Compensation Reserves

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LFB Summary Items for Which Issue Papers Have Been Prepared

Item #	Title
1	Compensation Reserves Overview and Fringe Benefit Costs (Paper #230)
1	Reserves for General Salary-Related Provisions (Paper #231)
1	Nursing Assistant and Resident Care Technician Pay Progression (Paper #232)

LFB Summary Items Removed From Budget Consideration

Item #	Title
1	Compensation Reserves -- Health Insurance Waiting Period
1	Compensation Reserves -- Sick Leave for Limited-Term Employees
1	Compensation Reserves -- Juneteenth Holiday
1	Compensation Reserves -- State Employee Parental Leave
1	Compensation Reserves -- State Employee Vacation Hours

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June, 2021 Joint Committee on Finance Paper #230

Compensation Reserves Overview and Fringe Benefit Costs (Compensation Reserves)

[LFB 2021-23 Budget Summary: Page 116, #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. Such costs typically include: (a) proposed pay increases, which would be finalized in the forthcoming compensation plan; and (b) inflationary cost increases for fringe benefits.

DISCUSSION POINTS

1. Under Assembly Bill 68/Senate Bill 111, funding is provided in the 2021-23 general fund condition statement for compensation reserves totaling $54,066,100 GPR in 2021-22 ($88,072,600 all funds) and $117,807,800 GPR in 2022-23 ($187,173,200 all funds) for cost increases related to state and UW System employee salaries and fringe benefits. Compensation reserve amounts by fund source and fiscal year are shown in Table 1.

TABLE 1

Compensation Reserves by Fund Source, 2021 AB 68/SB 111

Fund Source	2021-22	2022-23
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	9,360,800	19,093,900
Total	$88,072,600	$187,173,200

2. On May 6, 2021, in executive session, the Committee removed various provisions from further consideration, including proposals to: decrease the health insurance waiting period for new employees; add June 19 as a paid holiday for state and UW System executive branch employees; provide paid parental leave for state and UW System executive branch employees; provide sick leave for limited-term employees of non-UW executive branch agencies; and modify the vacation allowance structure for non-UW executive branch employees. In addition, subsequent to introduction of the budget, the administration indicated that the cost to increase minimum pay to $15 per hour and implement a market stratification was calculated incorrectly. The reestimated cost of the proposal is $2,211,000 GPR annually (rather than $3,879,900 GPR annually). The remaining items for the Committee to consider, including the cost reestimate, are shown in Table 2.

TABLE 2

GPR Compensation Reserves for State and UW System Employees, Excluding Items Removed from Consideration

	2021-22	2022-23
Fringe Benefits-Related		
Prior Period and Inflationary Increases for State Employee Fringe Benefits	$17,511,700	$35,748,900
Opt-out Incentive Savings	-1,467,700	-2,503,400
Subtotal	$16,044,000	$33,245,500
Salary-Related		
General Wage Adjustments	$21,717,000	$65,734,500
Market Wage and Parity Adjustments	5,000,000	5,000,000
Minimum Pay Increase to $15 per Hour, with Market Stratification (Reestimated)	2,211,000	2,211,000
Night and Weekend Differential Increase	0	2,388,800
Nursing Assistant and Resident Care Technician Pay Progression	52,700	68,000
Subtotal	$28,980,700	$75,402,300
Grand Total	$45,024,700	$108,647,800

3. This paper provides an overview of compensation reserves and addresses the remaining fringe benefits-related items identified in Table 2. Separate budget papers have been prepared for the following provisions: (a) reserves for general salary-related provisions, including general wage adjustments, market wage and parity adjustments, minimum pay increase to $15 per hour and associated market stratification, and night and weekend differential pay; and (b) a pay progression system for nursing assistants and resident care technicians.

Overview of Compensation Reserves

4. 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.

5. In the 2021-23 biennium, to the extent necessary, costs of unbudgeted pay and fringe benefit adjustments would be funded from compensation reserves under the pay plan supplementation process. Under the pay plan supplementation process, the Department of Administration (DOA) requires state agencies, towards the end of each fiscal year, to document the need for any supplementation of existing budgets for the cost of any authorized pay increases (including associated fringe benefit costs, such as social security and retirement contribution payments) and for the cost of the employer's share of any increased fringe benefit costs such as 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-working day passive review process.

6. The schedule of compensation reserves (shown in Table 1) indicates reserve funding in AB 68/SB 111 for each funding source from which state employees' salaries and benefits may be funded. The respective designations of GPR, FED, PR, and SEG funding amounts are included to provide an indication of the all-funds impact of anticipated cost increases to agencies under the administration's plans for compensation. However, the actual fiscal impact of "releasing" funds from these indicated reserves is different between GPR funds and any non-GPR funding sources. The reason for this is that the GPR funding comes from a single central source, the general fund, which consists primarily of general tax revenues. In contrast, other funding sources are not 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 revenue), the revenues are 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 to that account or fund and the expenditures of those revenues may be made only for the purposes authorized for that account or fund.

