

01-26-2022 Town Council Meeting Responses to Council Questions

ITEM #8: Consider Implementing the Class & Compensation Study

Council Question:

Where's the continuing money coming from to fund the permanent salary increases? Please give us a detailed breakdown of how you intend to pay for the \$2 million-plus budget increase (service or program cuts/expected, revenue increases/tax increases, etc.).

Staff Response:

We are in the very early stages of projecting revenues and expenditures. We have just received revenue estimates from departments and we will be working on general revenue estimates over the next several weeks. Looking at sales tax revenue trends (4 months of collections received to-date), we are seeing almost 10% growth in sales tax (we budgeted a conservative 2.5% growth). These numbers include a one-time sales tax refund specific to Orange County that have made our collections and sales tax growth lower than they normally would. We anticipate seeing sales tax continue to outperform our conservative estimates. Budgeting a modest 5% growth over the current years collections, we estimate an additional \$2 - \$2.5 million in sales tax revenues in the FY 2023 budget. Important to note that we are still very early in the year, but the market does not give any indication that the growth we are seeing will change in the near future.

It is too early to dig into property tax revenues or our other revenue lines. The only other note to mention is that we still have several revenue lines that are continuing to recover from the pandemic (occupancy taxes, parks and recreation program fees, etc.) that will continue to return to normal levels over the next year or two and will help provide additional revenues to cover these additional personnel costs.

Council Question:

Would it be possible to make increases retroactive, and delay approval of this item until we at least have a draft budget, so we can see how we'll meet these ongoing obligations?

Staff Response:

Raises can technically be implemented at any time. The mechanics to make this size of an adjustment retroactive would be difficult to administer, but not impossible. The rationale to address the increases sooner rather than later has to do with the job market, inflation rates, and vacancy rates.

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Council Question:

Do the new salary increases also increase our pension obligations? If so, by how much?

Staff Response:

As total salary increases, the cost of benefits (FICA & retirement) increases. The cost of benefits for the proposed classification and compensation increases for FY 2022 and FY 2023 were already included in the cost estimates provided to Council. There would not be additional dollars needed to implement for the current and next year other than those amounts already shared.

In regards to future pension obligations, the total proposed salary increase does not impact the Town's OPEB liability. This liability is impacted by the Town's health premiums, the age of employees/retirees, level of benefits provided, and the interest rate earned on the Town's OPEB Trust.

Council Question:

I am very concerned by the recent emails we have received regarding fire fighter pay. Has there been any follow up discussions on this, in particular? Do you recommend any additional steps be taken now to address the concerns shared regarding pay equity in the department?

Council Question:

Council has received emails regarding Fire Department compensation and pay compression. If Town Council approves implementation of the Pay Plan and appropriation of \$500,000 will there still be an existing regional lag in compensation for regular employees? If so, where would this occur? Would you recommend an appropriation increase? I'm looking forward to your update regarding any ongoing discussions and steps that are being taken.

Staff Response:

We have proposed the 2%/3% increases in Phase 1 of the plan to help address that problem immediately for those who will be above the new minimums in their pay ranges. Phase 1 is the beginning, not the end of our initiative to ensure we can retain our excellent employees, and to be competitive in recruiting new ones. This compression issue has occurred over many years and unfortunately will not be solved in one fell swoop. We will be considering additional ways to address compression in future phases, and that may include a step system for Public Safety and Transit.

We have looked at where we are now for our Fire Department salary ranges, where we are proposing to go with the Compensation and Classification Study changes, and where our peers are today. We will be very competitive with our peer organizations if our proposed changes are approved.

Another critical step we must take to address compensation long term is to implement regular review of our salaries. Employers often do that through consultant-based market studies

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(maybe once every two years) or by hiring a compensation analyst who reviews pay on an annual basis and proposes changes when needed. Staff will be discussing those options in the coming months.

We could further address the compression issues earlier if additional funding is provided at this time.

Council Question:

Where is the money coming from and what will be the wholistic fiscal impact going forward? What parts of the comp study need to be implemented now in order to keep bus drivers, planners, etc. and what parts could be put off for a couple of months until we get into budgeting season, so we can do a wholistic look? Why are we giving the same cost of living increase to those who are above average already?

Staff Response:

We are in the very early stages of projecting revenues and expenditures. We have just received revenue estimates from departments and we will be working on general revenue estimates over the next several weeks. Looking at sales tax revenue trends (4 months of collections received to-date), we are seeing almost 10% growth in sales tax (we budgeted a conservative 2.5% growth). These numbers include a one-time sales tax refund specific to Orange County that have made our collections and sales tax growth lower than they normally would. We anticipate seeing sales tax continue to outperform our conservative estimates. Budgeting a modest 5% growth over the current year's collections, we estimate an additional \$2 - \$2.5 million in sales tax revenues in the FY 2023 budget. Important to note that we are still very early in the year, but the market does not give any indication that the growth we are seeing will change in the near future.

Our current recommendation is to move all employees who are under the new pay grade minimums to the new minimum and to give those employees who are not receiving an adjustment either a 2% or 3% adjustment based on their pay grade midpoint. After the new ranges are implemented we will only have 35 people at or above the new midpoints of their ranges. These employees will also be impacted by the compression from the other increases and thus should be addressed at this time too. Those impacted by this recommendation include bus drivers, planners, and other benefitted positions to help be more competitive with the market and to help retain and recruit employees.

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Council Question:

What policy alternatives were presented by the consultant that the Council didn't hear? He mentioned one in his presentation but said staff didn't like it, wondering what was left out of the information we received.

Staff Response:

During the January 12 Council discussion, the consultant offered that the 2%/3% increase could be based on the midpoint of the pay grade or the employee's base salary. His recommendation was to use the midpoint of the pay grade in order to provide greater benefit to employees whose salaries are on the lower end of the pay grade. Staff does not object to this approach and the cost calculations presented were based on % of midpoint.

While developing their final recommendations, the consultant did share a version of the Pay Plan with staff that varied greatly from the Town's current plan and which staff believed would have created enough confusion among employees as to devalue the Study. The consultant continued to refine the Pay Plan based on this feedback.

Council Question:

Tell me how many employees and the fiscal impact of giving raises to those who are already above the average? Are there other ways to ensure our lower paid/vastly underpaid employees get the raises they deserve while making different decisions for other groups of employees, particularly those who are being paid competitively?

Staff Response:

There are 35 employees whose current salaries will fall above the midpoint of their pay grade in the proposed Pay Plan. The 3%/2% pay raises for these employees would total \$41,512 annually or \$1,186 per person. With the increases based on the midpoint of the pay grade, these employees will receive the same amount as an employee in the lower part of the pay grade. Without an increase, these employees will be impacted by compression from others' increases and thus should be addressed at this time too.