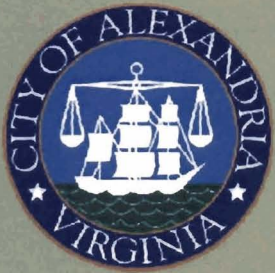


W.S.
2-20-08

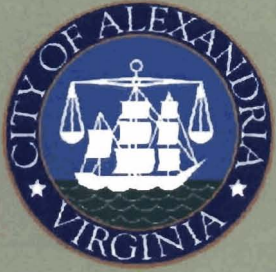


FY 2009

Budget Work Session

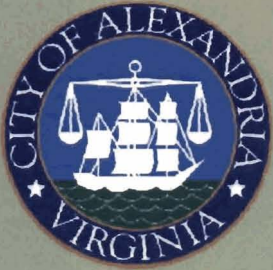
Employee Compensation

February 20, 2008



Highlights

- Compensation costs up \$9.7 million
- Net staffing down slightly (7.9 FTE's)
- No market rate adjustment (MRA) in Proposed Budget
 - 1.0% MRA in the Alternative Budget
- \$2.2 million budgeted to address unfunded retiree healthcare and life insurance liabilities

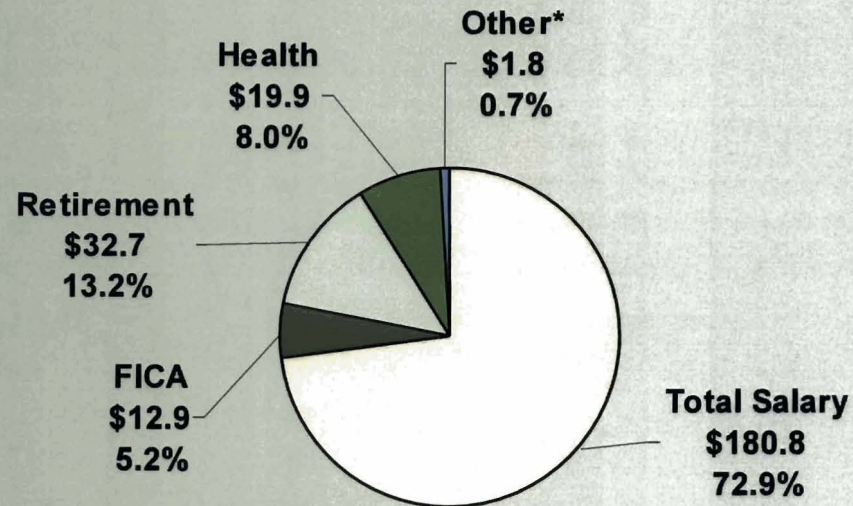


Personnel Budget

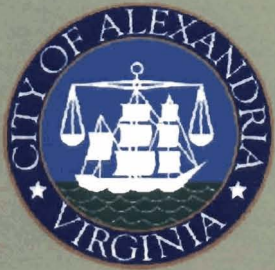
Of the \$248.2M personnel budget, about 73% is for salaries. And about 27% is for benefits.

Retirement and Healthcare are the biggest drivers of the fringe benefit costs. Retirement accounts for almost half of the fringe benefit costs, and healthcare about 30%.

