After several months of review, discussion and participation in public presentations, the Braddock District Citizens Budget Advisory Committee (the Committee) completed its work for the 2010-2011 budget season. While it was the intent of the Committee to address several unique areas of the County Budget, ultimately on a single sub-committee was formed to address human resources and benefits issues. Attached is a Report produced by that Sub-Committee. In keeping with precedent of the Committee, this report is a compilation of ideas created by members of the sub-committee, arrived at after discussion and research, but it was not 'approved' by a vote of the Committee of the whole. Nor is this a Report of the Supervisor's office. The report is designed to be a discussion piece that the Board of Supervisors (and others) could use as a data point in the larger budget debate.

FY2012 Braddock Citizen Budget Advisory Committee
Salary and Benefits Subcommittee
Analysis and Recommendations

Background

The Braddock District Citizens Budget Advisory Committee held an initial organizing meeting in early November, 2010, to begin the development of recommendations for Supervisor Cook's consideration regarding the County of Fairfax FY 2012 budget. One of the specific areas chosen for study this year was County employee salaries and benefits. Braddock district volunteers provided input to these recommendations.

The County Executive released his proposed FY 2012 budget to the Board of Supervisors and the public on February 22, 2011. The summary for the Fairfax County Advertised FY2012 Budget shows a proposed $672,933,597 in personnel expenditures and $263,151,156 in fringe benefits. The Fairfax County Public Schools proposed FY2012 budget shows $1,319,500,000 in regular salaries and $530,500,000 in employee benefits. The total County FY 2012 disbursements are anticipated to be $3,376,351,675, of which $1,773,805,286 is for the FCPS.

The County advertised FY 2012 budget includes a **$5,071,336 increase in personnel services costs and a $12,170,290 increase in expenditures for fringe benefits**.

These increases have two probable primary causes:

1. <u>Rising costs for provided employee benefits, such as defined benefit retirement systems, health care, and insurance.</u> "A similar report prepared by the Carl Vinson Institute of Government for the National Association of Counties found that nearly 72% of the 715 counties responding were facing budget shortfalls. The report noted that the gap between revenues and expenditures was attributable to rising employee health care and pension costs, declines in sales, income and tourist tax revenues, and cuts in state aid." University of Georgia.

2. <u>Local decisions on wage levels, provisions for automatic wage increase processes, and additional employee benefits (supplementary retirement systems, for example).</u> Fairfax County adopted processes which led to recurring compensation increases over the years. The Fairfax County Code (3-1-16) currently provides: "Each such pay grade and range shall be determined with due regard to the pay practices which are competitive with public and private organizations in the Washington, D.C. metropolitan area with whom the County competes for talent; pay ranges for other classes the duties of which are similar or of equal difficulty or responsibility; minimum qualifications required; and any other factors that may properly be considered to have a bearing upon the fairness

or adequacy of the pay range." For example, in the FY 2005 budget, merit and market rate adjustments (automatic raises based on a formula) added $95.6 million in salary/benefit costs. The MRA recommendation for FY 2013 in the advertised budget is to continue to calculate the adjustment annually based on the current formula (including those jurisdictions with collective bargaining), and be no less than 1% and no greater than 3%.

Strategies to control employee costs in Fairfax County have seemingly been limited; a number of positions have not been filled, recent Market Rate Adjustments have been reduced by 50%, study of a defined contribution retirement plan has been requested, and cost of living increases have not been provided to County or FCPS employees for the last two budget years.

One study of state and local government approaches noted: "The three most popular strategies dealt with reducing their labor force: elimination of vacant positions (79%), instituting a hiring freeze (78%), and employee layoffs (51%). These approaches were followed by reducing and/or eliminating services to the public (39%) and raising taxes and/or user fees (31%). Public Sector Compensation in Local Governments, Review of Public Personnel Administration. Another review stated that: "From 2001 to 2009, total local government employee compensation (wages, employer pension contributions, and health care) grew by 3.7% per year. This number would likely have been higher had local government employment not declined over this period. If recent compensation trends continue, local government revenues would need to grow by at least a similar amount in future years, otherwise compensation costs run the risk of crowding out other areas of government spending or forcing a downsizing of the workforce relative to population." Minnesota Public Sector Compensation, Minnesota Taxpayers Association.

In the search for different strategies, one approach has emerged: **"Fourteen percent of governments chose to reduce wages and/or benefits for current employees."** Public Sector Compensation in Local Governments, Review of Public Personnel Administration.

Salaries

One of the few documents publicly available on County compensation analysis is the FY 1990 Compensation Study. The County Executive's Memorandum to the Board of Supervisors states that: "The attached study represents the first comprehensive review of the County's compensation plan in the last 15 to 20 years." The defined labor market for the study included Virginia, **District of Columbia, and Maryland organizations**. A similar "market" structure was used by the County when it adopted the Market Rate Adjustment (MRA) in FY 2002. The purpose of the MRA **was to provide automatic raises based on a "market" analysis**. During FY 2008, staff changed the MRA to use a different calculation which drastically reduced the impact of the Consumer Price Index (originally 70%) and increased the value of the survey to 50%. It should be noted that

collective bargaining on wages and benefits is only common in the non-Virginia jurisdictions.

Fairfax County has a large labor force: "Among the 12 largest counties in Virginia, employment was highest in Fairfax County (563,100) in March 2010. No other county in the Commonwealth had employment above 200,000. Together, Virginia's large counties accounted for 56.3 percent of total employment within the Commonwealth. Nationwide, the 326 largest counties made up 70.9 percent of total U.S. employment." BLS.

