

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 29, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMORANDUM #19: COMMENTS ON Q-STEP VERSUS LUMP SUM PAYMENT FOR CITY EMPLOYEES

This memo is in response to the request from Councilman Krupicka for staff analysis on the reasons for proposing a Q-step as opposed to a lump sum payment for employees at the “P” step of the pay scale, as well as its impacts on our competitiveness amongst the mid-point salaries within the region.

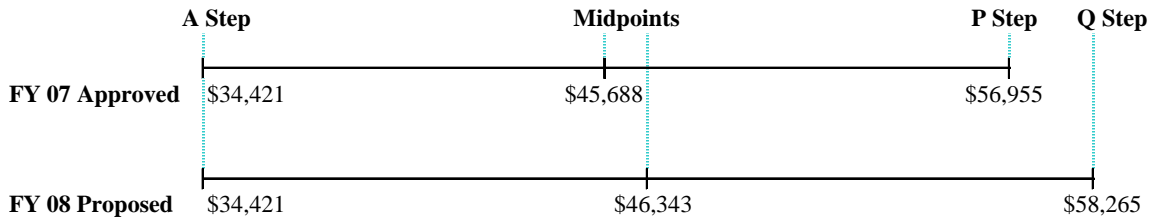
Several reasons led to the recommendation of a new Q-step instead of a one-time lump sum payment (i.e. bonus) to top-of-grade P-step employees.

- 1. A lump sum payment has no effect on the current mid-point of the salary range, while a Q-step would generally increase the mid-point by 1.4%.**

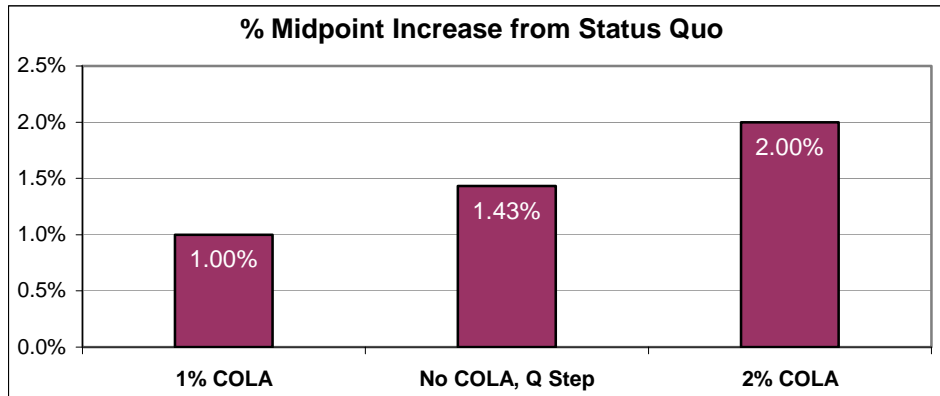
The mid-point of the salary range is what we compare to other jurisdictions to determine pay competitiveness under procedures established in the Compensation Philosophy adopted by City Council in 1997. If other jurisdictions adjust their salary ranges upward through Cost of Living Increases, Market Rate Adjustments or additional steps, we risk falling further behind other jurisdictions’ mid-point of their salary ranges. As the City currently relies on the benchmarking system as our chief source of comparative analysis, a lump sum payment could weaken our competitive position in the local market.

If the City wishes to increase our mid-point salaries, the City either needs to maintain the Q-step proposal or provide a COLA. The Q-step will increase the mid-point salary for all grades by 1.4% (except grades with step exclusions at the beginning of the pay grade due to the living wage rate—for these grades the mid-point salary increase will be slightly lower). A COLA will increase the mid-points salaries by the same increment as the COLA (i.e. a 1% COLA raises mid-points by 1%). Each 1% COLA costs about \$2.2M for City employees and an additional \$1.4M for School employees.

The following chart shows the salary scale and midpoint of a Grade 12 for the current FY 2007 Approved pay scale (including only up to the P step) as well as the Proposed FY 2008 pay scale with the additional Q step.



The following chart shows potential mid-point salary increases under 3 scenarios.



2. The cost for a Q step is lower than that of an equivalent lump sum payment in FY 2008.

To be equivalent to a Q step, a lump sum payment would have to be equal to 2.3% of salary. (This is the percentage increase in salary from a “P” step to a “Q” step). In FY 2008, the cost of a 2.3% lump sum payment is \$680K and the cost of adding the Q step is \$530K. The Q step is less expensive in FY 2008 because many eligible employees will only receive a portion of their 2.3% increase in FY 2008. Employees receiving a step would begin accruing their pay increase in the pay period containing their review date. Therefore, an employee with a review date of half way through the year will earn only half of their 2.3% pay increase in FY 2008. With the lump-sum approach, that employee would receive their entire 2.3% payment at mid year as a one time ‘bonus’. It should be noted, however, that employees who have been at the P step for longer than one year would begin receiving their pay increase at the beginning of FY 2008 and will accrue their entire pay increase by the end of the fiscal year.

In addition, since the lump sum payment is one-time, it will only affect FY 2008. However, a Q-step will become the base salary that will affect all future years. It is estimated that the annual cost of a Q step will increase between 25%-50% to between \$133K and \$265K in FY 2009. Employees who receive only a portion of their increase in FY 2008 (because of a mid-year review date as discussed above) will receive the full 2.3% increase over the course of FY 2009. It also reflects the fact that another set of employees will be eligible for the Q step for the first time in FY 2009.

3. The timing of lump sum payments, as show below, create several operational and equity issues.

- a. **361** employees will be at the P step as of 6/30/07.
- b. **79** of these 361 employees are currently at the O step and will move to the P step on 6/30/07.
- c. **8** additional employees will move to a P step one day later on 7/1/07.

We could assume that the one-time lump sum payment is to be paid on the employees' merit review date and is contingent on a satisfactory performance review. Therefore, employees in category (a) will likely be eligible to receive the lump sum payment at some point during FY 2008. Employees in category (b) would be eligible to earn the lump-sum payment in FY 2008, however, it would most likely be paid in FY 2009 based on the pay period that the merit review date falls. Therefore, Council would need to approve carryover funding from FY 2008 to FY 2009. Finally, employees in category (c) would not be eligible to receive the lump-sum bonus since they would not be a 'P' step as of 6/30/07.

Instead, we could assume that every lump-sum payment is to be paid at the beginning of the fiscal year, July 1, 2007. In this case, the City would face the issue of employees quitting or retiring soon after. We would not be able to prorate the payment upon an employee's removal from the City since the payment might then appear to be part of salary (and eligible for retirement and other salary-related benefit payments). In addition, employees in category (b) would begin accruing their 2.3% annual raise as they move to the P step on their merit review date, as well as receiving the lump sum payment almost the very next day. Meanwhile, employees in category (c) would receive nothing, even though their review date is only one day later than those in category (b).

The Q step is the preferred alternative if there is no COLA. It creates less confusion and could be implemented under already existing City pay rules. It should be noted that the Arlington County Manager also has proposed adding a step to the County's proposed pay scale. If they do so, they will go from 18 to 19 steps on their scale. Alexandria currently has 16 steps on its pay scale. The Q step would bring the number of steps to 17.