7. As a consequence of this difference, when GPR that is set aside in compensation reserves is released to state agencies under the pay plan supplementation process, it is transferred from one central GPR appropriation to individual agency GPR appropriations for expenditure. In contrast, when FED, PR, or SEG monies are "released" to state agencies under the pay plan supplementation process, these monies are transferred from the individual revenue balance of the particular account or fund for expenditure from the relevant appropriations associated with the account or fund. In general, such accounts or funds usually have sufficient revenue reserves to cover the costs of the pay plan supplements; what they require is the authorization to increase spending authority by the amount of the requested supplement.

8. The review of compensation reserves, therefore, usually focuses on GPR funding amounts. Given these factors, this paper and other budget papers addressing amounts budgeted to compensation reserves will focus primarily on projections for the GPR share of compensation reserves.

Fringe Benefits

9. As shown in Table 2, the GPR and all funds compensation reserve amounts under the bill related to state and UW System employee fringe benefits in particular include: (a) $17,511,700 GPR ($27,260,000 all funds) in 2021-22 and $35,748,900 GPR ($56,071,900 all funds) in 2022-23 to support prior period and inflationary increases for fringe benefits; and (b) -$1,467,700 GPR (-$2,449,200 all funds) in 2021-22 and -$2,503,400 GPR (-$4,177,500 all funds) 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.

10. Amounts budgeted for prior period and inflationary increases include the employer share of premium costs in the forthcoming fiscal biennium for state employee health insurance, the employer share of contributions to the state retirement fund for employees' future state retirement benefits, pension obligation bond payments for the state's unfunded prior service liability for retirement benefits, and the accumulated sick leave conversion credit program. Estimated savings are associated with anticipated increases in the number of employees who elect not to receive health care coverage and instead apply to receive a $2,000 annual opt-out stipend.

11. This office has reviewed the calculations utilized to estimate the funding amounts associated with the fringe benefit items remaining after the Committee's May 6, 2021, actions and determined that the calculations appear reasonable. Therefore, the Committee could provide $16,044,000 GPR ($24,810,800 all funds) in 2021-22 and $33,245,500 GPR ($51,894,400 all funds) in 2022-23 to compensation reserves to fund increases in fringe benefit costs for the 2021-23 biennium, net of estimated cost savings associated with opt-out stipends. [Alternative 1]

12. If the Committee takes no action regarding current law fringe benefit cost increases and decreases budgeted to compensation reserves, agencies would need to manage any fringe benefit cost increases within appropriated budgets. [Alternative 2]

ALTERNATIVES

1. Provide $16,044,000 GPR ($24,810,800 all funds) in 2021-22 and $33,245,500 GPR ($51,894,400 all funds) in 2022-23 to compensation reserves to fund increases in fringe benefit costs for the 2021-23 biennium, net of estimated cost savings associated with opt-out stipends.

ALT 1	Change to Base
GPR	$49,289,500

2. Take no action.

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June, 2021 Joint Committee on Finance Paper #231

Reserves for General Salary-Related Provisions (Compensation Reserves)

[LFB 2021-23 Budget Summary: Page 116, #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. Under Assembly Bill 68/Senate Bill 111, funding is provided in the 2021-23 general fund condition statement for compensation reserves totaling $54,066,100 GPR in 2021-22 ($88,072,600 all funds) and $117,807,800 GPR in 2022-23 ($187,173,200 all funds) for cost increases related to state and UW System employee salaries and fringe benefits.

2. This paper addresses amounts budgeted under compensation reserves for general salary-related provisions not targeted to known, specified position classifications. Separate budget papers have been prepared for the following provisions also budgeted under compensation reserves: (a) fringe benefit cost increases, net of estimated fringe benefit cost savings under current law; and (b) a pay progression system for nursing assistants and resident care technicians.

3. On May 6, 2021, in executive session, the Committee removed various provisions from further consideration, including proposals to: add June 19 as a paid holiday for state and UW System executive branch employees; provide paid parental leave for state and UW System executive branch employees; and modify the vacation allowance structure for non-UW executive branch employees. In addition, subsequent to introduction of the budget, the administration indicated that the cost to increase minimum pay to $15 per hour and implement a market stratification was calculated

incorrectly. The reestimated cost of the proposal is $2,211,000 GPR annually (rather than $3,879,900 GPR annually). The remaining general salary-related provisions for the Committee to consider, including the cost reestimate, are shown in Table 1.

TABLE 1

GPR Compensation Reserves for General Salary-Related Provisions, Excluding Items Removed from Consideration

	2021-22	2022-23
General Wage Adjustments	$21,717,000	$65,734,500
Market Wage and Parity Adjustments	5,000,000	5,000,000
Minimum Pay Increase to $15 per Hour, with Market Stratification (Reestimated)	2,211,000	2,211,000
Night and Weekend Differential Increase	0	2,388,800
Total	$28,928,000	$75,334,300

4. Generally speaking, an employee's contribution to a state agency's mission tends to increase with length of service as an employee gains experience and expertise. With experience, the ability of these employees to handle increasing and more complicated workloads grows, and the quality of service that these employees can provide to the state and affected members of the public may also improve. Moreover, when employee turnover is reduced, agencies can minimize the resources that must be applied to the recruitment and training of new employees. Finally, in retaining qualified staff, increased compensation can be a tangible way for the state to indicate that the staff, and the work the staff performs, is valued.