FY 2009 All Funds City Personnel Budget
\$248.2 million



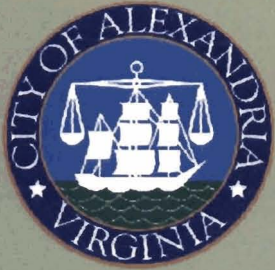
Employee Compensation



Personnel Budget

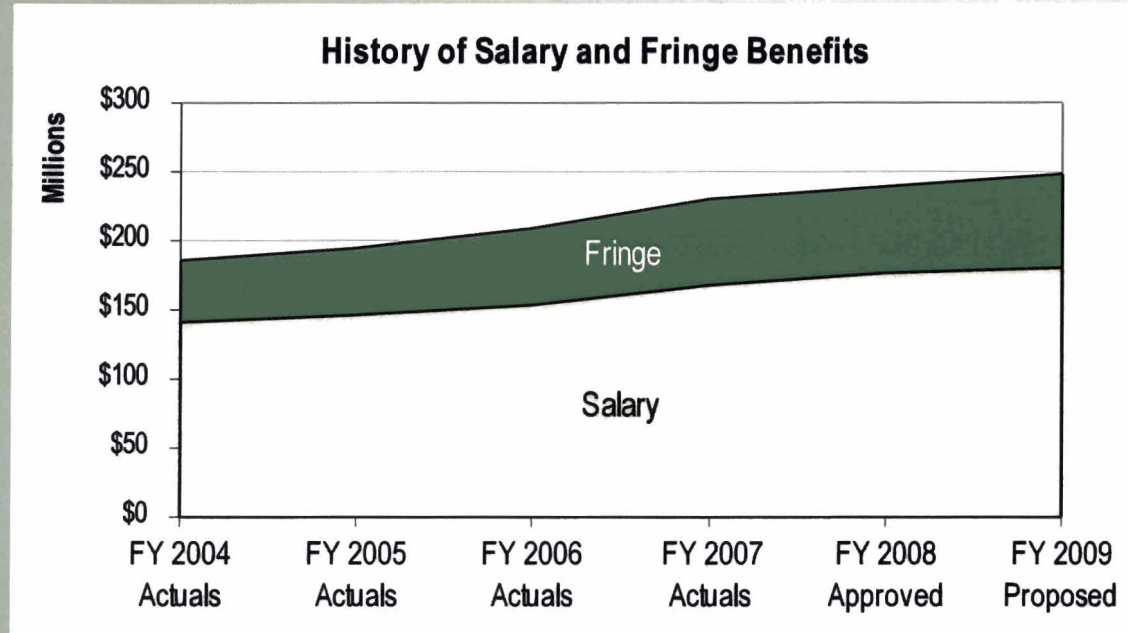
Increases in the rates for the Fire & Police Pension Plan and VRS for General Schedule employees were a driving force in the fringe benefit increase. About a 9% increase in healthcare also affected fringe benefits.

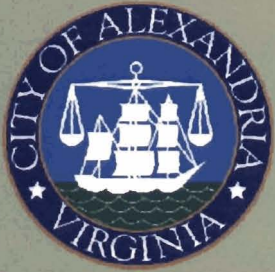
Title	FY 2008 Approved	FY 2009 Proposed	\$Change FY08/09	%Change FY08/09
Total Salary	\$176.9	\$180.8	\$4.0	2.2%
<u>Fringe</u>				
FICA	12.6	12.9	0.3	2.6%
Retirement	28.9	32.7	3.8	13.3%
Health	18.3	19.9	1.6	9.0%
Other*	1.9	1.8	(0.1)	(4.2%)
Total Fringe	61.7	67.4	5.7	9.3%
Total Personnel	\$238.6	\$248.2	\$9.7	4.1%



Personnel Budget

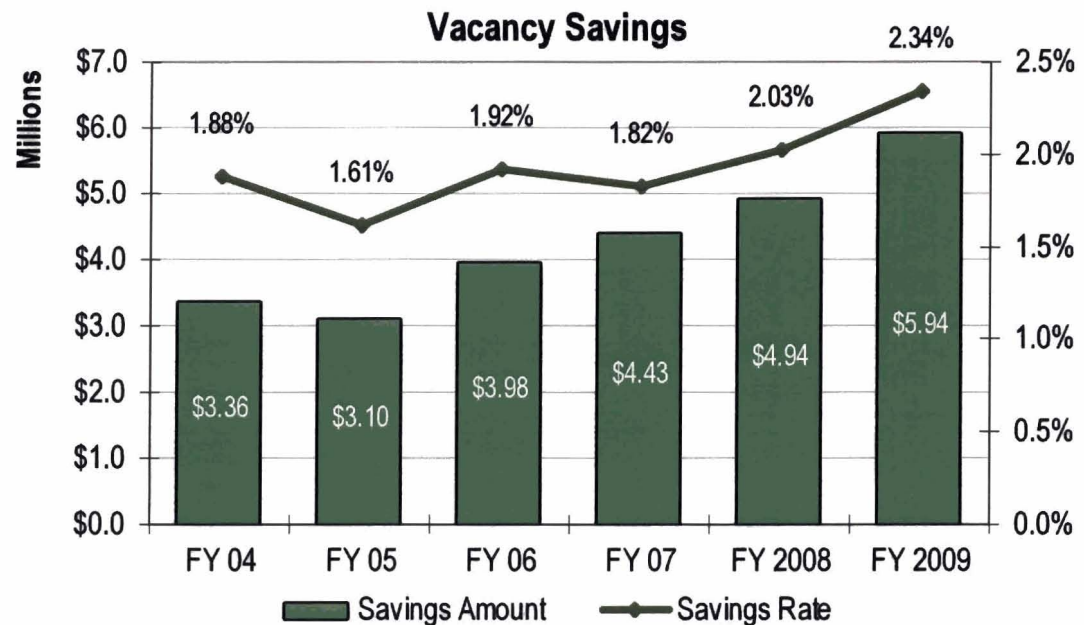
Since a large portion of fringe benefits is proportional to salary, they have been increasing at a relatively similar rate.

