

# City of Alexandria, Virginia

## MEMORANDUM

DATE: APRIL 9, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # : OTHER SAVINGS OPTIONS CONSIDERED WITH REGARDS TO PERSONNEL AND COMPENSATION ISSUES

---

This memo is in response to a request from Mayor Euille that the City Council be provided information on the other savings options that were considered with regard to personnel and compensation issues. Starting in November 2008 we began reviewing a wide range of personnel and compensation issues with options that could potentially yield budget savings in FY 2010. The list of options that were discussed during the months leading up to the FY 2010 Proposed Budget did include suggestions from City employees. After our initial review, we found that some options did not yield budget savings and did not warrant further discussion. Those options that did have the potential to generate savings were researched by staff and considered for inclusion in the FY 2010 proposed budget.

A summary table listing each option that was discussed is included below. More detailed write ups follow the table. The summary table indicates if the option we considered was proposed or not proposed in FY 2010. A column with the level of savings for each option if estimated, is also included. Budget savings are identified for some but not all options. For certain options staff did not calculate the potential budget savings because we realized early on that savings would not be generated or that the option would actually result in a cost increase. In addition, savings were not calculated for options that were ruled out for reasons beyond those that were budgetary in nature. The summary table identifies the options where budget savings were not calculated with *Not Estimated* listed in the Savings in FY 2010 column.

Personnel/Compensation Option	Proposed in FY 2010	Savings in FY 2010	Potential Cost Increase
<b>Salary and Benefits</b>			
Provide Employees with a Market Rate Adjustment (MRA)	No		\$3.8 million
\$500 One-time bonus for employees	No		\$645,000
Step/Merit Increase for Employees	No		\$2.6 million
Negative Market Rate Adjustment	No	Not Estimated	

Personnel/Compensation Option	Proposed in FY 2010	Savings in FY 2010	Potential Cost Increase
<b>Furloughs/Alternative Work Schedules/Holidays</b>			
Implement Mandatory City-wide Furlough (estimated savings from one day furlough)	No	\$565,058	
Allow Employees to take Voluntary Furloughs	No	Not Estimated	
Swap Holiday for Annual Leave	No	None	
Reduced Work Week	No	Not Estimated	
Alternative Work Schedules for Employees (Current City policy will continue in FY 2010)	Yes	None	
<b>Annual Leave/Sick Leave/Compensatory Time</b>			
Change Leave Accrual Rates (to provide employees with 1 additional day of annual leave)	Yes	Cost Neutral	
Change Leave Accrual Caps	No	Not Estimated	
Change Leave Conversion Rate	No		Not Estimated
Change Eligibility for Compensatory Time	No		Not Estimated
Change Leave Pay Out Policy	No		Not Estimated
<b>Retirement</b>			
Employees Pay 2% Employee Share of Supplemental Retirement Contribution (for future employees only)	Yes	\$185,000	
Change to Retirement Health Benefits	No	Not Estimated	
Change City's Life Insurance Contribution (for future employees only)	Yes	\$25,000	
Changes to City's OPEB Contribution	No	\$2,500,000	
<b>Health Benefits</b>			
Increase Employee Share for Health Insurance Premiums (estimated savings from every 1% increase to employees' share of premium costs)	No	\$212,000	
Changes to Healthcare Plan Designs	No	Not Estimated	
Implement a Self-funded Healthcare Model with Kaiser	No	Not Estimated	
Implement an Incentive-based Spousal Plan	No	Not Estimated	
Conduct Health Care Audits	No	Not Estimated	
Offer an Employee + 1 Healthcare Option	No	Not Estimated	
<b>Additional Savings Considered</b>			
Hiring Freeze	No	See Budget Memo #25	
Telecommuting (Current City policy will continue in FY 2010)	Yes	None	
Buy Outs for Non Retirement Eligible Employees	No	Not Estimated	

**Salary and Benefits:**

*Market Rate Adjustment (MRA)* – A 1% increase in salaries to offset inflation for City, ACPS and Transit employees would cost \$3.8 million.

*One-Time Bonus* – The cost of repeating the FY 2009 \$500 one-time pay supplement is \$645,000. For additional information please see Budget Memo #57. Equivalent information for

Schools employees is provided in BM #74.

*Step/Merit Increase* – If City employees were provided a step increase in FY 2010 the cost would be \$2.6 million.

*Negative Market Rate Adjustment* – A negative MRA is a percent reduction across all pay scales resulting in a pay reduction for City employees. This option was ruled out early in our discussions because it was not necessary to meet our budget target for FY 2010.

**Furloughs/Alternative Work Schedules/Holidays:**

*City-wide Mandatory Furlough* – The estimated savings from a one-day furlough would be approximately \$565,058. For additional information on furloughs please see Budget Memo #43.

*Voluntary Furlough* – A voluntary furlough would provide City employees the option to take a day off without pay. This policy was not pursued as a viable cost savings option in FY 2010.

*Holiday for Leave Swap* – Under this option City employees would be permitted to exchange one authorized City holiday for a day of annual leave. The final outcome of our discussion was to propose that City employees be provided an additional day of annual leave by increasing the leave accrual rates. Further details on this option are outlined below.

*Reduced Work Week* – We reviewed two options for a reduced work week. The first was to reduce the work week by a certain number of hours, and the second was to have staff work four ten hour days per week in order to have one day off each pay period. We believe no significant cost savings from reduced personnel costs and/or facilities use would result from either of these options.