5. Following is a discussion of each of the general salary-related provisions for which the Committee may consider reserving funding to support the state in successfully recruiting and retaining employees.

General Wage Adjustments

6. Amounts in compensation reserves include funding for two general wage adjustments (GWAs) of 2% each on January 1, 2022, and January 1, 2023, for state and UW System employees. Combined, these increases represent a 4.04% general wage increase for employees over the 2021-23 biennium. The timing and percentage amount of the proposed pay increases are identical to those provided in the 2019-21 biennium (two 2% increases on January 1, 2020, and January 1, 2021).

7. A review of consultant research shows that employers in general have, on average, provided 3% annual wage increases over the past 10 years. Table 2 summarizes the research on pay increases.

TABLE 2

Employer Compensation Increases, 2011 - 2020

Calendar Year	U.S. Average Salary Budget Increases
2011	2.8%
2012	2.8
2013	2.9
2014	3.0
2015	3.0
2016	3.0
2017	3.0
2018	3.1
2019	3.2
2020	2.9
10-Year Average	3.0%

8. Over a similar period, the State of Wisconsin has provided lower wage increases with less frequency. Table 3 summarizes the general wage adjustments provided to state employees and percentage change in the consumer price index for all urban consumers (CPI-U) from 2011-12 to 2020-21 (through April, 2021).

TABLE 3

General Wage Adjustments for State Employees and CPI-U Changes, 2011-12 to 2020-21

Fiscal Year	General Wage Adjustment	Consumer Price Index Change
2011-12	0.0%	2.9%
2012-13	0.0	1.7
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	1.7
Percent Change, FY 2012 to 2021	10.4%	18.4%

9. In reviewing Table 3, 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.

10. In addition, non-retirement separations from state employment have been higher in each of the past five fiscal years (2015-16 to 2019-20) than in any of the preceding five fiscal years (2010-11 to 2014-15). Non-retirement separations have averaged 9.4% annually since 2015-16. Over the same 10-year period, Wisconsin rates of unemployment decreased from 8.0% in 2010-11 to 5.3% in 2019-20. As unemployment rates decrease, competition for a limited supply of workers between employers increases. As of April, 2021, the unemployment rate in Wisconsin is 3.9%. Table 4 summarizes state separation rates, by retirement and non-retirement separations, and unemployment rates in Wisconsin from 2010-11 to 2019-20.

TABLE 4

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
2010-11	3.9%	6.8%	10.7%	8.0%
2011-12	6.1	4.5	10.6	7.2
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	5.3

11. 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. Further, additional funding for salary increases is provided separately elsewhere in AB 68/SB 111 to support pay progression costs for assistant attorneys general, assistant and deputy district attorneys, and assistant state public defenders. As a result, assistant attorneys general, assistant and deputy district attorneys, and assistant state public defenders would not be eligible to receive general wage adjustments.

12. The calculation of bill 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 and constitutional officers, and elected district attorneys). Included in the 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 2022-23 would provide for the costs associated with compensation of state legislators and constitutional officers, accounting for the dates on which each elected official could next receive a pay increase.

13. 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 2021-23 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.

14. It could be argued that not providing general wage adjustments would erode the state's ability to recruit and retain employees because it would reduce the state's market competitiveness in an economy with relatively 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, it could be argued that the proposed pay increases are modest by comparison. Therefore, the Committee could provide $21,717,000 GPR in 2021-22 and $65,734,500 GPR in 2020-23 to compensation reserves for two 2% general wage adjustments on January 1, 2022, and January 1, 2023. Estimated all funds costs would be $50,854,600 in 2021-22 and $153,581,000 in 2022-23. The annualized cost of the raises in 2023-24 is estimated at $88,094,900 GPR ($206,181,700 all

funds). [Alternative A1] As a point of comparison, the cost to provide two 3% general wage adjustments on January 1, 2022, and January 1, 2023, would be $32,575,600 GPR ($76,282,000 all funds) in 2021-22 and $98,937,500 GPR ($231,134,400 all funds) in 2022-23. The annualized cost of two 3% raises in 2023-24 would be $132,796,400 GPR ($310,803,200 all funds).

15. The Committee could modify the percentage increase or the timing of the general wage adjustments for which funding is budgeted in compensation reserves. With regard to timing, for example, the Committee could provide funding to support increases at the beginning of each fiscal year rather than at the beginning of each calendar year. While supporting pay increases earlier in the fiscal year increases the costs of the provision during the 2021-23 biennium, it also reduces the out-year commitment associated with the adjustments. On the other hand, budgeting for raises in January of each year would provide for evenly spaced, gradual compensation increases since the most recent general wage adjustment was provided in January, 2021.