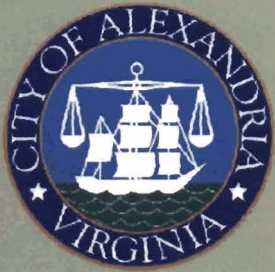




Personnel Budget

The City's total budget for personnel compensation includes a vacancy savings amount of \$5.94 million or 2.34%, \$1.0 million more than in FY 2008.





City FTE Position Count

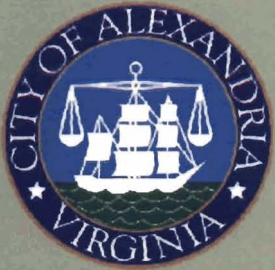
FTE's decreased by 7.9 in the FY 2009 Proposed Budget when compared to the FY 2008 Amended position count.

Many departments lowered their total FTE count through efficiencies.

FTE Summary

	FY 2008			FY 2009		Change	
	Amended	New	Deleted	Proposed	#	%	
Full-time Permanent	2,384.0	7.0	(13.0)	2,378.0	(6.0)	(0.3%)	
Part-time (FTE)	204.3	0.8	(1.7)	203.4	(0.9)	(0.5%)	
Approved Overhire	68.0	0.0	(1.0)	67.0	(1.0)	(1.5%)	
Total (FTE)	2,656.3	7.8	(15.7)	2,648.4	(7.9)	(0.3%)	

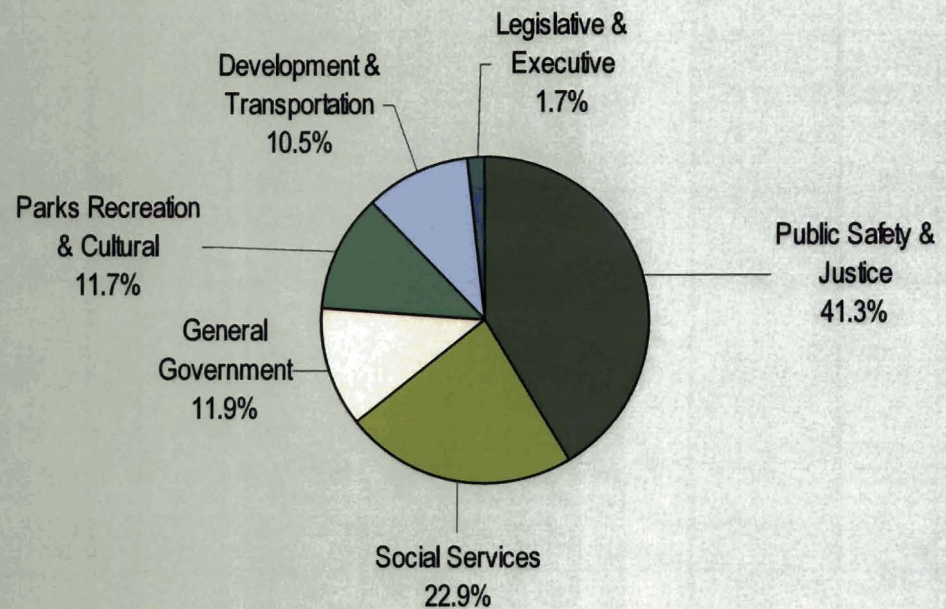
These decreases were slightly offset by a 3.0 FTE increase for the new multi-department Permit Center (2 in T&ES and 1 in P&Z), as well as several grant or special revenue funded positions (1 FTE in Sheriff, and 2 FTE's in T&ES).

