



May 31, 2005

The Honorable Scott Fitzgerald, Senate Chair
Joint Committee on Finance
317-East Capitol
P.O. Box 7882
Madison, WI 53707-7882

The Honorable Dean Kaufert, Assembly Chair
Joint Committee on Finance
308-E Capitol
P.O. Box 8952
Madison, WI 53708-8952

Dear Senator Fitzgerald and Representative Kaufert:

State Budget Director David Schmiedicke and I recently received a request from the Legislative Fiscal Bureau to share information on Governor Jim Doyle's assumptions behind the amounts in the compensation reserve in his 2005-2007 biennial budget proposal. Our response to the LFB is attached for this committee's reference.

This inquiry from the LFB suggests that members of this committee may be considering reducing the compensation reserve as part of the committee's deliberations on the Governor's budget proposal. State employees have made significant sacrifices over the last two years in order to help repair a budget deficit that they did not cause. Any reduction in the compensation reserve would seriously impair the state's ability to provide needed pay increases to state employees.

As you know, the funds in the compensation reserve pay for:

- general salary increases for all state employees, including the faculty and academic staff of the University of Wisconsin System;
- additional salary increases for critical classifications (e.g. health care, law enforcement, and public safety) where we are significantly behind the labor market or are experiencing extreme recruitment and retention difficulty;
- contributions to the Wisconsin retirement system for state employees;
- payments for state employee health insurance above those amounts built into agency base budgets;
- amounts necessary to fund general wage adjustments and labor market based increases for the 11 bargaining units that have not yet settled their contracts for 2003-2005.

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The amounts set aside in the Governor's proposed compensation reserve are, simply put, the minimum needed over the next two years to provide fair wage increases to all state employees and pay for the benefits on which state employees and their families depend.

Any reduction in the compensation reserve would be inconsistent with the desire expressed by a number of members of the Legislature to see the state wrap up negotiations with state employees as fast as possible. I have recently received communications from members of the Legislature, on behalf of their state employee constituents, inquiring about the state's intentions regarding concluding the 2003-2005 labor contract negotiations and beginning the 2005-2007 negotiations. We continue to bargain with those state employee unions that have not yet settled their contracts for 2003-2005, and I am optimistic that we will conclude those negotiations successfully. We are also beginning negotiations for the 2005-2007 biennium and will work with state employee unions to move those negotiations along so that state employees can receive long-delayed pay increases. Governor Doyle is committed to reaching contracts with all represented state employees, and put aside funds in the 2005-2007 compensation reserve to achieve this goal.

State employees have done their part to help the state out of a combined total of \$5 billion in budget deficits over the last two biennia, and the funds set aside for their pay increases should be preserved. As part of Governor Doyle's efforts to balance the budget in the 2003-2005 biennium without drastic cuts to essential programs like public education and state aid to local governments, state employees were asked to accept very low pay increases, give up length of service payments, and begin paying a portion of their health care premiums as part of an overall reform of the way the state buys health insurance for its employees. In addition, the state workforce was reduced by 2,300 positions and will be further reduced in the 2005-2007 budget.

As you may know, the Office of State Employment Relations recently submitted compensation plans for nonrepresented state employees and UW faculty and academic staff to the Joint Committee on Employment Relations for approval. These compensation plans propose modest general wage increases totalling 5% over the biennium, along with a moderate increase in employee contributions to health insurance premiums that will take effect in the second year of the biennium. We are offering similar terms to represented employees at the bargaining table.

Despite significant budget challenges, Governor Doyle's budget fully funded the compensation reserve so that state employees could receive fair, reasonable raises over the next two years and continue to have access to affordable health insurance coverage for themselves and their families. Revenues are now almost \$350 million higher than was projected when the Governor put together his budget. Given this new revenue, the Legislature should, at a minimum, be able to fund this important priority at the same level the Governor proposed.

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Any reduction in the compensation reserve by this committee would gravely jeopardize our ability to give state employees the modest pay increases they are most certainly due. I respectfully urge this committee to refrain from any reduction in the compensation reserve amounts proposed in Governor Doyle's budget.

Sincerely,

Karen E. Timberlake
Director