The claim is often made that salaries and benefits must be "competitive" or potential employees may be drawn to other jurisdictions with higher compensation. Unfortunately, **no data is available on the County web site** that would prove or disprove this claim. A published 1961 wage survey report analysis showed that 30.49 % of departing employees were requested to resign or dismissed, and 25.56% left for a better position or salary without being able to distinguish if the departure was a better job (a promotion to a higher level positions with a corresponding increase in salary, or actually paid more for the same work in a "competing" jurisdiction. Again, no current hiring, turnover, or exit interview information was found on the County web site.

The Arlington County 2011 Affirmative Action Plan states that: "During the plan year, a total of 21,884 applications for jobs were received. Out of these applications, the County filled 301 vacant positions." In June 30, 2010, the Arlington County workforce had 3,321 employees. It seems likely that Fairfax County has a similar ratio of applicants to positions recruited, given the personnel statistic that **the Department of Human Resources forwarded over 17,000 <u>best qualified applicants</u> in FY 2008**.

The County FY 2009 adopted budget funded an MRA of 1.48% (calculated at 2.96%) based on 2007 data…the associated budget excerpt from the FY 2009 adopted budget: **"**Market Adjustments $1,228,219: A net increase of $1,228,219 in Fringe Benefits based on the FY 2009 Market Index of 2.96 percent, discounted by 50 percent to 1.48 percent as a result of budget constraints, is included for employees on the public safety pay scales (C, F, O and P), effective the first full pay period of FY 2009."

Without published data on employee turnover, losses to neighboring jurisdictions for competitive reasons (better salaries for same work, better benefits), exit interviews of departing employees as to cause, **the claim of a need to "compete" for employees by offering annual unearned raises cannot be validated**.

Benefits

Retirement. Fairfax County FY 2012 employer contributions to the retirement systems total $134,741,644, an increase of $18,298,861, or 15.7 percent, over the FY 2011 Adopted Budget Plan. Retirees are eligible for a cost of living increase equal to the greater of 4.0 per cent or the consumer price index. This cost increases the employer contribution rate. The VA 2011 state budget passed in February, 2011, gave state employees a 5% raise, but required state employees to contribute 5% (pre-tax) to the Virginia Retirement System. State employees previously made no contribution to VRS.

County teachers across Virginia have made no contributions to this retirement system since the mid-80's.

Group Life Insurance: **As approved by the Board of Supervisors beginning in FY 1999, basic group life insurance at one times the salary for all County employees in funded solely through an employer contribution.** Employees may choose and fund additional coverage. Life Insurance premiums total $2,031,565, an increase of $98,168, or 5.1 percent, from the FY 2011 Adopted Budget Plan.

Group Health Insurance: Health Insurance premiums total $78,092,767, an increase of $9,882,762, or 14.5 percent, over the FY 2011 Adopted Budget Plan.

Recommendations

1. **Reduce base salaries for County by 2%**; continue the FCPS contract restructuring process. The reduction in County employee salaries would save the County approximately $ 13,458,672 ($672,933,597 x 2%). Reject the Superintendent's proposals for raises and MRAs for teachers.

2. **Eliminate all automatic salary adjustments**. Amend the County Code to require explicit Board votes on any salary adjustment. The past adjustments have increased expenses 2-5% every year with no tangible demonstration of economic benefit to taxpayers. Based on FY 2009 data, this would save the County at least $1.2 million per year. The FCPS proposal for FY 2012 includes a market rate adjustment, which if not approved would save $35.8 million.

3. **Restrict any future analysis of the local labor market to comparable Virginia jurisdictions/organizations**, including additional Virginia urban jurisdictions not in the local commuting area (such as Norfolk and Richmond). This would save the increasing contribution to the formula of jurisdictions such as the District and Montgomery County which artificially raise the analysis results well above those of the Virginia jurisdictions without evidence of a corresponding economic benefit to Fairfax County.

3. **Increase employee contributions to all benefits**. For example, have all life insurance expenses entirely funded by the employees. This would reduce County expenses by over $2 million for each fiscal year.

4. **Develop and implement defined contribution retirement plans in lieu of defined benefit plans. Eliminate County operated supplemental retirement programs other than employee managed self funded IRA-type investments**. This would result in reduced employer contributions and employees sharing the investment risk of retirement funds. The increased contributions for FY 2012 are $13.2 million.

5. **Reduce the retiree cost of living adjustment to less than or equal to the consumer price index.** In the case of 2011, the savings would have been 4% of total annuities (since the CPI was flat). The specific cost for retiree COLA does not appear in the FY 2012 summary of benefit costs by category.

6**. Change the computation of annuity benefits from the most recent 3 years of service salary to the most recent five years**.

7. **Publish County recruitment, placement, and turnover information on the County web site.**

Since the intent of these recommendations is to assist Fairfax County in maintaining affordable levels of expenditures and moderate the impact on taxpayers, the following recommendations are also made:

8. **Cap the transfer to the FCPS at 50% of real estate tax revenue**, with clear accountability for the School Board on salary and benefit cost changes, as well as program decisions. This would reduce the County transfer by $57.2 million ($1,610,500,000 - $1,038,224,942).

9. **Set the FY 2012 tax rate at $1.08 to provide County taxpayers with relief** as opposed to an average $110 increase in the amount they pay forecast for the advertised rate of $1.09 this year. This would save taxpayers an estimated $19.3 million that would then be available to support the local economy.