16. The administration believes that if adjustments of less than 2% each were provided, lower-paid employees in particular would see a reduction in purchasing power (inflation in consumer prices has a larger impact since essential expenses represent a greater percentage share of such employees' salaries). In addition, given that other employers are generally offering larger pay raises, the state's ability to compete in the labor market would be reduced. However, employees would likely appreciate receiving some amount of general wage adjustment, rather than receiving no general wage adjustment. If the Committee wishes to provide a lesser amount of funding for general wage adjustments for state and UW System employees, it could consider providing $10,858,500 GPR in 2021-22 and $32,761,300 GPR in 2022-23 for the cost of two increases of 1% each on January 1, 2022, and January 1, 2023. Estimated all funds costs would be $25,427,300 in 2021-22 and $76,536,200 in 2022-23. [Alternative A2] The annualized cost of two 1% raises in 2023-24 would be $43,829,400 GPR ($102,580,500 all funds). If the Committee takes no action, general wage adjustments will likely not be provided. [Alternative A3]

Market Wage and Parity Adjustments

17. Funding budgeted to compensation reserves in the bill includes $5,000,000 GPR annually for market wage and parity adjustments for classified employees. Market wage and parity adjustments exist to provide pay increases to employees within certain classifications in which recruitment and retention problems have been identified due to issues such as state salaries being below market levels. The biennial compensation plan identifies the employee classifications that are eligible for market wage and parity adjustments and the specific amount of adjustments that would be provided in the relevant biennium.

18. Including funding within compensation reserves for market wage and parity adjustments would assist agencies in providing these adjustments to their employees. In addition, if funding is provided in compensation reserves, a larger number of classifications would be eligible for market wage and parity adjustments than would be the case otherwise (that is, if all market wage and parity adjustments were agency-funded), since agencies would be able to request supplemental funding to support market wage and parity adjustments.

19. The 2019-21 biennial budget included $2,000,000 GPR annually in compensation

reserves for market wage and parity adjustments. Most of the market wage adjustments funded from compensation reserves were in the amounts of $0.50 or $0.70 per hour, based on job level. The administration indicates that providing these adjustments helped prevent the state from falling further behind market wages. However, many occupations still have pay rates below market rates.

20. While wage rates are not inclusive of the value of fringe benefits, one indication that total compensation (salary and fringe benefits) may be insufficient from a recruitment and retention perspective is where higher separation or vacancy rates are observed for particular classifications or occupational areas. To the degree there are limits on available funding, market wage adjustments are prioritized to classifications which are identified as having greater percentage differences in wage relative to market rates in Wisconsin, as well as to specific recruitment and retention challenges identified by agencies as high priority. To this end, the Division of Personnel Management surveys agencies and conducts labor market research prior to submitting a proposed compensation plan, for the purpose of determining priorities and preparing specific pay policies and recommendations.

21. The Division of Personnel Management believes funding above the level provided for the 2019-21 biennium would better assist in addressing continued market wage and parity adjustment needs. If less funding were provided for this purpose, fewer classifications could receive targeted pay increases. Although specific occupational areas that could be targeted through the 2021-23 compensation plan with additional funds were not identified, the following groups experienced separation rates over 15% in 2019-20: personal care aides (48.6%), food production (24.2%), health care technicians (16.2%), educational supervisors (16.0%), production laborers (15.3%), and public safety (15.1%).

22. The administration believes that a reduction in the recommended funding would result in further increases in position separations, additional costs to recruit and train new employees, and a reduction in quantity and quality of work due to inexperience. Further, DPM indicates that while a number of agencies with positions funded from sources other than GPR may be able to provide market wage and parity adjustments through existing resources, agencies with positions funded from GPR may be at a disadvantage without a source of supplemental funding, creating inequities between agencies funded from GPR and agencies funded from other sources.

23. Funding provided in AB 68/SB 111 for market wage and parity adjustments represents 0.29% of base payroll for classified positions in each year of the biennium. If two general wage adjustments of 2% each were provided in addition to $5.0 million annually for market wage and parity adjustments, the state as an employer would be providing increases of approximately 2.3% annually for classified employees overall, relative to 3.0% annual increases provided by employers more generally (most classified employees would receive increases of 2% and others would receive larger increases to address issues of particular classifications).

24. Providing for market wage and parity adjustments allows the state to compete as an employer with the private sector and other units of government in recruiting and retaining qualified employees. With more experienced and qualified staff, the services the state provides to Wisconsin may improve, and those services may be provided in a more efficient and effective manner. Finally, with greater recruitment and retention efforts, the state can minimize the resources that must be allocated toward the recruitment and training of new staff. In recognition of these considerations, the

Committee could provide $5,000,000 GPR annually for market wage and parity adjustments. [Alternative B1]

25. Alternatively, the Committee could provide a reduced level of funding in compensation reserves for market wage and parity adjustments. For example, the Committee could provide: (a) $4,500,000 GPR annually, 0.26% of base payroll [Alternative B2]; (b) $4,000,000 GPR annually, 0.23% of base payroll [Alternative B3]; (c) $3,500,000 GPR annually, 0.2% of base payroll [Alternative B4]; (d) $3,000,000 GPR annually, 0.17% of base payroll [Alternative B5]; or (e) $2,500,000 GPR annually, 0.14% of base payroll. [Alternative B6]

26. If the Committee takes no action and funding is not provided for market wage and parity adjustments in compensation reserves, DPM could still propose market wage and parity adjustments for certain classifications in the 2021-23 compensation plan, to the extent such adjustments could be supported within agencies' existing resources. [Alternative B7] For agencies that are not able to support market wage and parity adjustments with existing resources, market wage and parity adjustments would be awarded at a lower level or to a fewer number of position classifications, or both. Further, when market wage and parity adjustments are proposed for certain classifications, funding generally must be available for adjustments at all agencies that employ positions in that classification. This prevents an employee in a classification at one agency from earning a different salary than another employee with the same classification at a separate agency, which could create equity issues. The need for funding availability across all agencies with similar classifications can present a barrier in providing certain classifications market wage and parity adjustments.

