

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 27, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMORANDUM #20: COMMENTS ON COLA CAP OF \$50,000

This memo is in response to the request from Councilman Lovain for analysis over the possibility of a COLA capped to apply only to an employee's first \$50,000 of salary. Under this scenario, for instance, an employee earning a salary of \$50,000 or less would receive a full COLA; an employee earning \$100,000 would receive ½ of the COLA; and an employee earning \$75,000 would receive ¾ of the COLA. Each 1% COLA would result in a \$500 pay increase for everybody earning over \$50,000.

As noted in an earlier Budget memo, each 1% COLA (with no cap) costs about \$2.2M for City Employees and \$1.4M for School employees.

The following provides the pros and cons of such an approach. Staff does not recommend providing a COLA in this manner. It is counter to our existing pay system and may contribute to pay compression of supervisors and employees that they supervise if continued for multiple years.

Pro

- Cost Savings- A cap limiting the COLA to the first \$50,000 of salary would cost about \$400,000 less for each 1% of COLA for City employees (including savings for salary related benefits). The impact on cost is linear. In other words, 18.2% of the cost of a COLA would be saved no matter what the size of the COLA. So a 2% COLA would save about \$800K. It means that about 1,183 out of 2,660 employees (44.5%) would get a full COLA and 1,477 (55.5%) would get less than a full COLA.

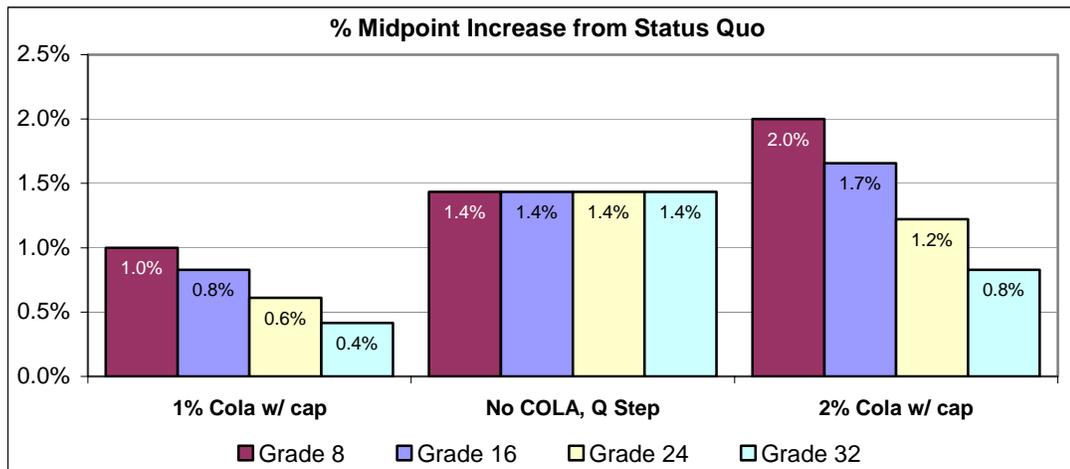
Cons

- Effect on City's Pay Scale – The City's current FY 2007 pay scales offer a 5% performance based step increase for employees on steps A through D; a 3.5% step increase for employees on steps E through I; and a 2.3% step increase for employees on steps J through P. Capping the COLA would impact the step increases for all employees making over \$50K. (See attachment.) Pay compression issues between supervisors and those whom they supervise are likely to occur over time if this practice were continued.

Effect on Step Increase of a COLA capped at \$50,000

Steps	No Cap	\$50,000 Cap
A - D	5.00%	4.95% - 5.00%
E - I	3.50%	3.47% - 3.50%
J - P	2.30%	2.28% - 2.30%

- Parity with the Schools – City staff do not have an estimate of the effect of a capped COLA on the cost of a Schools COLA. Even if we did, a cap on eligible salary for a COLA cannot be proscribed for School personnel.
- Mid-point of Salary Ranges – The Q-step (also see Budget Memo #___) will increase the mid-point of salary ranges by 1.4%. To attain mid points higher than that target, the COLA will have to be at least 1.4%. A COLA capped at \$50,000 will only increase mid points by 1.4% for Grades 10 or below. All higher grades will have incrementally smaller increases to the mid point. The following chart shows potential mid-point salary increase over the current mid-points for 3 different grades. Currently (FY 2007 published salary scale), the mid-point for a Grade 8 is \$38,011; for a Grade 16 is \$55,413; for a Grade 24 is \$81,853; and for a Grade 32 is \$120,584. Thus City pay may fall even further behind that of the comparator jurisdictions.



- Because of the size of the department and the types of positions (lesser pay levels) certain departments such as RP&CA and T&ES would have a significantly greater portion of employees receiving the full COLA. Other departments such as Police, Fire, Sheriff, and ITS would face the opposite effect, with a significant portion of employees not receiving the full COLA.