City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 65 : COMPENSATION OVERVIEW

This memorandum is designed to serve as a companion to Budget Memo #64, which offers additional reduction options. It should be noted that the items in budget memo #64 do not modify the City Manager's proposed budget. This memorandum is offered as a companion summary discussion of various compensation and benefit issues, some of which have been discussed in previous budget memos as noted below.

As I have previously said in the Proposed FY 2011 Operating Budget, compensation and benefits for our dedicated City employees are budgeted at fair but not generous levels. The Proposed Budget strikes a delicate balance between the need to compensate our employees in order to maintain a high quality workforce, and the necessity to shift some costs of benefits to employees.

Compensation Expenditures

The Proposed FY 2011 Operating Budget includes funding for a merit/step increase for City employees and funding to add a step (Step Q) to the pay scale to enable employees at the end of the scale to receive a pay increase (see Budget Memo #12). Additionally, the School Board's adopted budget includes the cost associated with the second half of the merit increase funded for Schools' employees last year, as well as funding for another merit/step increase in FY 2011 to be implemented halfway through the contract year. The School's budget does not include funding for an additional step for employees at the end of the pay scale. The costs associated with these increases are as follows:

- $2.8 million for City employee merit/step increase
- $0.57 million for Q step
- $1.8 million for second half of FY 2010 Schools employee merit/step increase
- $1.8 million for first half of FY 2011 Schools employee merit/step increase

In developing the proposed budget the following compensation options for employee compensation were considered, but ultimately not proposed:

- $1.4 million for a one-time $500 pay supplement

- $2.4 million for a 1% market rate adjustment (MRA, aka COLA); Schools employees are typically given the same MRA, which would cost $1.5 million for 1.0% for a total of $3.9 million for City and Schools employees.

The one-time pay $500 supplement (last implemented in the FY 2009 budget in lieu of a market rate adjustment) was not included in the Proposed FY 2011 Budget because a merit/step increase was funded.

<u>Compensation Savings</u>

1. The Proposed FY 2011 Budget outlines a new multi-year plan to increase the minimum share of health care premium costs for current employees by 10% (from 10% to 20%) for the next three years (3% in FY 2011, 3% in FY 2012, and 4% in FY 2012). These changes will help the City maintain the growth of health care premium costs to about 5% per year. The savings to the City as a result of this shift in FY 2011 is $0.75 million for a 3% shift in health care premium costs to employees. Any additional shift would save approximately $0.25 million per percentage point.

2. During the 2010 Virginia General Assembly session, the legislature made changes to the laws regarding the Virginia Retirement System. The most significant change allows employers to pass on a portion of the cost of the VRS contribution rate (up to 5% for the City of Alexandria) to employees. Budget Memo #44 explains the changes more fully. This past week Governor McDonnell, as part of his package of budget amendments, will ask the General Assembly to reject the provision giving localities the ability to shift retirement expenses to <u>current</u> local government employees, to include teachers. The Governor continues to support changes to contribution rates (up to 5%) for <u>future</u> local employees hired after July 1, 2010 if a locality chooses to make such a change. Based on the current number of vacant positions in the Proposed FY 2011 Budget the City estimates the savings if all of these vacancies were filled and if future employees' contribution rates were changed would be in the amount of $0.34 million for every 1% change for future employees' contribution rate to VRS.

3. The City retains the ability to require employees to pay all or a portion of the employee share of City's Supplemental Retirement Plan. Currently, for General Salary employees, Deputy Sheriffs, Fire Marshals and Emergency Rescue Technicians hired before July 1, 2009 the City pays the 2% employee share of the supplemental retirement plan. As part of the FY 2010 budget, new General Salary employees hired after July 1, 2009 pay the full 2% employee share into the supplemental retirement system.[1] The FY 2011 Proposed Budget does not include any changes to the employee contribution rates to the City's Supplemental Retirement Plan. The savings as a result of any changes to these contribution rates would be $1.4 million for every 1% of the employee contribution rate for the supplemental plan shifted to employees (both current and new employees). If this change is implemented for current employees, it would result in a reduction in take-home pay.

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[1] This does not include employees who are Deputy Sheriffs, Fire Marshals, or Medics.

4. Unlike some jurisdictions in the region, the Proposed FY 2011 Operating Budget does not include employee furloughs. Furloughs are back door pay cuts that have undisclosed and unintended consequences on services to the public. Instead, more permanent, recurring reductions have been proposed. Budget Memo #43 from FY 2010 provides additional details on the impact of furloughing employees. Savings from a 1 day furlough of non-public safety employees are estimated at $0.56 million.