Minimum Pay and Market Stratification

27. Funding is included in AB 68/SB 111 to: (a) increase minimum pay for state employees in the executive branch (not including the UW System) to $15 per hour; and (b) implement a market stratification for most classifications assigned to pay schedules 02 (administrative support), 03 (blue collar), 05 (security and public safety), and 06 (technical), as was done in the 2019-21 compensation plan. [Correctional security positions in pay ranges 05-31 and 05-32 would again be excluded from the market stratification due to other pay increases provided to those positions in the 2019-21 compensation plan.] The bill does not include language to accomplish either provision. Rather, the increases would be included through the state compensation plan for the 2021-23 biennium, and would be implemented as soon as practicable.

28. As noted previously, subsequent to introduction of the bill, the administration identified a calculation error relating to the cost of these provisions. The reestimated cost of implementing both provisions is $2,211,000 GPR annually (rather than $3,879,900 GPR annually). Although the provisions are presented together, they could be considered as separate proposals and could each be implemented independently of the other. Therefore, each of the provisions is described in more detail below, including separate cost estimates.

29. *Minimum Pay*. Increasing minimum pay for executive branch agencies to $15 per hour would affect the four pay schedules noted above: 02, 03, 05, and 06. Each of the affected pay schedules has two or three pay ranges for which current minimum pay is less than $15 per hour. The proposal would eliminate the lowest pay range (grade 8) in each of the four pay schedules, and would

reallocate positions from this range to the pay range above it (grade 9). Currently, 361 executive branch employees, excluding UW System, are paid less than $15 per hour (between $12.49 and $14.95 per hour). However, increasing the pay of only these employees would cause pay compression and equity issues. To prevent such issues from occurring, the proposal would increase the minimum for the lowest remaining range (grade 9) in each schedule to $15 per hour, increase minimum rates for several other ranges, and provide pay increases to other employees among several of the pay ranges above the lowest range. Under the proposal, positions in these pay schedules with pay between $15 and $20.66 per hour would also receive raises. If the minimum pay proposal were implemented alone, without a seniority-based market stratification, 1,249 employees who currently earn more than $15 per hour would receive a pay increase (in addition to the 361 who earn less than $15 per hour).

30. To facilitate an increase in minimum pay for executive branch employees (excluding UW System) to $15 per hour, without a seniority-based market stratification, the Committee could provide $815,000 GPR annually to compensation reserves (estimated cost of $3,108,100 all funds annually). [Alternative C1]

31. *Market Stratification*. Positions in pay schedules 02, 03, 05, and 06 include the lowest-paid classifications as well as positions in somewhat higher pay ranges. Minimum pay for positions in these schedules ranges from $12.49 per hour (blue collar pay range 03-8, which includes classifications such as custodian) to $22.84 per hour (administrative support pay range 02-15, which includes classifications such as financial specialist-advanced). Because these positions are assigned to non-broadband schedules, there is limited flexibility for an appointing authority to provide pay increases. Employees in non-broadband schedules are generally appointed at the minimum of the pay range and by default would remain at the minimum as they gain experience, because pay range structures are typically increased by percentage amounts equal to general wage adjustments that are provided. In other words, an employee who starts at the minimum and receives a 2% general wage adjustment would still be paid at the minimum rate, since pay minimums would also increase by 2% when the general wage adjustment is implemented.

32. The 2019-21 compensation plan, as approved by JCOER, included a market stratification to increase the hourly pay of employees in these pay schedules based on years of service as follows: (a) 0 to 2 years ($0.20); (b) 3 to 4 years ($0.30); (c) 5 to 6 years ($0.40); (d) 7 to 9 years ($0.50); or (e) 10 or more years ($0.60). The cost of pay adjustments was permitted to be supplemented from compensation reserves, subject to availability of funds. One-time pay increases were provided based on years of continuous service as of December 22, 2019. To illustrate the effect of the stratification, due to the inclusion of this provision in the compensation plan, employees in these pay schedules who had 0 to 2 years of experience as of December 22, 2019 (currently approximately 1.5 to 3.5 years of experience) generally are paid about $0.20 per hour above the current minimum rate for the pay range applicable to the employee's classification.

33. Subsequent to implementing the adjustments in the 2019-21 compensation plan, the Division of Personnel Management received feedback from multiple agencies requesting that similar adjustments be made a priority for inclusion in the 2021-23 compensation plan as well. If such increases were again provided, approximately 5,200 individuals in 200 classifications would receive one-time, seniority-based pay raises of $0.20, $0.30, $0.40, $0.50, or $0.60 per hour. Current pay

rates for these employees range between $12.49 and $34.93 per hour.