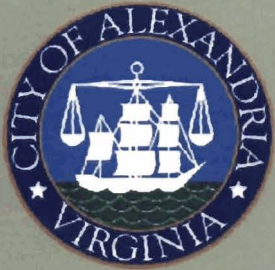


City FTE Position Count

**Public Safety & Justice
comprises 41%
of the City's
workforce.**

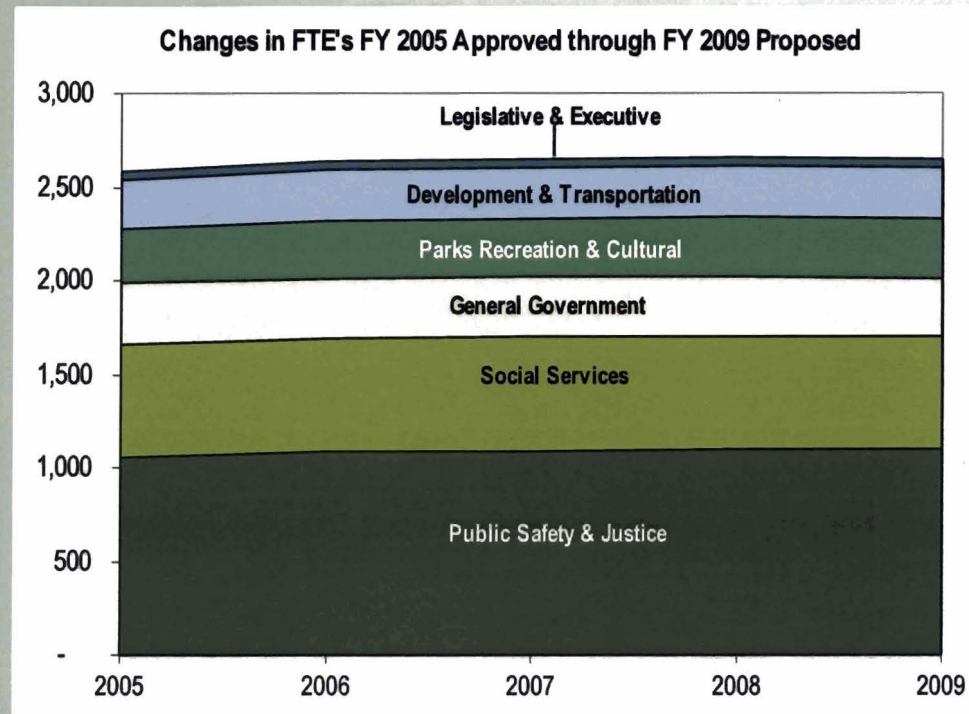
FY 2009 Employees by Line of Business

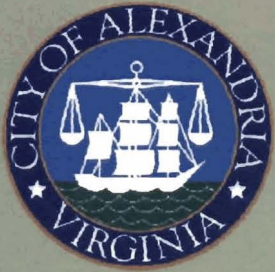




City FTE Position Count

The graph to the right further illustrates the relatively flat FTE levels from FY 2005 through the proposed FY 2009 budget, and the relatively stable share of the total for each line of business.

