



Legislative Fiscal Bureau

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September 4, 2019

TO: Members
Joint Committee on Finance

FROM: Bob Lang, Director

SUBJECT: Section 20.928(2m): Supplementation of Agency Budgets for Discretionary Merit Compensation Awards, 2018-19 -- Agenda Item I

On July 2, 2019, the Department of Administration (DOA) submitted to the Committee, under a 14-day passive review process, its recommendations for release of supplemental funds appropriated for the discretionary merit compensation (DMC) program for fiscal year 2018-19, as specified under s. 20.928(2m) of the statutes. On July 23, 2019, the Committee's Co-chairs informed DOA that an objection to the request had been raised. As a result, the request is currently before the Finance Committee under s. 13.10 of the statutes.

BACKGROUND

Under 2015 Act 150, an appropriation was created to supplement state agency appropriations for the cost of DMC awards approved by the Division of Personnel Management (DPM) in DOA and funded at \$6.0 million annually. Awards may be made to an employee in "recognition for superior or meritorious performance" as determined by the agency. Act 150 provided that each agency head must certify to the Administrator of DPM the sum of money needed from the supplemental appropriation for the state agency to make lump sum DMC awards to its classified employees. Upon receipt of the certifications, together with such additional information as the Administrator prescribes, the Administrator must determine the amounts required from the appropriation to supplement state agency budgets. The Administrator may not approve an agency request for money from the supplemental appropriation for a DMC award that increases an employee's base compensation. The final release of funds from the appropriation to individual agencies is subject to the Finance Committee's approval under s. 20.928(2m). Under 2017 Act 59 (the 2017-19 biennial budget), funding for the appropriation was maintained at \$6 million GPR annually in the 2017-19 biennium.

The biennial state employee compensation plan for non-represented state employees generally provides for a DMC program. Under the 2017-19 state employee compensation plan, the DMC program provides appointing authorities (such as agency heads) the discretion to provide employees

economic recognition for merit. Awards generally take the form of either a lump sum award (a bonus) or an award that increases the employees base compensation (a base building award). While appointing authorities have discretion in providing employees DMC awards, such awards must be made under the policy guidelines established each fiscal year by DPM. Further, DMC awards must generally be approved by DPM prior to being granted.

Under the 2017-19 state employee compensation plan, the DMC program applies to permanent and project classified employees and unclassified employees not serving a fixed term. The compensation plan provides that the following employees are not eligible to be considered for DMC awards: (a) employees who did not receive a performance evaluation in the last 12 months or were rated below satisfactory; (b) employees who received any form of formal discipline in the past 24 months which was not subsequently overturned through a grievance process; (c) supervisors who did not complete formal performance evaluations on all subordinate employees for whom performance evaluations are required; (d) any employees paid at or above the applicable pay range maximum are not eligible for a base-building DMC; (e) trainees eligible for scheduled trainee increases; (f) craft worker and craft worker-related employees are not eligible for a base-building award; (g) constitutional officers and elected officials, and judges and justices; (h) represented positions in the public safety bargaining unit; (i) assistant and deputy district attorneys, assistant state public defenders, and assistant attorneys general; and (j) employees serving the first 12 months of an original probationary period or the first year of a career executive trial period which is also the employee's original probationary evaluation.

In April, 2019, DPM provided state agencies with additional guidelines for the DMC program for fiscal year 2018-19. With regards to DMC awards provided to employees for merit recognition, DPM indicted the following: (a) DMC awards would only be granted as annualized lump sum payments; (b) DMC awards could be granted in any amount up to the greater of \$2,500 or two "within range pay steps" for all pay ranges for state employees; (c) DMC awards could be granted to up to 15% of eligible full-time equivalent employees in an agency; and (d) unclassified employees (other than employees of the State Fair Park) would not be eligible for merit DMC awards. [The state employee compensation plan establishes "within range pay steps" for most employee classification pay ranges to help establish appropriate levels for pay increases for certain employees. Each pay step is approximately 3% of the assigned pay range minimum.]

In order to support DMC awards, agencies could either: (a) utilize base resources from the appropriation that funds the individual employee to make the award; or (b) request a GPR supplement from the annual DMC appropriation. According to DPM, agencies were only authorized to request GPR supplemental funding to support DMC awards for GPR-funded positions. Agencies with positions funded from other fund sources (such as program revenue or segregated revenue) were required to utilize the relevant individual fund source to support DMC awards for those employees. The request before the Committee is to approve the transfer of GPR funding from the DMC supplemental appropriation to individual agency GPR appropriations to assist agencies in providing DMC awards to their employees.

2018-19 SUPPLEMENT RECOMMENDATIONS

As noted above, in 2018-19, \$6,000,000 GPR is appropriated to supplement agency budgets to support lump sum DMC awards. Prior to agencies submitting their requests to DPM for supplemental funding, DPM identified to agencies the amount of the supplemental funding that would be initially available for each agency. These amounts were based on the proportion of the agency's budgeted GPR permanent position salary costs for employees eligible for DMC awards to the total budgeted GPR permanent position salary costs across all agencies for employees eligible for DMC awards.

Based on the requests received by state agencies and the DMC awards approved by DPM, DOA recommends that \$5,583,200 GPR be transferred from the DMC supplemental appropriation to individual agencies. The table below identifies the supplements recommended by DOA, by agency.

