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# *Budget Briefs*

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## **QUALIFIED ECONOMIC OFFER (QEO)**

The budget adjustment act (1997 Wisconsin Act 237), passed by the legislature and signed by Governor Tommy Thompson on June 2, 1998, alters the basis for calculating the qualified economic offer (QEO) factor used statewide in negotiating local school district contracts. The new law mandates that the salary component of a QEO must be increased to reflect certain savings the district realizes on the fringe benefit component. The change applies to proposed collective bargaining agreements with starting dates of July 1, 1999, or later. Prior to that date, the application of the savings is allowed, but not required.

### **BACKGROUND**

In negotiating teachers' contracts, a local school district can avoid binding arbitration on salaries and fringe benefits if it makes a QEO that meets the minimum increases required by state statute. Individual districts may offer more than the QEO minimums if they choose.

Between January 1, 1978, and August 12, 1993, state law had provided for compulsory final binding arbitration to resolve collective bargaining impasses that affected municipal employees, including public school teachers. 1993 Wisconsin Act 16, the executive budget, created the QEO provision for school district professional employees and required that their collective bargaining agreements expire uniformly on June 30 of each odd-numbered year.

### **WHAT IS A QEO?**

To meet QEO requirements, the employer must maintain the employees' fringe benefits and continue to pay its percentage of the cost, including annual cost increases. Changes in fringe benefit costs determine the amounts available for salary increases.

A QEO is usually expected to include a minimum annual salary increase equal to at least 2.1% of the existing compensation and fringe benefits package. However, QEO requirements are met if salary and fringe benefits in combination total a 3.8% increase. For example, if complying with fringe benefits requirement results in an increase of 1.9%, the salary percentage could be lowered to 1.9%, totaling 3.8%. If fringe benefit costs by themselves exceed 3.8%, the QEO may propose an average salary decrease for any 12-month period covered by the offer.

The major QEO change, enacted in Act 237, was to require that, for contracts beginning July 1, 1999, and later, savings that result when the fringe benefit increase is less than the 1.7% must be added to the 2.1% salary minimum for a total 3.8% increase.

QEO requirements do not result in every employee receiving the same percentage of salary increase. Application of the overall 2.1% increase must follow existing salary schedules, covering, in order: 1) one "step increase" for each additional year of teaching experi-

ence, and 2) increases for promotions or additional professional training. If funds are limited and step or lane increases cannot be fully covered, prorating is required.

### **IMPACT OF QEO**

Implementation of the QEO has removed the necessity of binding arbitration and has given district school boards a means of controlling expenditures within the revenue limits imposed by state law. Both the boards and the teachers' unions report sizeable drops in compensation increases. According to the Wisconsin Association of School Boards, average annual raises for teachers have dropped from 6.5% for salaries and fringe benefits in 1991-92 to 3.6% in 1996-97. The Wisconsin Education Association Council claims that since QEO was first applied in 1993, salary increases have averaged 1.6% per year.

### **FOR MORE INFORMATION**

For copies of the relevant sections of 1997 Wisconsin Act 237, contact the Legislative Reference Bureau at (608) 266-0342. For further information about the qualified economic offer, contact the Employment Relations Commission at (608) 266-1381.