

City Of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 4, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #59: PAY INCREASE AND BONUS OPTIONS

Council members Krupicka and Wilson requested information on various pay increase and bonus options.

Cost of One-Time Bonus Options¹

- a. A one-time 1% bonus paid to full-time and part-time employees on 7/1/2008 would cost between \$1.68 million and \$1.74 million, which includes the cost of Social Security.
- b. A one-time 1% bonus paid to full-time and part-time employees on 7/1/2008 (to employees who have completed a full year of service by 7/1/2008) would cost about \$1.6 million, which includes the cost of Social Security.
- c. A one-time 1% bonus paid to full-time and part-time employees on 6/30/2009 (to employees who have completed a full year of service by 6/30/2009) would cost between \$1.73 million and \$1.83 million, which includes the cost of Social Security.
- d. A one time 1% bonus paid to full-time and part-time employees on 7/1/2008 to the bottom 50% (by salary) of full-time salaried employees would cost about \$0.6 million, which includes the cost of Social Security.
- e. A one-time bonus paid to employees at the P (based on potential increase to the Q step) on 7/1/2008 would cost about \$0.37 million.
- f. A one-time bonus paid to employees at the P step (based on potential increase to the Q step) on 6/30/2009 would cost about \$0.46 million.

A similar option was discussed in FY 2008 Budget Memo # 19. The timing of bonus payments for P step employees create several operational and equity issues. Employees that move to the P step from the O step on 6/30/2008 would realize a pay increase of 2.3% as well as the bonus on 7/1/2008. Meanwhile, employees

¹ The cost of one-time bonuses has been calculated only for City employees. The equivalent information for the Schools is not available.

that would move to a P step one day later on 7/1/08 would not get any bonus. To mitigate this, we could give the one-time lump sump payment on the employees' merit review date if they become a P during FY 2009 (and contingent on a satisfactory performance review).

Another issue is that 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).

Cost of Market Rate Adjustment Timing Options

- a. A 1% MRA commencing on 1/1/2009 would cost about \$1.9 million for both City and Schools. The following chart is an update from FY 2008 Budget Memo # 21 that details cost options for various MRA amounts and timelines.

For a 1% MRA for both City and School employees, a 3-month delay would reduce costs about \$0.9 million and a 6-month delay would reduce costs about \$1.9 million in FY 2009. The cost of the MRA in subsequent years would be equivalent to the full cost (no delay).

Therefore, the dollar savings from a delayed 1% MRA in FY 2009 (\$0.9 million to \$1.9 million) will become a built-in \$0.9 million to \$1.9 budget increase in FY 2010. FY 2010 will also be a very tight budget year.

% MRA	FY 2009 Cost Impact (\$ in M)			\$ Impact of Delay	Effective FY 2009 MRA %
	City	Schools	Total		
No Delay (commences on 7/1/2008)					
1.0%	\$2.34	\$1.42	\$3.76	-	1.00%
1.5%	3.51	2.13	5.64	-	1.50%
2.0%	4.68	2.84	7.52	-	2.00%
3-Month Delay (commences on 10/1/2008)					
1.0%	1.76	1.07	2.82	(\$0.94)	0.75%
1.5%	2.63	1.60	4.23	(1.41)	1.125%
2.0%	3.51	2.13	5.64	(1.88)	1.50%
6-Month Delay (commences on 1/1/2009)					
1.0%	1.17	0.71	1.88	(\$1.88)	0.50%
1.5%	1.76	1.07	2.82	(2.82)	0.75%
2.0%	2.34	1.42	3.76	(3.76)	1.00%

- b. The cost of giving a 0.5% MRA to employees making greater than \$50,000 and a 1% MRA to employees making less than \$50,000 is \$1.2 million. This

calculation is based on current employee levels and expected salaries (as of 6/30/2008). The estimate could be higher as vacant positions are filled.

I do not recommend this since one difficulty with such a policy is the effect it would have on the City's Pay Scale. Pay compression issues between supervisors and those whom they supervise, and between grade levels and steps for senior and more junior level employees, are likely to occur over time if this practice were continued.

With respect to the proposals that involve deferral of a market rate adjustment, it should be noted that our employees are experiencing the impact of higher gas, utilities and food costs now. It is important to recognize this as Council deliberates on the budget options in the weeks ahead.