Discretionary Merit Compensation GPR Supplemental Funding Recommended By DOA, By Agency 2018-19

<u>Agency</u>	<u>GPR Supplement</u>	<u>Number of GPR Awards*</u>
Corrections	\$3,499,906	1,499
Health Services	974,913	925
Revenue	381,975	185
Justice	136,508	92
State Public Defender Board	84,797	36
Natural Resources	82,800	377
Children and Families	80,900	118
Public Instruction	79,500	97
Workforce Development	64,206	245
Agriculture, Trade & Consumer Protection	42,875	92
Historical Society	42,458	20
Military Affairs	35,999	82
Administration	21,625	212
Technical College System Board	11,115	11
Elections Commission	10,846	5
Educational Communications Board	10,639	11
Tourism	9,473	5
Board on Aging & Long Term Care	3,848	7
Higher Educational Aids Board	3,433	2
Employment Relations Commission	3,161	1
Ethics Commission	1,958	2
Labor & Industry Review Commission	248	1
Total	<u>\$5,583,182</u>	<u>4,025</u>

*The number of DMC awards includes awards supported by supplemental funding and agency base resources. As a result, the GPR awards identified in the table include awards that would be supported through the use of both supplemental funding and base GPR resources. In addition, note that the number of awards identified include awards for individuals who are split funded from multiple funding sources.

In addition to the supplemental funding identified in the table, agencies utilized base resources to support DMC awards. In total, for 2018-19, DPM approved DMC awards for 4,789 state employees. [According to DPM, there were 31,978.8 full-time equivalent employees eligible for DMC awards in 2018-19.] Lump sum DMC awards for employees totaled \$11,679,800 (all funds). The attachment to this memorandum identifies the number of DMC awards provided to employees, by agency, as well as the amount of funding associated with the DMC awards. The purpose of the attachment is to identify the DMC awards provided to state employees with funding that will be supported by supplemental funding as well as agency base resources. In reviewing the attachment, it should be noted that the request before the Finance Committee is only to approve the transfer of \$5,583,200 GPR from the supplemental appropriation to individual agency appropriations.

As noted above, for 2018-19, a total of \$6,000,000 GPR was appropriated to supplement agency budgets to support DMC awards. Of this total funding, DOA recommends that \$5,583,200 GPR be transferred to 22 state agencies to supplement funding for DMC awards. If the supplement request is approved as recommended by DOA, the remaining \$416,800 GPR would lapse to the general fund.

All of the DMC awards that were approved by DPM have already been awarded to the relevant state employees. With regards to the DMC awards that would be supported by the transfer of supplemental funding if the requested transfer is approved, agencies have utilized base resources to support these DMC awards with the intention of backfilling these amounts with the requested supplement in order to fulfill all of their 2018-19 expenditure obligations. If the Committee wishes, the DMC awards could be approved as recommended by the state agencies and approved by DPM. [Alternative 1]

Alternatively, the request could be denied. [Alternative 2] Note, that the State Controller's Office (SCO) generally has an August 9, 2019, date for agencies to complete 2018-19 accounting actions and a final year-end closing action of September 6, 2019, to roll transactions into 2019-20. These deadlines are in furtherance of DOA's statutory obligation to complete the annual fiscal report for the prior fiscal year by October 15. Further, the SCO is scheduled to give agencies full budgetary control for 2019-20 on September 9, 2019. Despite these timelines, DOA indicates that the state's financial accounts will not be closed until after the Committee acts on all actions that affect the 2018-19 fiscal year. Until that occurs and s. 13.10 meeting minutes are signed, the affected agencies and appropriations would remain open. If the request is not approved, DOA indicates that some agencies may need to request that the SCO reopen additional 2018-19 appropriations in order to reallocate costs.

ALTERNATIVES

1. Approve the Department of Administration's recommendation to release \$5,583,200 GPR in 2018-19 from the discretionary merit compensation appropriation.
2. Deny the recommendation.

Prepared by: Jere Bauer
Attachment

ATTACHMENT

All Discretionary Merit Compensation Awards Approved by DPM for 2018-19 (All Funds)

<u>Agency</u>	<u>Number of of Employees Awarded DMCs</u>	<u>Total Amount of Lump Sum Awards</u>
Administration	212	\$528,750
Agriculture, Trade & Consumer Protection	92	163,250
Board for People with Developmental Disabilities	2	5,000
Board of Commissioner of Public Lands	2	6,697
Board on Aging & Long Term Care	7	6,650
Child Abuse & Neglect Prevention Board	2	5,000
Children and Families	118	295,000
Commissioner of Insurance	19	47,500
Corrections	1,499	3,694,750
Educational Communications Board	11	27,500
Elections Commission	5	12,771
Employee Trust Funds	36	91,471
Employment Relations Commission	1	3,161
Ethics Commission	2	5,000
Financial Institutions	9	17,000
Health Services	925	2,285,175
Higher Educational Aids Board	2	5,000
Historical Society	20	48,000
Justice	92	272,879
Labor & Industry Review Commission	1	1,000
Military Affairs	82	200,264
Natural Resources	377	942,500
Public Instruction	97	242,500
Public Service Commission	21	52,500
Revenue	185	462,500
Safety & Professional Services	35	87,500
Secretary of State	1	2,953
State Fair Park Board	7	17,954
State Public Defender Board	36	90,000
Technical College System Board	11	35,746
Tourism	5	9,473
Transportation	441	1,102,500
Veterans Affairs	189	283,500
Workforce Development	<u>245</u>	<u>628,349</u>
Total	4,789	\$11,679,793