




City of Phoenix

To: Sal DiCiccio
Councilman

Date: May 17, 2011

From: Ed Zuercher 
Assistant City Manager

Subject: INFORMATION REQUESTED ON SALARIES

Following up on our conversation yesterday, attached are charts prepared by the Budget & Research Department showing information you requested on employee salaries and the difference between FY 2010-11 (this year) and FY 2011-12 (next year). Attachment 1 compares this year and next year's salary payments, including merit. It shows a reduction in overall budgeted salary costs. It's important to understand the context of employee pay sacrifices, merit and longevity information.

First, Attachment 2 shows amounts for this year and next year's longevity and merit payments, as well as employee pay and benefit concessions which total over \$50 million in savings each year. Longevity payments for those employees who have reached their top step increase by \$1.3 million next year over this year. This is a result of reduced employee turnover and a hiring freeze that significantly decreased the number of junior employees. However, employees receiving longevity actually saw their pay reduced, since they took 3.2% in concessions which is greater than any increase in longevity payments.

Secondly, no middle managers or executives had pay increases last year, this year or next year. In fact, with furloughs and other reductions, middle managers and executives have seen their compensation reduced during these three years.

Finally, those employees who are not middle managers or executives, or who don't receive longevity payments, averaged about 4.6% merit increases (partially offset by their 3.2% reductions). This is approximately half of our employees. Attachment 3, page 2, describes this situation. These employees progress through the pay structure based on performance in their job. Merit increases are based on established steps built into the City's pay plan and every job has pre-established maximum pay amount. The greater the level of employee experience, the greater the benefit to the City through increased productivity and know-how. Without differentiation in pay, experienced employees would leave City employment to work in organizations where their knowledge and experience are rewarded. This pay step progression has been an established City practice for over 50 years and allows the city to make a differentiation in pay between employees new to their jobs from those with extensive experience, training, and demonstrated performance. For example, a first year firefighter or police officer should not be paid the same as an eight year veteran who is arguably more

productive and adept at performing the duties of the job. A first year police officer, following graduation from the Police Academy is paid approximately \$51,000 annually, whereas a veteran of eight or more years is paid nearly \$72,000. Another example is a Library Assistant hired at approximately \$34,000 annually compared to a veteran who has reached the top of his or her pay range at about \$51,000 through demonstrated performance over several years.

Please let me know if you have any further questions.

Attachments

c: David Cavazos
Mayor and City Council
Penny Parrella
Marchelle Franklin
Mario Paniagua
Janet Smith

Salary Line Items (General, Police and Fire)
2009-10, 2010-11 and 2011-12 Budget Comparison
(in Millions of Dollars)

	<u>Salaries Amount</u>	<u>Variance From Prior Year</u>
2009-10 Budget	\$947.2	N/A
2010-11 Budget	\$881.8	(\$65.4)
2011-12 Budget	\$880.2	(\$1.6)

Note: the salaries line items include cost of employee merit increases, which were estimated at \$11.1 million for 2010-11 and \$11.6 million for 2011-12, but the total amount was less from year to year due to the number of positions eliminated through budget reductions, vacancy cuts and organizational review reductions during 2010-11.

2011-12 Estimated Merit and Longevity Costs

In Millions

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
¹ Merit	\$7.6	\$4.0	\$11.6
² Longevity	11.7	5.6	17.3
³ Negotiated Wage and Benefit Decrease	(35.3)	(16.9)	(52.2)

¹ The cost of merits are estimated based on the 2011-12 Wage and Benefit projection dated December 8, 2010.

² The estimated cost of longevity is based on the 2011-12 Revised Base Request as of May 5, 2011.

³ The negotiated wage and benefit decrease was approved by the City Council for 2010-11 and 2011-12.

2010-11 Estimated Merit and Longevity Costs

In Millions

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
¹ Merit	\$7.2	\$3.9	\$11.1
² Longevity	10.8	5.2	16.0
³ Negotiated Wage and Benefit Decrease	(35.3)	(16.9)	(52.2)

¹ The cost of merits are estimated based on the 2011-12 Wage and Benefit projection dated December 8, 2010.

² The estimated cost of longevity is based on the 2010-11 Revised Estimate as of May 5, 2011.

³ The negotiated wage and benefit decrease was approved by the City Council for 2010-11 and 2011-12.



City of Phoenix

To: David Cavazos
City Manager

Date: April 8, 2011

From: Janet Smith
Human Resources Director

Subject: QUESTIONS ON EMPLOYEE BENEFITS & PAY

The Human Resources Department has recently received questions regarding employee benefits and/or pay originating either from constituents through their City Council member's office, or, directly from City Council Office staff.