34. To support pay increases of $0.20 to $0.60 per hour to employees in pay schedules 02, 03, 05, and 06 based on years of service, the Committee could provide $1,668,800 GPR annually to compensation reserves (estimated cost of $5,086,000 all funds annually). [Alternative C2]

35. Because the two proposals target positions in the same pay schedules and would both provide increases to employees earning less than $15 per hour, if implemented together, the cost would be less than the sum of the separately calculated proposal costs. If the Committee were to allocate resources for both proposals, it could provide $2,211,000 GPR annually to compensation reserves (estimated cost of $7,307,300 all funds annually). [Alternative C3]

36. If the Committee takes no action with regard to the proposals, the Division of Personnel Management could consider including one or both of the provisions in the proposed 2021-23 compensation plan, subject to available funding. Any proposed modifications to the compensation plan will be subject to review and approval by JCOER. [Alternative C4]

Night and Weekend Differentials

37. The federal Fair Labor Standards Act (FLSA) covers all classified, and certain unclassified, employees in state service. In addition to establishing a minimum wage, FLSA generally requires employers to pay covered employees time and a half (150% of base pay) for hours worked above 40 hours in a work week. Exceptions to the requirement are commonly referred to as executive, administrative, and professional exemptions. To administer the requirements of the law, state positions are designated as "exempt" or "nonexempt."

38. State employees in positions determined to be FLSA-nonexempt receive, in addition to overtime premium, a differential of $0.45 per hour for all night hours worked (work hours between 6 p.m. and 6 a.m.) and $0.60 per hour for all weekend hours worked (work hours on Saturday and Sunday). If an employee works at night on the weekend, the differential is additive ($1.05 per hour). The night and weekend differential rates were last increased in the 1997-99 biennium.

39. Employees who receive night and weekend differential pay are generally lower-paid employees, many of whom provide direct care to individuals residing in state facilities that operate 24 hours a day, seven days a week (correctional institutions, state centers for individuals with intellectual disabilities, and veterans homes). The pay differentials are intended to serve as an incentive for employees to volunteer for work shifts that are less desirable. In addition, pay differentials are a way of recognizing the quality of life impacts of working nights and weekends and rewarding employees for their service and commitment.

40. The administration proposes increasing night and weekend differentials to $0.80 per hour for each, based on the differential rates paid by other employers, including other states, the City of Madison, and UW-Madison. The Division of Personnel Management indicates that the current night and weekend differential pay rates are lower than those of most other states. The Division indicates that the current rates are of relatively low value, resulting in high turnover and vacancy rates for positions working these shifts, which results in additional overtime expenses at time and a half (a

higher hourly cost than the proposed night and weekend differential pay rates combined).

41. Under the proposal, an employee would receive differential pay of $0.80 per hour for night hours (a 78% increase) and $0.80 per hour for weekend hours (a 33% increase). The combined differential pay for hours worked at night on the weekend would be $1.60 per hour, an increase of 52% from current differential pay for night hours on the weekend ($1.05 per hour). As a point of comparison, the percentage change in the consumer price index for all urban consumers from September, 1997, to April, 2021, was approximately 66%. Funding provided to compensation reserves in AB 68/SB 111 for the cost to increase the pay differentials, including variable fringe benefits, is $2,388,800 GPR in 2022-23 based on an implementation date of July 1, 2022. Estimated all funds costs would be $3,432,300 in 2022-23.

42. Given that most other state employers provide higher night and weekend differential pay and that the differentials have not been modified in 24 years, the Committee could provide $2,388,800 GPR in 2022-23 to increase night and weekend differential pay rates to $0.80 per hour each, beginning July, 2022, to reduce turnover, vacancies, and resulting overtime expenses for position classifications that work night and weekend shifts. [Alternative D1]

43. As noted above, the proposal could have desirable effects from the perspective of recruitment, retention, and overtime expenses for positions that work night and weekend shifts. Therefore, it could be argued that night and weekend differential rates should be increased sooner than July, 2022. If the Committee wished for the proposal to be implemented prior to the administration's target date, it could provide: (a) $1,194,400 GPR in 2021-22 and $2,388,800 GPR in 2022-23 for increased rates starting January 1, 2022 [Alternative D2]; or (b) $2,388,800 GPR annually for increased rates as soon as practicable (beginning with the effective date of the 2021-23 compensation plan approved by JCOER). [Alternative D3]

44. If the Committee were to provide a lesser amount of funding, the Division of Personnel Management could propose lesser increases to the differential pay rates. If the Committee takes no action, it is unlikely the cost of increased differential pay rates could be absorbed within appropriated agency budgets. As a result, the pay rates would likely remain the same. [Alternative D4]

ALTERNATIVES

A. General Wage Adjustments

1. Provide $21,717,000 GPR in 2021-22 and $65,734,500 GPR in 2020-23 for two general wage adjustments of 2% each on January 1, 2022, and January 1, 2023.

ALT A1	Change to Base
GPR	$87,451,500

2. Provide $10,858,500 GPR in 2021-22 and $32,761,300 GPR in 2022-23 for two general wage adjustments of 1% each on January 1, 2022, and January 1, 2023.

