

Response to Questions on the FY 2009 Advertised Budget Plan

Request By: Supervisor Hyland

Question: What are the differences between the current calculation of the Market Rate Adjustment and the previous calculation?

Response: In FY 2002, the County adopted a Market Rate Adjustment (MRA) methodology to maintain the County's pay competitiveness for the future and minimize the need for comprehensive market pay studies. The MRA provides a guide to the amount of pay structure adjustment needed to keep County pay rates competitive with the market. The MRA is applied to public safety steps resulting in increases for all employees on the public safety pay plans. Beginning in FY 2001, employee pay raises for non-public safety employees have been based solely on their performance ratings. However, to ensure that pay scales remain competitive with the market, non-public safety pay scales are also increased in accordance with the MRA.

Originally, the MRA consisted of the following components:

- Consumer Price Index (CPI) for the Washington-Baltimore area. The U.S. Department of Labor's Bureau of Labor Statistics prepares this index. The CPI closely monitors changes in the cost of living. **The CPI represents 70% of the index.** The data used is for September based on its availability prior to discussions on the upcoming budget.
- Employment Cost Index (ECI). The U.S. Department of Labor's Bureau of Labor Statistics prepares the ECI. The ECI measures the rate of change in employee compensation (wages and salaries). The index used by the County measures changes in employee compensation for "Civilian" workers. This includes private sector, state, and local government employees. Federal employees are not included in this index. **The ECI represents 20% of the index.**
- Federal Wage Adjustment for the Washington-Baltimore area. The Federal Office of Personnel Management prepares this wage adjustment. Fairfax County will use the most current approved wage adjustment in budget calculations. However, because of the timing of the approval of the Federal Wage Adjustment and Fairfax County's budget cycle, Fairfax County will use the wage adjustment from the previous January. **The Federal Wage Adjustment represents 10% of the index.**

The Compensation Study undertaken in FY 2007 included a review of the MRA. As a result of their analysis, Kennedy and Rand, the consultants performing the Study recommended that the County consider adjustments to the way the MRA is currently calculated to focus less on the CPI and more on salaries of comparable jurisdictions.

The Board of Supervisors was briefed at the Personnel Committee meeting on December 11, 2006, on four areas of compensation policy including the MRA. This briefing included the consultant's recommendations. As part of that discussion it was agreed that the existing formula (70% Consumer Price Index (CPI), 20% Employment Cost Index

(ECI) and 10% Federal Wage Adjustment) would be used to adjust the pay scales for FY 2008. During FY 2008, staff would review, test and refine MRA calculation options with anticipated implementation of a revised methodology in FY 2009.

As a result of the Compensation Study and the refinement of the calculation the MRA now consists of the following components:

- Consumer Price Index (CPI) for the Washington-Baltimore area. The U.S. Department of Labor's Bureau of Labor Statistics prepares this index. The CPI closely monitors changes in the cost of living. **The CPI represents 40% of the index.**
- Local Area Jurisdictions Salary Structure Adjustments for Non-bargaining General Employee Scales and Federal Wage Adjustment. Those local area jurisdictions are Arlington County, City of Alexandria, District of Columbia, Loudoun County, Montgomery County, Prince George's County, and Prince William County. Federal employees (Washington-Baltimore area) are included in this index. Fairfax County uses the most current approved wage adjustment in budget calculations. Because of the timing of the approvals of the Federal Wage Adjustment and Local Jurisdictions fiscal years and Fairfax County's budget cycle, the most current data is the wage adjustment from the previous January for Federal employees and the current fiscal year for Local Jurisdictions. **The Local Area Jurisdiction salary structure adjustments represent 50% of the index.**
- HRA-NCA Salary Planning Survey. The survey includes information on current year actual and upcoming calendar year anticipated budget pay increases, for Washington DC area private (and a few public) employers. **The HRA-NCA Salary Planning Survey results represent 10% of the index.**

It should be noted that when the new MRA computation methodology was considered, an analysis was done to evaluate the MRA under the existing formula and the proposed formula. From FY 2000 to FY 2008, the difference was negligible, with only a 0.07 percent average differential.

Computation using the current year formula is detailed as follows:

FY 2009 Market Rate Adjustment Computation (2007 Data)

Year	CPI Washington/Baltimore (One-Year Rolling) ¹	CPI x .40	Local Area Jurisdictions and Federal Adjustments ²	LAJ x .50	Human Resource Association/National Capital Area Salary Planning Survey	HRA x .10	MRA
2007	3.27	1.308	2.58	1.29	3.6	0.36	2.96 ³

1. Consumer Price Index – All Urban Consumers for Washington-Baltimore DC-MD-VA-WV. Computed one-year rolling from September to September for each annual period.

2. Local Area Jurisdictions And Federal – Salary range adjustments for non-bargaining general employees and Federal wage adjustment.

3. Calculated increase for FY 2009 as of November 2007. Based on budget requirements, the recommended MRA is reduced from the calculated amount by 50 percent resulting in a 1.48 percent MRA funded for FY 2009.

This information is gathered by staff of the Department of Human Resources and shared with employee groups as requested.