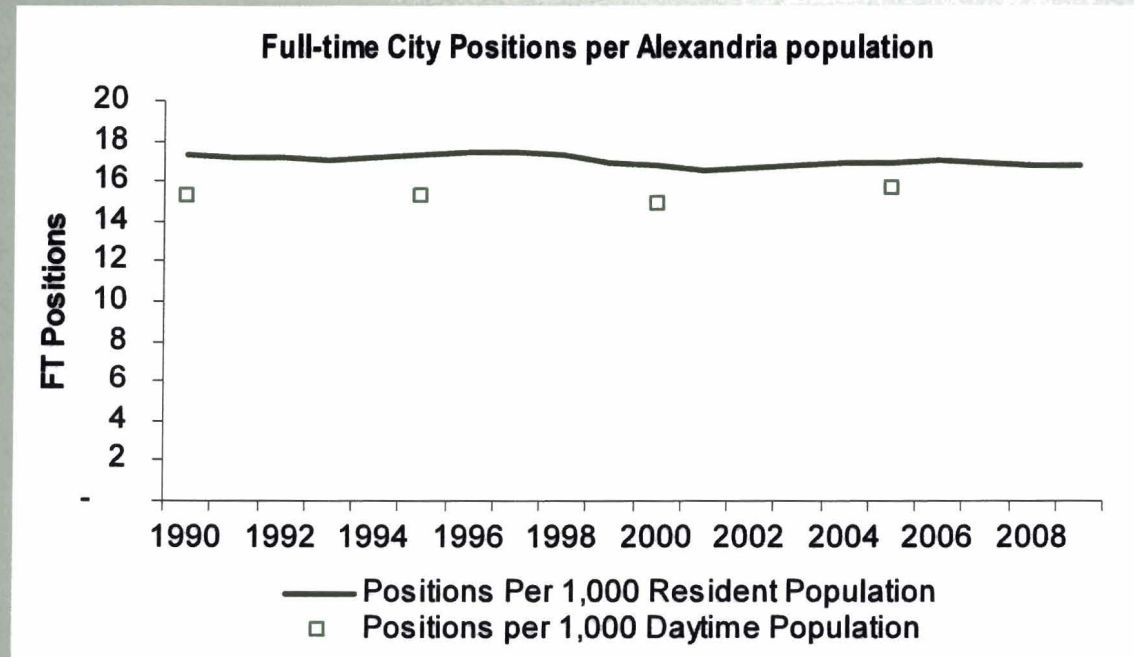


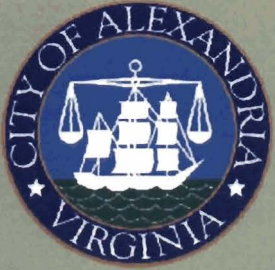


City FTE Position Count

The FY 2009 ratio of full-time positions to City population remains relatively flat at 16.8 positions for every 1,000 residents.

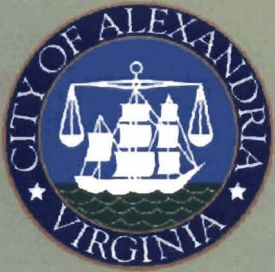
* Current City population is approximately 140,000.





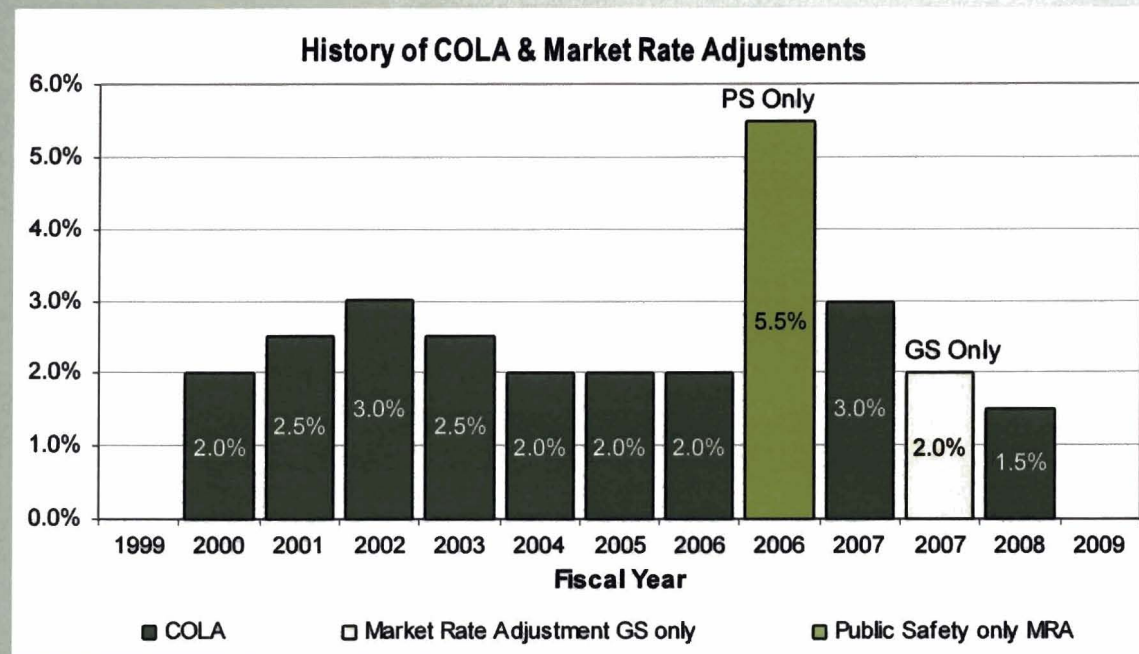
City FTE Position Count

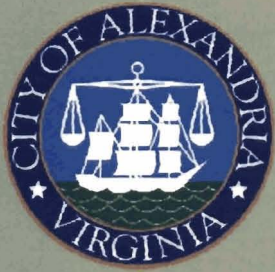
- **From the FY04 Approved to the FY08 Amended Budget, 102.7 (4.0%) net FTE's have been added to the City.**
 - Most were added during FY05 & FY06.
 - Since then, the City has had relatively flat growth in FTE's.
- **Over 50% of the FTE increases since FY 2004 were for Public Safety departments. The Recreation Department and MH/MR/SA also had significant increases during this time period.**



