

## **Background**

Municipal pay increases are typically split between two categories: cost of living increases/market rate adjustments & merit/performance increases. Cost of living or market rate adjustments are typically a flat rate increase for each employee. Sometimes, these increases are applied differently for various departments and those differences are discussed in the memo where applicable.

Merit/pay for performance increases are typically a percent range that employees can earn depending on their performance review. Although these are shown as a range in a budget book, municipalities will budget a specific percentage increase across the organization for budgetary purposes. We communicated with budget professionals in each municipality discussed here to find what specific percentage was budgeted to make it easier to compare between municipalities. Please note that in the past, the Town of Chapel Hill has not offered merit increases and pay increases have been cost of living adjustments.

Each year, the North Carolina League of Municipalities (NCLM) surveys budget professionals on what their expected pay increases will be for the next fiscal year. This memo uses these surveys as a benchmark for fellow North Carolina municipalities with populations between 25,000 and 99,999. One very important caveat to these data is that their survey for FY21 went out before the onset of the Covid-19 pandemic, so that year of data is likely not reflective of what was budgeted since many municipalities immediately cut pay increases given the uncertainty of the pandemic. But that year's survey does show the intention of organizations to give approximately a 5% increase that year.

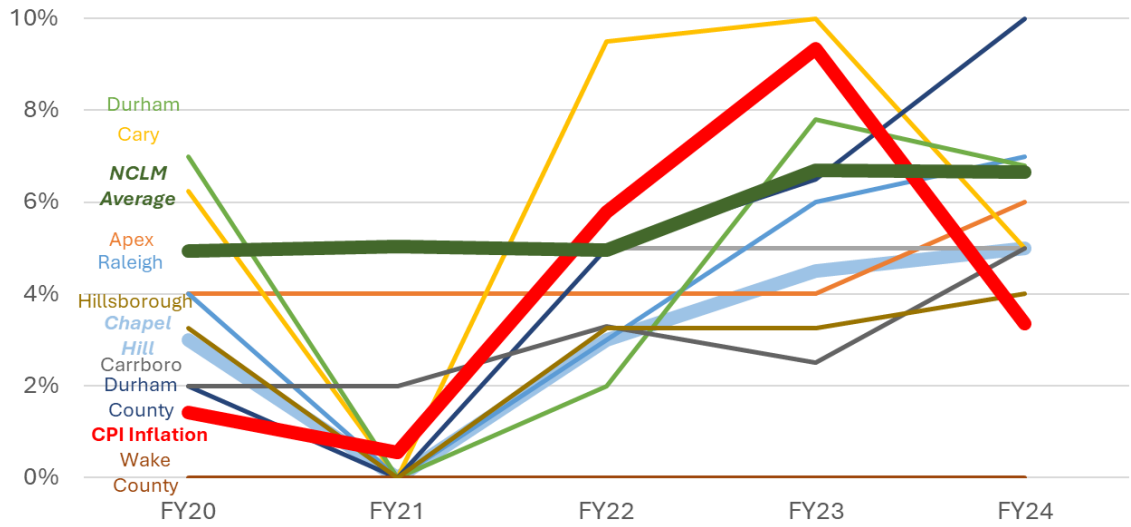
That last piece of data is the CPI-U data for the South region. These data were pulled from the US Bureau of Labor Statistics. To standardize the data against the yearly pay increases offered by municipalities, the data presented is a 12-month percentage change. The percentages for each fiscal year are the July year over year percentage change as that is the start of each fiscal year.

## **Discussion**

Below is a chart of the combined cost of living adjustments and merit increases of area municipalities, along with the combined increases from the NCLM survey of municipalities with populations between 25,000 and 99,999, and the CPI inflation data for the South region:

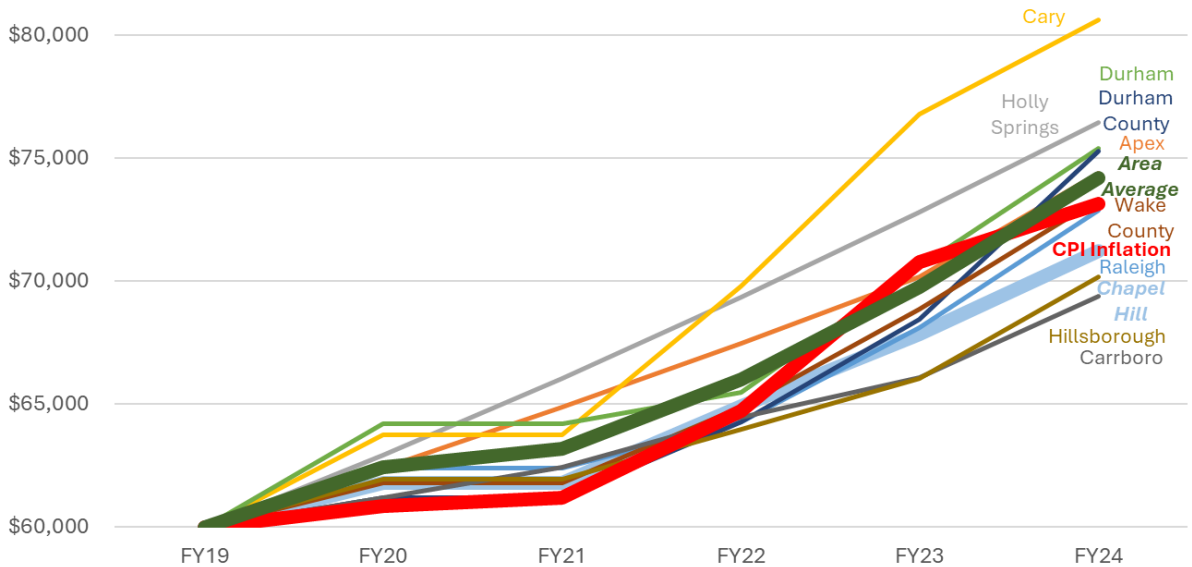
It is clear that many municipalities struggled to keep up with the abnormal inflationary increases of FY 2022 and FY 2023.

## Combined COLA/Merit Increases FY20-FY24



- <sup>1</sup> NCLM Average for FY21 was taken before the onset of Covid-19
- <sup>2</sup> Durham's COLA increase in FY22 had 4% increases for Police, 3.5% increases for Fire, and one-time bonuses between \$1,000 and \$1,500 for all employees
- <sup>3</sup> Durham County's FY24 increase also included a compensation study recommendation, which skewed their increase higher
- <sup>4</sup> Hillsborough is also offering a one-time \$1,500 bonus for each FTE in FY24 & FY25

## What does \$60,000 in FY19 make today?



To help illustrate what these pay increases mean for employees, this chart illustrates what a hypothetical employee making \$60,000 in FY19 would earn each year in each of these municipalities, along with the area average and what effect inflation would have on buying power for this employee.

**How do we catch up?**

In FY24, this hypothetical employee is already making almost \$3,000 less than the average employee also starting at \$60,000 in FY19 in other area municipalities. Applying the FY24 average area pay increase of 6.14% to the FY24 area average for this hypothetical employee, below is the yearly increase needed to catch the Chapel Hill employee up to the average:

One Year	10.58%
Two Years	8.34%
Three Years	7.60%
Four Years	7.24%
Five Years	7.02%

For instance, Chapel Hill would need to implement three years of 7.6% increases to catch up to the area average.