

City Of Alexandria, Virginia

MEMORANDUM

DATE: MAY 2, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #131 : PAY INCREASE OPTIONS

Mayor Euille requested a budget memo during the Preliminary Add/Delete Work Session on April 28 regarding various combinations of pay increase options that City Council may adopt. City Council tentatively set aside \$3 million for pay adjustments during the preliminary add/delete process. The chart below shows the cost of each option for the City and Schools. These estimates are linear, so for example, a 2% MRA would cost exactly double the amount shown below for a 1% MRA.

I recommend a combination of the options shown below – either options 3 and 5 for a total cost of \$3.2 million or options 4 and 5 for a cost of \$3.8 million. Since both of these combinations exceed \$3 million, I recommend Council consider offsetting this additional cost by using some or all of the \$375,000 set aside in Council Contingent Reserve for the costs of following up recommendations made by the Watson Wyatt study, and consider a revenue increase in the general real estate tax rate as necessary (each 0.1 cent increase yields an additional \$0.35 million), or additional expenditure reductions.

**Options for Pay Increases
(\$ in millions)**

Option	City	Schools	Subtotal	Schools Offset *	Total
1 1% MRA 1% of salary one-time pay	\$2,336,570	\$1,422,398	\$3,758,968		\$3,758,968
2 supplement \$500 one-time pay supplement	\$1,740,000	\$1,240,000	\$2,980,000		\$2,980,000
3 (per FTE) \$630 one time pay supplement	\$1,327,163	\$1,062,465	\$2,389,628		\$2,389,628
4 (per FTE) 2% one-time longevity pay	\$1,672,225	\$1,338,706	\$3,010,931		\$3,010,931
5 supplement to Top-of-Grade**	\$740,000	\$356,000	\$1,096,000	\$294,000	\$802,000

* The ACPS School Board Approved Budget already includes \$294,000 for a longevity step increase equal to 2% of salary for those who have been at the top of grade for 2 years or more.

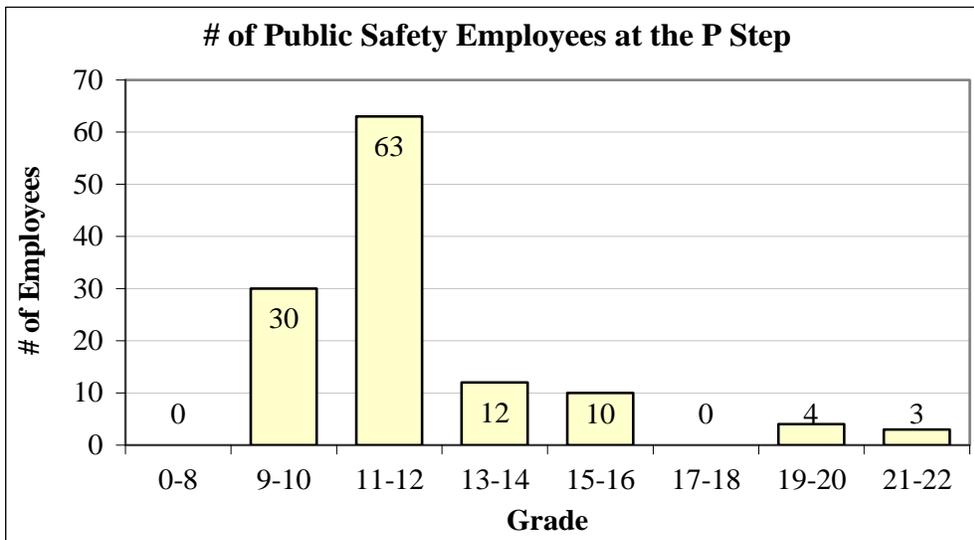
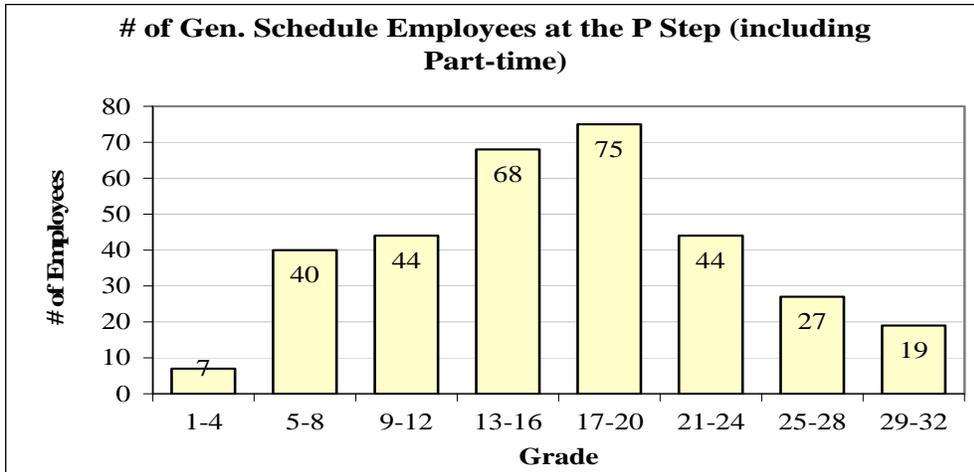
** It should also be noted that the cost of any one-time pay supplement option is based on the pay-out date of July 1, 2008. If the pay-out date is pushed back any later during FY 2009, the cost will be higher. Councilman Wilson's add of \$1,058,000 for a 2.3% P-step bonus assumed that the bonus was given at the end of FY 2009, which costs \$460,000 per 1%.

