Response to Questions on the FY 2008 Advertised Budget Plan

Request By: Supervisor Gross

Question: Provide a response to the requests made by the Employees Advisory Council (EAC). These include a 1.45 percent increase for general employees at the *FY 2007 Third Quarter Review*, the ability of employees to negotiate promotional pay if warranted by education, experience and the market, maintaining a 10 percent increase for 1 grade promotions, maintaining the 95 percent threshold for classification and compensation benchmarking, maintaining the current Market Rate Adjustment (MRA) formula, and the creation of a Wellness Initiative Task Force.

Response:

With the exception of the Wellness Initiative, all of the requests from the EAC concern recommendations from the compensation study undertaken last fall at the direction of the Board. An Implementation Team comprised of employees from the EAC, Civil Service Commission, Department of Human Resources and Department of Management and Budget have been working with the Compensation Task Force, the compensation consultant Kennedy and Rand and Senior Management to address the timing and specific steps for implementation.

Each EAC request is addressed individually below:

1. 1.45 percent increase for general employees at the *FY 2007 Third Quarter Review:*

The cost of this request in FY 2007 (assuming 4.5 pay periods) would be $1.3 million and in FY 2008 would be $8.4 million.

It should be noted that there is no recommendation as part of the Compensation Study or Task Force comment for an across the board adjustment for a variety of reasons. First, one general conclusion of the compensation study was that County pay structures were competitive and that specific pay issues for classes or series of classes would be addressed through an all-class study. Furthermore the recommendations of the study were designed to address long term solutions to issues like compression, and disparate policies relative to new hires and existing employees. In response to this and based on the recognition that an across the board adjustment would not resolve specific issues, the consultant, Task Force, Implementation Team and Senior Management have consistently decided not to use scarce compensation funding for an across the board adjustment.

2. Ability to negotiate promotion pay if warranted by education, experience and market:

Based on concern that negotiating promotional pay would be difficult to apply uniformly across departments and that certain employees who would be less comfortable with negotiating for pay would not garner the same benefits as employees who might be more adept at it, implementation of this option was deferred until the impact of the other changes in the promotional policy could be assessed.

The Compensation Task Force added the additional element to the promotional policy changes recommended by Kennedy and Rand which would allow department heads discretion to offer a larger promotional increase based on individual circumstances and qualifications only in those cases where County employees remain below the midpoint of the new class after other promotional increases are applied. It was intended that more flexibility in the promotional policy would provide internal candidates the same negotiating terms as external candidates.

3. No change for 1 grade promotions - leave at 10 percent:

The current recommendation includes a 5 percent increase for 1 grade promotions, a 10 percent increase for 2 grade promotions and a 15 percent increase for 3 or more grade promotions. This recommendation is part of the consultant's two-part approach to promotional pay. The first part was to substitute a more flexible system on raises for promotions. Instead of a flat 10 percent pay increase for all promotions, a graduated approach was recommended with pay raises of 5 percent for a one grade promotion, 10 percent for a two grade promotion or 15 percent for three or more grades. The second part was a new component for the County, an additional prorated review period adjustment, which was added to give credit for time served since the last annual review. The percentage increase to be used would be the average pay for performance increase budgeted for that fiscal year, for example 4.44 percent for FY 2008. The Compensation Task Force then added the negotiating flexibility concept for promotions as discussed above. It was intended that the combination of these factors would more appropriately compensate employees and would recognize the differing levels of additional responsibility associated with one versus two versus three grade promotions. It is further intended that as part of the review of all classes, the consultant and staff specifically review the cases where class series have one grade separations to confirm that they are appropriate for the increased responsibilities.

4. No change to percentage for classification and compensation benchmarking - remain at 95 percent of median

As indicated by the EAC, the recommendations concerning classification and compensation benchmarking are complicated. The first point that is necessary to make is that currently the County does not have a compensation benchmarking policy. The current regrade policy is only designed to change the grade of job classes <u>not</u> to adjust pay of employees. This regrade process will be renamed and replaced with classification benchmarking. Classification benchmarking compares the County salary range midpoint and the market (the County and its competitor jurisdictions) median to determine if <u>pay scales</u> are competitive. Adjustments as a result of this review will only impact the grade of job classes and will not adjust pay**. There is a change in the threshold from the current 95 percent for regrades to 85 percent for the new classification benchmarking process. The specific issue raised by the EAC reflects the consultant's contention that the threshold of 95 percent for making decisions about both classification and compensation benchmarking was too exact given the natural variation in the data between job classes and jurisdictions.** Since classification decisions are permanent and the County does not downgrade positions, the consultant and staff recommend that the data must be extremely compelling to support a classification change. By making the threshold 85 percent, one or two year blips in the data will not result in the County reclassifying job classes incorrectly.

