 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. [For additional information regarding the proposed reduction to the health insurance waiting period, see "Employee Trust Funds." For additional information regarding the proposal to provide sick leave for limited-term employees, see "Administration -- Personnel Management."]

The GPR compensation reserve amounts under the bill related to salaries for employees include the following: (a) \$21,717,000 in 2021-22 and \$65,734,500 in 2020-23 intended to support a 2% general wage adjustment for state and UW System employees on January 1, 2022, as well as another 2% general wage adjustment (GWA) for state and UW System employees on January 1, 2023; (b) \$5,000,000 annually to support market wage and parity adjustments for state employees in the classified service; (c) \$3,879,900 annually to support an increase of minimum starting pay for all non-UW executive branch permanent and project employees to \$15 per hour and an associated market stratification similar to that initially proposed by DOA in the 2019-21 compensation plan submitted to the Joint Committee on Employment Relations; (d) \$2,388,800 in 2022-23 to fund an increase in night and weekend differential pay; (e) \$1,880,100 in 2021-22 and \$1,917,700 in 2022-23 to establish June 19 as a paid holiday for state and UW System executive branch employees; (f) \$1,827,200 in 2021-22 and \$1,842,400 in 2022-23 for a paid parental leave program for state and UW System executive branch employees based on six weeks of leave; (g) \$121,400 in 2021-22 and \$123,800 in 2022-23 to modify the vacation allowance structure for non-UW executive branch employees with between two and five years of service to improve employee retention; and (h) \$52,700 in 2021-22 and \$68,000 in 2022-23 to fund a certified nursing assistant and resident care technician pay progression. [For additional information regarding the proposals to establish June 19 as a paid holiday, create a paid parental leave program, and modify the vacation allowance structure, see "Administration -- Personnel Management."]

With regard to the 2% general wage adjustments on January 1, 2022, and January 1, 2023, for state and UW System employees, amounts in compensation reserves are adjusted to account for groups of employees who would be ineligible to receive the pay increases (assistant and deputy district attorneys, assistant state public defenders, and assistant and deputy attorneys general), or who would receive pay increases as elected officials on a later date (state legislators, constitutional officers, and elected district attorneys).

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, 2023; the State Superintendent, whose coming term will begin July, 2021, 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, 2023; and elected district attorneys would be eligible for a pay increase when assuming office in January, 2025.

In addition, 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. Further, additional funding for salary increases is provided separately elsewhere in the budget for assistant attorneys general, assistant and deputy district attorneys, and assistant state public defenders. Information relating to these increases may be found under sections of this document for "District Attorneys," "Justice," and "Public Defender."

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. Typically, amounts within compensation reserves are funds to pay for: (a) the employer share of increased premium costs in the forthcoming fiscal biennium for state employee health insurance; (b) the costs of any general wage adjustments or negotiated pay increases; (c) increases in the employer share of contributions to the state retirement fund for employees' future state retirement benefits; and (d) 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.

Joint Finance: Provide total funding to compensation reserves of \$41,929,200 GPR (\$66,285,800 all funds) in 2021-22 and \$105,951,600 GPR (\$167,258,900 all funds) in 2022-23. Amounts provided to compensation reserves by fund source are shown in the table below.

**Compensation Reserves by Fund Source,
Joint Committee on Finance**

	<u>2021-22</u>	<u>2022-23</u>
General Purpose Revenue	\$41,929,200	\$105,951,600
Federal Revenue	6,627,800	16,346,500
Program Revenue	11,024,200	27,189,100
Segregated Revenue	<u>6,704,600</u>	<u>16,535,500</u>
TOTAL	\$66,285,800	\$166,022,700

Funding would be provided for the following items as identified above: (a) prior period and inflationary increases for fringe benefits; (b) 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; (c) two general wage adjustments for state and UW System employees of 2% each, scheduled for January 1, 2022, and January 1, 2023; and (d) a pay progression system for nursing assistants and resident care technicians. In addition, provide \$1,000,000 GPR annually to compensation reserves for market wage and parity adjustments; and \$1,194,400 GPR in 2022-23 to increase night and weekend differential pay rates to \$0.80 per hour each, beginning in January, 2023.