*Alternative Work Schedules* – Under current City policy, department heads are given the responsibility to set the work schedules of staff within their department, and the authority to allow employees to establish alternative work schedules to meet service needs, if desired. This policy will be continued in FY 2010.

**Annual Leave/Sick Leave/Compensatory Time:**

*Change Leave Accrual Rate* – Leave accrual rates would need to be adjusted in FY 2010 to provide the proposed additional day of annual leave. The proposed budget increases leave accrual rates by .308 hours per pay period in order to provide an additional 8.008 hours (1 work day) of annual leave. This change is expected to be cost neutral because the cap for annual leave is not being adjusted so there is no significant increase in future leave pay outs (assuming the extra day of leave will generally be taken each year). The additional time off is minimal, therefore it is expected that existing City staff will absorb any extra workload.

*Change Leave Accrual Caps* – Changing leave accrual caps so employees accrued less leave and the City paid out less for unused annual leave at separation was not considered a viable cost savings option.

*Change Leave Conversion Rate* – Changing the leave conversion rate to increase the caps for annual leave payouts was not proposed because it would result in cost increases. Decreasing the conversion rate was not seen as a viable cost savings option either.

*Change Eligibility for Compensatory Time* – No changes to current compensatory leave eligibility or the compensatory leave pay out policy were proposed. Changing the leave pay out policy would result in a cost increase.

*Change Leave Pay Out Policies* – Adjustments to leave pay out policies were not proposed because increases in leave accrual caps or increases to the percentage of sick leave paid out at separation would result in a cost increase.

### **Retirement:**

*Employees to Pay 2% of Supplemental Retirement* – Currently the City pays the 2% employee share of the contribution to fund the City's supplemental retirement plan. We have proposed two cost saving options to the supplemental retirement plan. First, future employees who are enrolled in the supplemental plan and begin City service on or after July 1, 2009 will pay the 2% employee share into the supplemental plan. We estimate that this change will result in \$185,000 in future savings. This change will affect General Salary employees as well as new Sheriff, Fire Marshal and EMT employees because they are beneficiaries of the supplemental retirement plan. The second change we proposed is to characterize the 2% employee share paid by the City as a City contribution to the supplemental plan. Under this proposal, the City will continue to pay the 2% share for current employees, however, if an employee leaves before vesting (which occurs after five years of service) they will not be entitled to a refund of this contribution.

*Changes to Retirement Health Benefits* – The retirement health subsidies annual maximum of \$3,120 (\$260 per month) will remain unchanged in FY 2010.

*Change City's Life Insurance Contribution* – We considered whether or not to decrease the City's contribution to life insurance for current employees. After receiving input from our actuary, we decided not to propose a reduction of the City's contribution to life insurance coverage for current employees or current retirees. However, we did propose that the City contribution for life insurance be reduced from two times final pay to one time for future employees (those hired on or after July 1, 2009). We estimate that the savings from this proposal will be \$25,000.

*Changes to Other Post Employment Benefits (OPEB) Contributions* – The proposed level of new funding for OPEB is \$2.5 million for FY 2010. We do not recommend decreasing the level of new contributions. A budget memo on OPEB will be forthcoming.

### **Health Benefits:**

*Increase Employee Share for Health Insurance Premiums* – We estimate that for every 1% increase to the employees' share for health insurance premiums, a savings of approximately \$212,000 would be realized. We did not recommend changes to employees' cost sharing percentages.

*Changes to Healthcare Plan Designs* – We did not propose changes to the current co-pay structures or prescription co-payments. We believe incrementally modest modifications to the current co-pay structure would have limited, if any effect on premium rates for FY 2010.

*Implementing a Self-funding Healthcare Model with Kaiser Permanente* – We discussed implementing a self-funding model with Kaiser Permanente, but upon meeting with representatives from Kaiser Permanente we learned that no significant budget savings would be realized at this time.

*Implement an Incentive-based Spousal Plan* – One way to decrease the number of employees enrolled in one of the City's healthcare plans would be to provide an incentive to those employees who elected to enroll in their spouse's health care plan. This concept, referred to as a spousal plan, was considered but not included in the FY 2010 proposed budget.

*Health Care Audits* – Health care audits can provide savings to employers when unauthorized dependents are identified and dropped from the health care rolls. Some employers use a third party to conduct the audits, meaning some costs may be incurred upfront to implement this option.

*Implement an Employee + 1 Healthcare Option* – An Employee +1 health care option provides healthcare coverage to a City employee and one additional dependent. No significant savings to the City would be realized if such an option was implemented, however having three health care plan tiers is an accepted industry standard. City staff will be examining whether a third tier option within our current budgeted cost for healthcare will spread employees' share of healthcare costs more equitably across the three tiers (Individual, Employee + 1, and Family).

### **Additional Savings Considered:**

*Hiring Freeze* – We propose the continuation of the current soft hiring freeze in FY 2010. Additional details on the current hiring policy are discussed in Budget Memo #25.

*Telecommuting* – The City already has a Telecommuting Policy in place that permits interested employees to establish a telecommuting agreement with their supervisor and department head. No changes to the program are proposed for FY 2010.

*Buy Outs for Non Retirement Eligible Employees* – Under this option, the City would provide an incentive to employees who voluntarily choose to terminate their City service. The main reason we did not propose this idea was due to the cost of the incentive, which we believe would have to be in the range of \$15,000 plus any potential leave pay out. Additionally, we were uncertain of the savings this option would actually generate.