The <u>new compensation benchmarking policy</u> is specifically designed <u>to address employee pay</u> by comparing the County actual median to the market median. This is a salary to salary comparison, irrespective of structure and is therefore a fundamental departure from current practice. It is designed to correct the disparity of recent years between County incumbents and new hires. New hires benefited from both the application of the Market Rate Adjustment on pay scales and the regrading process that reflected the impact of actions taken by competitor jurisdictions while neither benefited incumbents. The new compensation benchmarking threshold was established at 90 percent. It is not accurate to state that it changes from 95 percent to 90 percent since there has not been a compensation benchmarking policy in place before this.

The application of the threshold to public safety was designed to apply a similar rationale for data comparison while recognizing that, as in the past, there are differences in pay structure and pay philosophy between public safety and general County employees. For example, because of the grade and step structure of the public safety pay scales it is not possible to perform two separate reviews as outlined above for general County employees. Any regrade automatically generates a pay increase for public safety employees as it always has. The one refinement made for public safety was the threshold of 90 percent for pay actions was recommended. This adjustment was based on the consultant's contention that a 95 percent threshold was too exact for a determination of reclassification action. While the consultant supported the 85 percent threshold for public safety reclassification actions, it was agreed that with the refinement of public safety pay surveys to focus on three of the most comparable classes within each of the series, Police, Sheriff and Fire and Rescue, the consultant and Implementation Team agrees that a 90 percent threshold was workable.

5. No change to MRA formula

Currently, the MRA is composed of three separately published indices: the Consumer Price Index (CPI)[1], the Employment Cost Index (ECI)[2], and the Federal Wage Adjustment[3]. To calculate the MRA, the three indices are combined with the CPI representing 70 percent of the total, the ECI representing 20 percent of the total, and the Federal pay increase receiving the remaining 10 percent weight. Kennedy and Rand recommended that the County make the MRA "somewhat more labor market driven by lowering the weight attributed to changes in the cost of living, and raising the weights attributable, ideally, to average salary structure movements in the relevant competitive marketplace." **The County has delayed implementation of the recalculation of the MRA until FY 2009.**

Essentially Kennedy and Rand stated, and the Compensation Task Force agreed, that relying so heavily on the CPI, which does not have a direct impact on salary changes, and not taking into greater account the trends associated with the changes in salary among our local competitors was not consistent with the intent of the MRA which is to keep our salary structure competitive. While, as the EAC contends, the current MRA calculation has worked fairly well since it was implemented this disconnect could result in issues in the future when the County salary scales start being adjusted inconsistently with those of surrounding jurisdictions.

In addition, the reliance on a single point in time data point for all three of the elements results in the potential for significant volatility in the data as was seen in FY 2007 when the spike in fuel costs in mid 2006 resulted in a higher CPI than any other time during the year. The delay in implementation until FY 2009 was intended to accommodate further review and comparison of data to ensure that a well-founded calculation is developed, data selected will be readily available, appropriate data smoothing could be undertaken to avoid the spikes that a single data point allows and to ensure that there would not be a negative impact on employees.

6. Finally, with regards to the **Wellness Initiative,** the County Executive welcomes staff input and will review the best mechanism for addressing this initiative to ensure broad involvement of employees.

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[1] The Bureau of Labor Statistics All Urban Consumers for Washington-Baltimore DC-MD-VA-WV computed from September to September for each annual period.

[2] The Bureau of Labor Statistics Civilian Employment Cost Index of national wages and salaries of private sector and state and local government employees computed from September to September for each annual period.

[3] The Federal Government's Office of Personnel Management (OPM) makes this available. It represents the percentage increase in Federal salaries approved each year for the Oct. 1 fiscal year, which occurs too late to include in the County's fiscal year which begins in July.