

## Response to Questions on the FY 2005 Advertised Budget Plan

**Request By:** Supervisor Kauffman

**Question:** Verify the numbers presented by the Employee Advisory Council on the average compensation increase that can be expected in FY 2005 for a general County employee. What would be the cost of adjusting the FY 2005 Pay for Performance scale so that a fully proficient rating earns a 2.98 percent compensation increase rather than a 1.7 percent increase? What would be the total value of the County's compensation package with this adjustment?

**Response:** The design of the County's Pay for Performance system included two key components. First, in order to ensure that pay scales remain competitive with the market, non-public safety pay scales are increased in accordance with the annual market index, which is calculated based on data from the Consumer Price Index; the Employment Cost Index, which includes private sector, state and local government salaries; and the Federal Wage adjustment. This is designed to keep County pay scales from falling below the marketplace, requiring a large-scale catch-up every few years. In FY 2005, the non-public safety pay scales will be adjusted 2.98 percent based on the current market index. However, it is important to note that employees do not receive this adjustment as they did in the past through a cost-of-living increase. Pay increases can only be earned through performance. By adjusting the pay scales, however, employees' long-term earning potential remains competitive with the market. Second, the complimentary, but distinct Pay for Performance program links actual salary increases for over 8,000 non-public safety employees to performance.

Consistent with the County's ongoing assessment of its compensation philosophy and policy, staff undertook a review of the Pay for Performance system during FY 2004. As part of this analysis, other jurisdictions with Pay for Performance systems were surveyed for best practices. Based on this review, two changes to the system are recommended for FY 2005, both of which will better align the Pay for Performance system with the County's goals and competitive marketplace practices. The first is a recalibration of the points required to receive various pay awards and the second is the establishment of a range from 0 percent to 6 percent (0.0, 1.7, 2.1, 2.6, 3.0, 3.4, 3.9, 4.3, 4.7, 5.1, 5.6 and 6.0). This replaces the 0 to 7 percent range (discounted by 25 percent in FY 2004), maintaining the integrity of the Pay for Performance system by allowing for meaningful differentiation based on performance, while tightening the requirements for the higher level pay awards to more closely track with pay increases in the marketplace.

As a result of these refinements an employee who receives all "Fully Proficient" ratings will receive 1.7%. Based on full year data from FY 2003 it is anticipated that approximately 2 percent of employees will receive this pay award. The following chart presents the anticipated distribution of ratings:

Pay Awards	Percent of Total
0.0 - 3.0 percent	20%
3.4 - 4.7 percent	60%
5.1 - 6.0 percent	20%

It is anticipated that the average Pay for Performance increase in FY 2005 will be 4.12 percent. This compares with average awards to date of 4.03 percent in FY 2004 and is based on the trends to date in FY 2004 adjusted to reflect the changes to the system recommended for FY 2005.