Most employee benefits were agreed to in lieu of additional wage increases as part of previous labor negotiations. The city's employee benefit package has helped to attract and retain talented employees, especially during positive economic cycles when the City's wages were not competitive with the private sector. The questions that have been recently asked are summarized below:

1. How does the Post Employment Health Plan work?

The city's Post Employment Health Plan (PEHP) is a tax-exempt trust authorized by Internal Revenue Code Section 501(c)(9) and is an employer-paid benefit. The program was developed following implementation of changes required from Governmental Accounting Standards Board Statement 45 which mandates how the City reports its financial liability for retiree benefits. The creation of the PEHP program reduced the City's long-term liability for future retiree costs. Employees who have a payroll deduction for City medical insurance coverage (single or family) are provided with a PEHP account. The City deposits \$150 per month into each eligible employee's PEHP account. This account is to be used by the employee when he/she retires or separates employment with the City for qualified medical expenses, including health insurance premiums.

2. What is the "Welcome to Phoenix/Make Phoenix Home" Program?

The intent of this program is to offer discounts on mortgage-related expenses, as well as home products and services for employees who buy a new home or refinance their present home within Phoenix city limits. The program is a partnership with mortgage companies to encourage employees to live in Phoenix. This program is provided to employees at no cost to the City and coordination of the program requires little staff time.

The program was approved by City Council and initiated by the Neighborhood Services Department in 1997, with the Benefits Office designated as the point of contact. Financial institutions were solicited through formal Request for Qualifications processes over the years. Most recently, Wells Fargo was selected as the financial institution to offer financing incentives such as free pre-qualification assistance, discounts on origination fees, and other loan processing discounts.

3. What is bi-lingual pay?

Bi-lingual pay is one component of the City's Language Education and Diversity Sensitivity (LEADS) program that provides certification and compensation to employees who are required to regularly and routinely utilize a language other than English in the course of their job duties. Since 1999, the LEADS program has offered a comprehensive variety of programs and services such as language interpretation services, language courses and cultural awareness training for City employees and it has received significant recognition at the local, state and regional level. Departments work closely with the Human Resources Department to identify a job-related need for language certification in order to further enhance customer service to the community. Employees must have their language skills certified before they may begin receiving bi-lingual pay. Bi-lingual pay ranges from \$25 per month for employees represented by some employee groups to \$75 per month for Firefighters. Spanish is the language which is most often requested for certification.

4. Will City Council have the opportunity to review next year's pay plan?

The City's pay plan, which includes provisions related to pay such as negotiated changes in wage, is provided to the City Council for approval in June of each year. The next pay plan will reflect any changes which were agreed to during the collective bargaining process with the employee groups for the second year of our agreement ending June 2012.

5. What is the merit raise structure and average merit percent increase per employee?

Approximately 50% of our employees are not eligible for merit raises because through previous performance and tenure have reached the maximum of their pay range. The remaining employees progress through the pay structure based on performance in their job. Merit increases are based on established steps built into the City's pay plan and every job has a pre-established maximum pay amount. The greater the level of employee experience, the greater the benefit to the City through increased productivity and know-how. Without differentiation in pay, experienced employees would leave City employment to work in organizations where their knowledge and experience are rewarded. This pay step progression has been an established City practice for over 50 years and allows the city to make a differentiation in pay between employees new to their jobs from those with extensive experience, training, and demonstrated performance. For example, a first year firefighter or police officer should not be paid the same as an eight year veteran who is arguably more productive and adept at performing the duties of the job. A first year police officer, following graduation from the Police Academy is paid approximately \$51,000 annually, whereas a veteran of eight or more years is paid nearly \$72,000. Another example is a Library Assistant hired at approximately \$34,000 annually compared to a veteran who has reached the top of his or her pay range at about \$51,000 through demonstrated performance over several years.

The pay range for a job is based on the City's compensation plan, which is designed to ensure pay is set at a level that attracts qualified individuals and helps to retain employees avoiding additional training and replacement costs to the City. The compensation plan is expected to be evaluated by an independent consultant later this year.

There are no automatic payments made to City employees. Each employee, not at the top of their pay range, is evaluated annually and progresses to the next pay step within

D. Cavazos
April 6, 2011
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the pay range with demonstrated performance. The average difference between pay steps is 5%.

Please let me know if you have any questions on the information provided above.

c: Mayor & City Council Members
Ed Zuercher
Marchelle Franklin
Penny Parrella

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