City Council's discussions during the Preliminary Add/Delete Work Session, although they did not yield a consensus, provided some general guidance. My recommendations (contained below) address four major concerns in how to distribute the \$3 million set-aside for employee pay increases.

- Because costs are increasing in the region due to inflation, particularly for basic commodities such as food and gasoline, as well as health care costs, and those increases affect everyone, all employees should get some type of salary adjustment.
- The employees at the lower end of the pay scale will have the most difficult time adjusting to inflationary pressures, so the pay adjustment could favor those employees to some degree.
- The 18% of full-time employees who are at the top-of-grade by next July, and therefore ineligible to receive merit/step increases in FY 2009 that average 3.1% for other City employees (ranging from 5.0% to 2.3%), could receive some additional consideration to put them on an more even footing with other employees.
- Because of economic uncertainties facing the City, pay adjustments should be one-time in nature so that they do not build costs into future budgets.

With these concerns in mind I recommend:

- At least a **\$500 one-time pay supplement** for each full-time employee on the City payroll in the first pay period in July. Such a supplement would be available on a proportionate basis for part-time employees. This amount is equal to approximately 0.8% of the average salary paid to full-time City employees. This option costs \$2.4 million for both City and Schools employees.
- Because after Federal, State, Social Security and Medicare taxes, this amount will be reduced by almost 35% to 40%, Council should **consider a more sizeable payment of \$630**. This amount is equal to 1.0% of the average salary being paid to full-time City employees. This option costs \$3.0 million for City and Schools employees.
- Council should consider providing a 2.0% one-time, longevity pay supplement to each employee who has been at the top-of-grade for a year or more beginning June 30, 2008. This one-time amount would recognize these employees who are at the end of the pay scale and are no longer eligible for the merit/step increase available to other City employees, which averages 3.1%. These employees are found at all grade levels, not just at the more highly paid grades. In fact, City employees at the "P" step are found across the full-spectrum of grades as shown in the following two graphs. This payment would be in addition to the \$500 or \$630 one-time payment made to all employees.



Fiscal Impact

City Council had tentatively set aside \$3 million for these pay adjustments. If Council chose to approve a \$500 one-time pay supplement for everyone and a 2.0% one-time pay supplement for those at top-of-grade, the cost would be \$3.2 million. Council could use a portion of the \$375,000 set aside in contingent reserves for Watson-Wyatt study follow-up pay adjustments under the preliminary add-delete consensus for funding the amount over \$3.0 million. The use of these funds for employee compensation at the beginning of the fiscal year would not affect the City’s commitment to continue with the Watson Wyatt study and address compensation issues raised by that study in the context of the FY 2010 budget.

City Council also could provide a \$630 one-time pay supplement and a 2.0% one-time supplement for those at top-of-grade. The cost of this alternative would be \$3.8 million. Council could use the entire amount set-aside for Watson-Wyatt study follow-up and then increase tax revenues or reduce other expenditures by \$0.4 million to provide for the remaining amount. For instance, a 0.1 cent increase in the general real estate tax rate provides approximately \$350,000.

Impact of a deferred decision on adjustments to salary for FY 2009

I request that a decision on salary adjustments be made preferably at the May 5 Final Add/Delete Work Session. Alternatively, Council could delay this decision until the regularly scheduled May 13 Legislative Session.

- State law¹ requires City Council to approve an annual budget for educational purposes by May 15. Since this decision on pay involves the amount to be provided in the Operating Budget transfer to the Schools, Council must decide this issue no later than its May 13 Legislative Session.
- The City needs at least a month to prepare the payroll system to accommodate either an MRA effective on July 1, or one-time bonus payments to be made on July 1.
- It takes the Schools 6 to 8 weeks to prepare the personnel system for the roll-over from one fiscal year to the next. A deferred decision which concentrated this activity in a shorter period would require additional resources to implement.
- The situation is further compounded for ACPS, whose cycle of hiring is different than the City's due to turnover in instructional positions (primarily teachers) occurring at the end of June. ACPS typically has 100 to 150 new teachers hired each year. In the absence of a decision on salaries, ACPS would either be unable to finalize contracts with new hires or would have to offer them positions at current year salaries. This could impact their ability to hire the best candidates.
- In addition, ACPS sends contracts to teachers and salary notifications to all other staff each year. This is done in June and requires reprogramming the personnel system with new salary scales, each of which is customized to the number of days and hours that each employee group works. A delayed decision on salaries would make it difficult to meet contractual deadlines for instructional staff, or would require ACPS to send contracts reflecting only the step increase. A second contract would have to be sent after the remaining salary decisions were made, creating substantial duplicate work for staff.

¹ Section 22.1-93