

*City of Alexandria, Virginia*

---

MEMORANDUM

DATE: MARCH 15, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER >

SUBJECT: BUDGET MEMO #5: COMPENSATION PHILOSOPHY, PROGRAMS AND ISSUES

---

**ISSUE:** City compensation philosophy, programs and issues.

**RECOMMENDATION:** That City Council review this memorandum and the materials referenced below in preparation for the budget work session scheduled for March 16.

**DISCUSSION:** At the budget work session on March 16, one briefing area will address the City's compensation philosophy, related benefit programs such as retirement funding and health insurance plans, and compensation issues raised by the proposed FY 2005 Operating Budget. This briefing is intended in part to help new City Council members put compensation issues into context, since compensation is the largest single element of the budget. Reference materials for this presentation include:

1. City Council approved compensation philosophy (p. 10-13 to 10-41 of chapter X, Appendices, proposed FY 2005 budget)
2. Summary of proposed FY 2005 budget key compensation issues (attached)
3. FY 2004 (Current) City health insurance plan cost sharing chart (attached)

Attachments

CITY OF ALEXANDRIA  
FY 2005 PROPOSED BUDGET KEY COMPENSATION ISSUES

---

The FY 2005 Proposed Budget funds a number of recommended compensation issues:

- **Merit Increases:** Each of the proposed departmental budgets includes funding for merit increases for all eligible employees. The total cost of merit increases is approximately \$3.0 million for City employees and \$3.2 million for Schools employees.
- **Cost of Living Increase:** A 2.0 percent COLA for all City employees at a cost of \$3.5 million, is proposed. The same COLA is funded for ACPS employees, included in the City appropriation to the Schools, at a cost of \$2.3 million. This compares with a CPI-U for the Washington-Baltimore MSA of 2.2 percent and a U.S. City Average CPI-U of 1.9 percent.
- **Health Insurance Increases:** To address rising health care costs a \$1.675 million health insurance contingent has been included in the City's budget. The contingent assumes a 12 percent increase in the cost of health insurance in FY 2005, and would provide a retiree health insurance credit increase from \$215 to \$240. In addition \$192,000 has been added for group health insurance reimbursements for retirees as usage has increased over the last year. The proposed Schools budget includes an increase of \$640,000 for an expected 10 percent increase in the cost of health insurance premiums.
- **Employee Training and Tuition Reimbursement:** \$275,000 is included in the budget for employee education, training and tuition assistance.
- **Retirement Plans:** The City has six different retirement plans separated by major employee categories. Based upon actuarial studies the following two plans have an additional employer share budgeted for FY 2005:
  - (1) Virginia Retirement System (VRS) (General Employees) – The State has notified the City that its employee/employer share has increased from 5.75 percent to 6.5 percent starting in FY 2005. The incremental cost for this 0.75 percent increase is \$0.6 million per year.
  - (2) City Supplemental Retirement System (General Employees) – The most recent actuarial report indicates that the employer share should increase from 3.5 percent to 5.2 percent. The FY 2005 budget contains a \$1.0 million addition to increase the employee/employer share from 3.5 percent to 4.5 percent. Next summer when the next actuarial report is completed, a relook at increasing the City's share to 5.2 percent in FY 2006 will occur.

The following plans have no change in employers contribution rates for FY 2005:

- (3) New Public Safety Pension for Police and Fire (new defined benefit plan)
- (4) Old Public Safety Pension for Police and Fire (closed defined benefit plan)
- (5) Fire and Police Disability Income Plan (defined benefit plan)
- (6) Retirement Income for Sheriff and ERT (defined contribution plan)

- **Equity for City and State Employees:** \$19,495 for stand-by pay for State employees working in Court Service Unit, \$40,000 in first year costs to place the Clerk of Courts employees on the City pay scale; \$57,183 to provide additional salary supplements to State employees working in Adult Probation and Parole; and \$51,917 to fund shift differential pay for MH/MR/SA employees.

CITY OF ALEXANDRIA

FY 2004 Health Insurance Premiums

FOR REGULAR FULL-TIME EMPLOYEES

Effective July 1, 2003 through June 30, 2004

PLANS	HMO (IN-PLAN COVERAGE ONLY)						POS (IN-PLAN & OUT OF PLAN COVERAGE)								
	FY 2003		FY 2003		FY 2004		FY 2003		FY 2003		FY 2004		FY 2004		
	TOTAL COST	CITY COST	EMPLOYEE COST	TOTAL COST	CITY COST	EMPLOYEE COST	TOTAL COST	CITY COST	EMPLOYEE COST	TOTAL COST	CITY COST	EMPLOYEE COST	TOTAL COST	CITY COST	EMPLOYEE COST
KAISER Individual Monthly Bi-Weekly	\$244.42	\$244.42	\$0.00	\$265.83	\$265.83	\$0.00	\$321.90	\$244.58	\$77.32	\$340.33	\$265.83	\$74.50	\$37.25		
			\$0.00			\$0.00			\$38.66						
Family Monthly Bi-Weekly	\$576.71	\$576.71	\$0.00	\$627.22	\$627.22	\$0.00	\$782.52	\$578.81	\$203.71	\$803.18	\$627.22	\$175.96	\$87.98		
			\$0.00			\$0.00			\$101.86						
Optimum Choice (MAMSI) Individual Monthly Bi-Weekly	\$244.58	\$244.58	\$0.00	\$265.83	\$265.83	\$0.00	\$280.15	\$244.58	\$35.57	\$307.55	\$265.83	\$41.72	\$20.86		
			\$0.00			\$0.00			\$17.78						
Family Monthly Bi-Weekly	\$574.07	\$574.07	\$0.00	\$627.22	\$627.22	\$0.00	\$655.35	\$578.81	\$76.54	\$719.44	\$627.22	\$92.22	\$46.11		
			\$0.00			\$0.00			\$38.27						