

# COMPENSATION RESERVES

## Budget Change Item

### 1. COMPENSATION RESERVES

**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.

[Bill Section: 248]