ALT A2	Change to Base
GPR	$43,619,800

3. Take no action.

B. Market Wage and Parity Adjustments

1. Provide $5,000,000 GPR annually for market wage and parity adjustments (0.3% of base payroll).

ALT B1	Change to Base
GPR	$10,000,000

2. Provide $4,500,000 GPR annually (0.26% of base payroll).

ALT B2	Change to Base
GPR	$9,000,000

3. Provide $4,000,000 GPR annually (0.23% of base payroll).

ALT B3	Change to Base
GPR	$8,000,000

4. Provide $3,500,000 GPR annually (0.2% of base payroll).

ALT B4	Change to Base
GPR	$7,000,000

5. Provide $3,000,000 GPR annually (0.17% of base payroll).

ALT B5	Change to Base
GPR	$6,000,000

6. Provide $2,500,000 GPR annually (0.14% of base payroll).

ALT B6	Change to Base
GPR	$5,000,000

7. Take no action.

C. Minimum Pay and Market Stratification

1. Provide $815,000 GPR annually to increase minimum pay for executive branch employees (excluding UW System) to $15 per hour.

ALT C1	Change to Base
GPR	$1,630,000

2. Provide $1,668,800 GPR annually to support pay increases of $0.20 to $0.60 per hour to employees in pay schedules 02, 03, 05, and 06 based on years of service.

ALT C2	Change to Base
GPR	$3,337,600

3. Provide $2,211,000 GPR annually to increase minimum pay for executive branch employees (excluding UW System) to $15 per hour and support pay increases of $0.20 to $0.60 per hour to employees in pay schedules 02, 03, 05, and 06 based on years of service.

ALT C3	Change to Base
GPR	$4,422,000

4. Take no action.

D. Night and Weekend Differentials

1. Provide $2,388,800 GPR in 2022-23 to increase night and weekend differential pay rates to $0.80 per hour each, beginning July, 2022.

ALT D1	Change to Base
GPR	$2,388,800

2. Provide $1,194,400 GPR in 2021-22 and $2,388,800 GPR in 2022-23 to increase night and weekend differential pay rates to $0.80 per hour each, starting January 1, 2022.

ALT D2	Change to Base
GPR	$3,583,200

3. Provide $2,388,800 GPR annually to increase night and weekend differential pay rates to $0.80 per hour each as soon as practicable.

ALT D3	Change to Base
GPR	$4,777,600

4. Take no action.

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June, 2021 Joint Committee on Finance Paper #232

Nursing Assistant and Resident Care Technician Pay Progression (Compensation Reserves)

[LFB 2021-23 Budget Summary: Page 116, #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 targeted pay increases for classifications with particular recruitment or retention needs.

DISCUSSION POINTS

1. Under Assembly Bill 68/Senate Bill 111, $52,700 GPR in 2021-22 and $68,000 GPR in 2022-23 is provided to compensation reserves to implement a pay progression system for nursing assistants and resident care technicians to address recruitment and retention issues. A pay progression system provides pay increases to employees in specific classifications or pay ranges based on longevity through a grid that lists hourly pay rates for different lengths of service, such as some number of months or years. Pay progressions included in the compensation plan generally require that employees meet performance standards to be eligible for pay increases.

2. Positions in the nursing assistant and resident care technician classification series are employed by Corrections (28.35 GPR positions), Health Services (597.35 PR positions), and Veterans Affairs (410.5 PR positions). Nursing assistants and resident care technicians perform similar duties and have similar qualifications. Therefore, the proposed pay progression structure for the two classification series would be identical, based on the pay grade to which each respective position is assigned. Funding provided to compensation reserves represents the estimated cost of the pay progression proposal for nursing assistants at Corrections. The program revenue cost of the proposal for nursing assistants and resident care technicians at Health Services and Veterans Affairs is estimated at $2.3 million PR in 2021-22 and $2.6 million PR in 2022-23.

3. Corrections employs nursing assistants stationed at Dodge, Taycheedah, and Oshkosh Correctional Institutions. Nursing assistants at correctional institutions assist in the provision of health care and services for inmates in a correctional infirmary or health services unit. Duties include: assisting licensed practical nurses, registered nurses, and physicians with direct patient care; clerical functions and upkeep of the infirmary or unit; and other assigned duties associated with maintaining the 24-hour operations of the institution.

4. Health Services resident care technician and nursing assistant positions serve at the agency's three intermediate care facilities for individuals with intellectual disabilities known as "state centers": Central Wisconsin Center in Madison, Northern Wisconsin Center in Chippewa Falls, and Southern Wisconsin Center in Union Grove. The state centers provide health, assessment, treatment, and rehabilitation services. Duties of employees in these positions may include providing personal hygiene care; assisting new residents in adjusting to their living area; observing and reporting behavior, mental, and physical changes in residents; recording and summarizing information in daily logs and clinical records; and assisting seated or lying residents to a standing position by pulling and lifting. Applicants may be required to pass a physical evaluation to assess physical requirements of the position, including the ability to lift up to 55 pounds. For some positions, applicants must be willing and available to work up to 15.5 hours in one shift.

5. Veterans Affairs employs nursing assistants at two of its veterans nursing homes, King and Union Grove. Nursing assistants provide direct care to elderly or disabled veterans and their spouses. Duties include assisting in patient mobility efforts; making visual observations; maintaining patient hygiene; using special safety equipment; and kneeling, stooping, lifting, pushing, pulling, carrying, and reaching in the course of performing tasks. Employees stand or walk up to six hours of each eight-hour work period as they provide assessments and carry out other functions.