Provide \$1,750,000 GPR annually to compensation reserves to fund 50% of the cost of a \$5 per hour add-on for all hours worked by correctional officers and correctional sergeants at any adult correctional institution that meets the following criteria: (a) on or after the effective date of the bill, the share of vacant correctional officer and correctional sergeant positions at the institution is more than 40%; and (b) where the \$5 add-on is implemented under this provision, the add-on would continue to be paid until the vacancy rate for such positions has been 40% or less for six consecutive months. For an institution that reached the threshold vacancy rate after the effective date of the bill, the add-on would begin to be paid after the Division of Personnel Management (DPM) in the Department of Administration determined the criteria had been met. Include the \$5 add-on specifications as nonstatutory provisions, and direct that the administrator of DPM include the item in the proposed 2021-23 compensation plan or as a proposed amendment to the plan if the plan is adopted prior to the effective date of the bill.

Provide \$703,600 GPR in 2021-22 and \$598,900 GPR in 2022-23 to extend the retention incentive payment program for protective status employees of the Department of Corrections and the Department of Health Services, as structured in the 2019-21 compensation plan, through the 2021-23 biennium. One-time lump sum awards (bonuses) under the program would be provided as follows: (a) after completion of 10 years of service, \$250; (b) after completion of 15 years of service, \$500; (c) after completion of 20 years of service, \$750; and (d) after completion of 25 years of service and every five years thereafter, \$1,000.

Provide \$661,900 GPR in 2021-22 and \$2,360,300 GPR in 2022-23 to compensation reserves for the purpose of increasing judicial salaries by 3% in 2021-22 (effective January, 2022) and by 4% in 2022-23 (effective January, 2023). These increases would be in addition to general wage adjustments provided to state employees.

The following table identifies the components of the compensation reserves calculation, as recommended by the Governor, as well as the modifications made by the Committee.

**GPR and All-Funds Compensation Reserves Components,
As Modified by the Joint Committee on Finance**

	Governor			Joint Finance Modifications			Compensation Reserves Total		
	2021-22	2022-23	2021-23 Biennium	2021-22	2022-23	2021-23 Biennium	2021-22	2022-23	2021-23 Biennium
Prior Period and Inflationary Increases for									
Fringe Benefits	\$17,511,700	\$35,748,900	\$53,260,600	\$0	\$0	\$0	\$17,511,700	\$35,748,900	\$53,260,600
General Wage Adjustments	21,717,000	65,734,500	87,451,500	0	0	0	21,717,000	65,734,500	87,451,500
Market Wage and Parity Adjustments	5,000,000	5,000,000	10,000,000	-4,000,000	-4,000,000	-8,000,000	1,000,000	1,000,000	2,000,000
Minimum Pay Increase to \$15 per Hour (with									
Market Stratification)	3,879,900	3,879,900	7,759,800	-3,879,900	-3,879,900	-7,759,800	0	0	0
Decrease Health Insurance Waiting Period	2,462,700	2,526,100	4,988,800	-2,462,700	-2,526,100	-4,988,800	0	0	0
Night and Weekend Differential Increase	0	2,388,800	2,388,800	0	-1,194,400	-1,194,400	0	1,194,400	1,194,400
Juneteenth Holiday	1,880,100	1,917,700	3,797,800	-1,880,100	-1,917,700	-3,797,800	0	0	0
Paid Parental Leave	1,827,200	1,842,400	3,669,600	-1,827,200	-1,842,400	-3,669,600	0	0	0
Sick Leave for Limited-Term Employees	1,081,100	1,081,100	2,162,200	-1,081,100	-1,081,100	-2,162,200	0	0	0
Vacation Allowance Modifications	121,400	123,800	245,200	-121,400	-123,800	-245,200	0	0	0
Nursing Assistant and Resident Care Technician									
Pay Progression	52,700	68,000	120,700	0	0	0	52,700	68,000	120,700
Opt-Out Incentive Savings	-1,467,700	-2,503,400	-3,971,100	0	0	0	-1,467,700	-2,503,400	-3,971,100
\$5 Add-on for Correctional Vacancies	0	0	0	1,750,000	1,750,000	3,500,000	1,750,000	1,750,000	3,500,000
Long-Term Service Awards	0	0	0	703,600	598,900	1,302,500	703,600	598,900	1,302,500
Judicial Salary Increases	<u>0</u>	<u>0</u>	<u>0</u>	<u>661,900</u>	<u>2,360,300</u>	<u>3,022,200</u>	<u>661,900</u>	<u>2,360,300</u>	<u>3,022,200</u>
Compensation Reserves Total - GPR	\$54,066,100	\$117,807,800	\$171,873,900	-\$12,136,900	-\$11,856,200	-\$23,993,100	\$41,929,200	\$105,951,600	\$147,880,800
 Compensation Reserves Total - All Funds	 \$88,072,600	 \$187,173,200	 \$275,245,800	 -\$21,786,800	 -\$21,150,500	 -\$42,937,300	 \$66,285,800	 \$166,022,700	 \$232,308,500