City Of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 18, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #100: INFORMATION IN RESPONSE TO CITY EMPLOYEE GROUP REQUESTING A 5% MARKET RATE ADJUSTMENT

Mayor Euille requested a budget memo at the April 14, 2008 Budget Public Hearing in response to the Alexandria Government Employee Association request for a 5% market rate adjustment (MRA) and other related issues varied by Association representatives. I share our employees' concerns about the impact of our economic situation on them. We have an outstanding workforce that is dedicated to providing excellent service to our community. In these difficult times, we need to continue to work together on making our City government more efficient and effective, which will benefit all of us.

The Proposed FY 2009 Budget does not include an MRA; however, the Alternative Budget does include a 1% MRA for both City and School employees. Based on the guidelines set forth by City Council and the $3.76 million cost for a 1% MRA, this was the best option. Because personnel expenditures represent such a large part of the operating budget, I would have had to propose a reduction in force (RIF), which is a path that Montgomery County (Maryland) has actually proposed for FY 2009 in order to support the across-the-board salary adjustments that are included in their Union contracts. This approach would require the City to drastically harm the terminated employees, and curtail services in certain areas, so that all other employees would share a small percentage increase in salary. I do not think that is the ethical choice or the wise choice from a public policy perspective

You will note that the story in Wednesday's, April 16, Washington Post about the Fairfax County budget describes the fiscal limitations there that resulted in the County Executive recommending funding only 50% of what the County's pay formula would have funded for general County employees in their pay for performance system. Each of our competitor organizations is handling their personal services budgets differently and at this time MRAs are not the norm. (See Budget Memo #71 for further information on salary increases of our comparator jurisdictions.)

As noted in the FY 2009 Budget Personnel Summary, a 1% MRA costs $3.76 million in total for the City and Schools. Therefore, a 5% MRA would cost $18.8 million.[1] This amount is approximately broken down as follows:

In millions	**1% MRA**	**5% MRA**
General Full-time Employees:	$1.46	$7.30
General Part-time Employees:	$0.11	$0.55
Sworn Public Safety Employees:	$0.77	$3.85
City Sub-total:	**$2.34**	**$11.70**
Schools:	$1.42	$7.10
City and Schools Total:	$3.76	$18.80

We do not recommend making any such significant changes to any of the pay scales until the Watson Wyatt study is completed (see Budget Memo #3).

Other Pay Issues

Merit/Step Increases and P step employees:

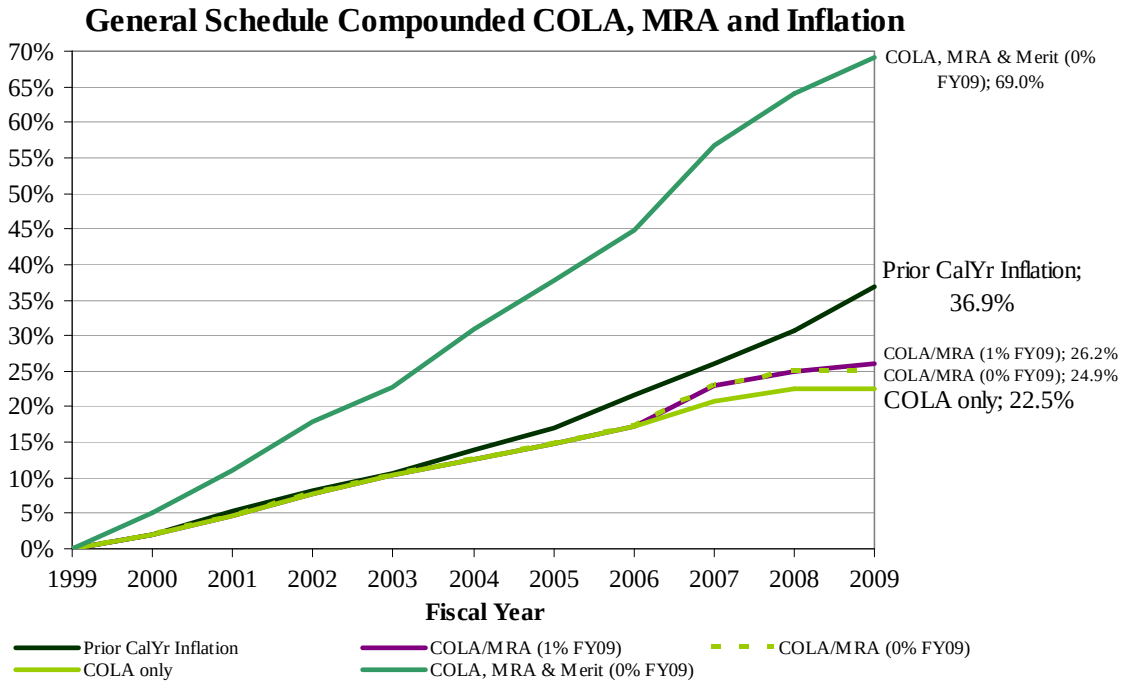
The amount provided to any individual employee for merit/step increases reflects the impact of successful performance reviews from one year to the next, and represents the increased value of that employee to the organization as the employee develops additional skills and abilities. This type of pay increase is typical for local governments. Such a merit/step pay scale also represents the promise of a predictable pay future, assuming successful performance. However, for employees on the P step of the scale, their only potential pay increases come from an MRA. On June 30, 2008, approximately 450 or 16.5% of all current City employees (General Schedule and Public Safety, Full-time and Part-time) will be on the P step, and about 220 or almost half of those employees have a full-time equivalent salary lower than Alexandria's average per capita income of $75,966.

The two potential options to ameliorate this situation are implementing a Q step or giving those employees at top-of-grade a one-time bonus. As noted in Budget Memo #59, each 1% bonus to such employees would cost the City about $0.46 million. Therefore, a 2.3% bonus (equivalent to the step increase between the O and P steps) would cost the City about $1.06 million. This option has less of a future impact than adding a Q step since it is not permanent. It also does not add retirement costs or benefits to the employee as a bonus is not considered in calculating retirement benefits. It should be noted that a bonus is considered supplemental wages by the IRS and is taxed at the supplemental rate of 25% for federal tax withholding purposes.

[1] Other pay raise options were outlined in Budget Memo #59 for the City and Budget Memo #83 for the Schools.

Inflation and Merit/step Increases

City Council members asked for a comparison of inflation over the years and the pay increases provided to employees, including not only COLAs and MRAs, but also merit/step increases. The chart below shows that the average City employee employed since 1999 would have received pay increases of 69% compared to regional inflation of 37%.



The FY 2009 Proposed Budget Personnel Summary shows about a 13 percentage point difference between the Washington D.C. metro area and City employee pay raises (page 8-10). (Since that time, the federal Bureau of Labor Statistics released new regional inflation estimates, so the compounded CPI is now estimated at 36.9% or about a 12 percentage point difference since there is no MRA.) The following chart shows this change, as well as an additional line as requested by Council for compounded COLA, MRA and merit/steps. The merit/steps rates used were based on the average merit/step increases paid to General Schedule employees of 3.07% a year.[2] The average cost to the City is less than this because staff turnover occurs, which reduces the merit/step increases to the neighborhood of slightly less than 2.0% a year on average.

[2] The actual step increases received by individual employees vary from 5% through step E; to 3.5% through step J; 2.3% through step O; and 0% for those at the top of grade, or step P.