6. Nursing assistants and resident care technicians perform physically demanding duties in challenging work environments providing direct care to intellectually disabled residents, veterans, and inmates. Employees work nights, weekends, and holidays, and are often required to work overtime shifts due to vacancy rates ranging between 28% (resident care technician-objective) and 47.7% (nursing assistant 2). High turnover rates (separations from state employment) also contribute to difficulties in the residential institution setting, as institutions are perpetually training new employees. In 2019-20, the turnover rate for resident care technician-objective was 64.1%, for nursing assistant 2 was 34.9%, and for nursing assistant 3 was 33.3%. In other words, for every 100 employees who were employed in these positions at the start of the year, between 33 and 64 had terminated employment by the end of the year.

7. In an August, 2019, audit report relating to investigations of incident reports and complaints at the Veterans Home at King, the Legislative Audit Bureau noted that 32.2% of incident reports and complaints were attributable to quality of resident care for reasons including high turnover among nursing assistants. Specifically, the report noted that "Allegations about the quality of care were diverse and included concerns such as a failure to use proper procedures when transferring a resident from a bed to a wheelchair, inconsistency of resident care because of high turnover among certified nursing assistants, and delayed follow-up on a doctor's written orders."

8. Positions in the nursing assistant and resident care technician classification series are

assigned to pay ranges 06-10, 06-11, and 06-12. To encourage retention and advancement, the pay progression would only apply to positions above the entry level (positions in ranges 06-11 and 06-12). Currently, pay for positions in these pay ranges is mostly flat for employees with 20 years of service or less. That is, most employees in these classifications with 20 years of service earn the same hourly pay rate as an employee with six months of experience ($18.43 for positions in grade 11, and $19.69 for positions in grade 12).

9. The proposed pay progression would provide pay increases based on years of service, as employees reach work anniversaries of one, two, three, five, 10, or 15 years. On the effective date of the progression (which would be determined in the compensation plan), employees would initially be placed on the progression schedule according to their current years of service. For example, an employee with four years of service would be paid at the three-year rate, and would progress to the next pay rate when the employee reached five years of service. Employees with more than 15 years of service would receive the greater of the rate for 15 years or their current pay rate. Therefore, the progression would also provide pay increases for many employees with between 15 and 20 years of service. The greatest impact of the pay progression would be for employees with between two and 20 years of service. The details of the progression, including specific pay rates, would be finalized in the 2021-23 state employee compensation plan, which will be submitted to the Joint Committee on Employment Relations for approval.

10. For the affected appropriations under Health Services, funding for state centers is primarily from medical assistance payments. Funding for the veterans nursing homes is a combination of medical assistance payments, other third-party payments, out-of-pocket payments from veterans nursing home residents, and federal payments that support the care of veterans nursing home residents. While the respective PR appropriations may have sufficient revenue available to support the pay progression system, what the agencies may lack is sufficient expenditure authority. If GPR funding is provided to compensation reserves for pay progression costs associated with Corrections nursing assistants, and the proposal is included in the compensation plan, Health Services and Veterans Affairs could request necessary expenditure authority for the relevant PR appropriations through the pay plan supplementation process, which is subject to passive review by the Committee.

11. The majority of positions in the nursing assistant and resident care technician classification series provide direct care for intellectually disabled residents and veterans nursing home residents (1,007.85 of 1,036.2 positions, or 97%). To improve quality of care and reduce reliance on overtime associated with vacancy rates ranging between 28% and 48% and turnover as high as 33% to 64%, the Committee could provide $52,700 GPR in 2021-22 and $68,000 GPR in 2022-23 to compensation reserves for pay progression costs associated with nursing assistants at Dodge, Taycheedah, and Oshkosh Correctional Institutions, with estimated costs for positions at state centers (Health Services) totaling $1,434,500 PR in 2021-22 and $1,663,500 PR in 2022-23, and costs for positions at veterans nursing homes (Veterans Affairs) totaling $842,700 PR in 2021-22 and $904,900 PR in 2022-23. [Alternative 1]

12. If the Committee takes no action, the Division of Personnel Management would need to determine whether the impact of the proposal could be absorbed in the existing budgets of Corrections, Health Services, and Veterans Affairs. If it were determined that the costs for all three

agencies could be absorbed, DPM could include the proposal in its recommendations for the compensation plan submitted to the Joint Committee on Employment Relations. If the pay progression were not included in the compensation plan, it is likely that these classifications would continue to experience high rates of turnover, vacancies, and resulting overtime hours, with adverse effects on the quality of resident and patient care. [Alternative 2]

ALTERNATIVES

1. Provide $52,700 GPR in 2021-22 and $68,000 GPR in 2022-23 to compensation reserves to implement a pay progression system for nursing assistants and resident care technicians to address recruitment and retention issues. (Program revenue costs are estimated at $2,277,200 in 2021-22 and $2,568,400 in 2022-23.)

ALT 1	**Change to Base**
GPR	$120,700

2. Take no action.

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