Employee Compensation-Salary Adjustments

The chart to the right shows the recent history of cost of living adjustments (COLA) and market rate adjustments (MRA) given to City employees since 1999.



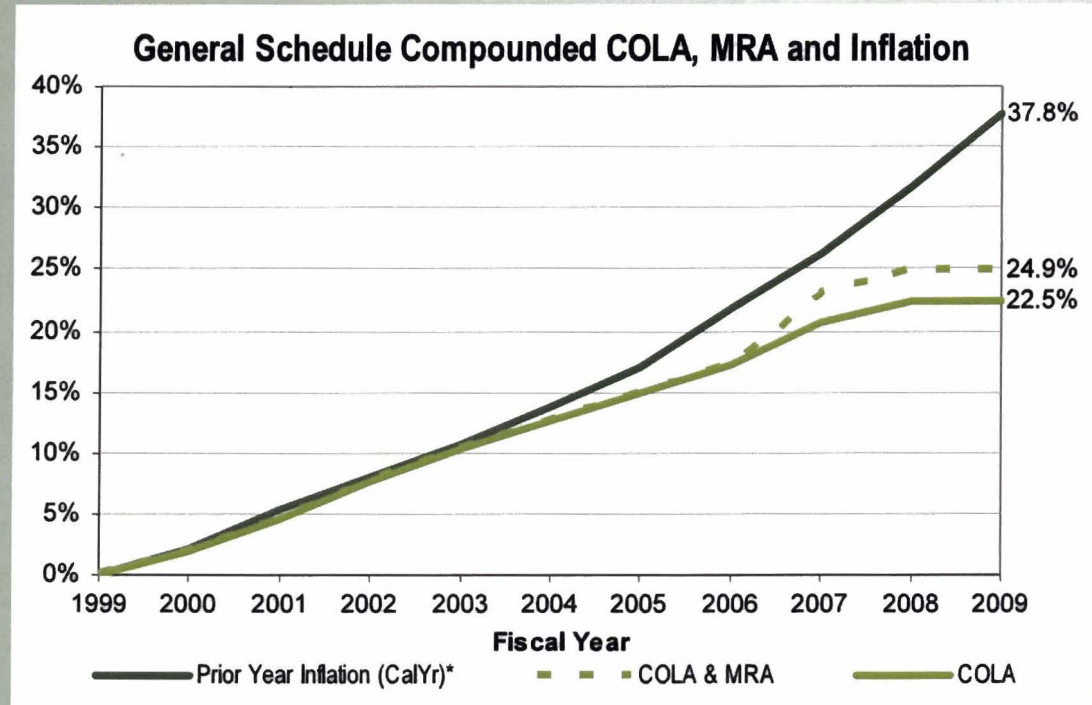


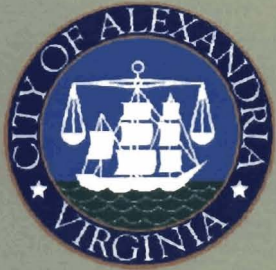
Employee Compensation-Salary Adjustments

The inflation rate for the DC metro area compounded over the past 10 years is 37.8%.

This cost of living increase surpasses the compounded COLA and MRA given to GS City employees during the same time period (24.9%).

* CY 2007 and CY 2008 CPI is estimated to be 4.5%.

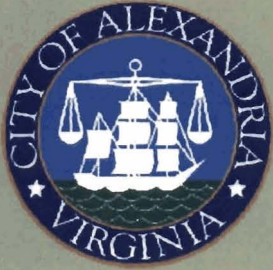




Employee Compensation-Salary Adjustments

Fringe benefits add on about 37% additional cost for the average full-time GS employee, and about 45% for the average full-time Sworn Public Safety (Fire or Police) employee.

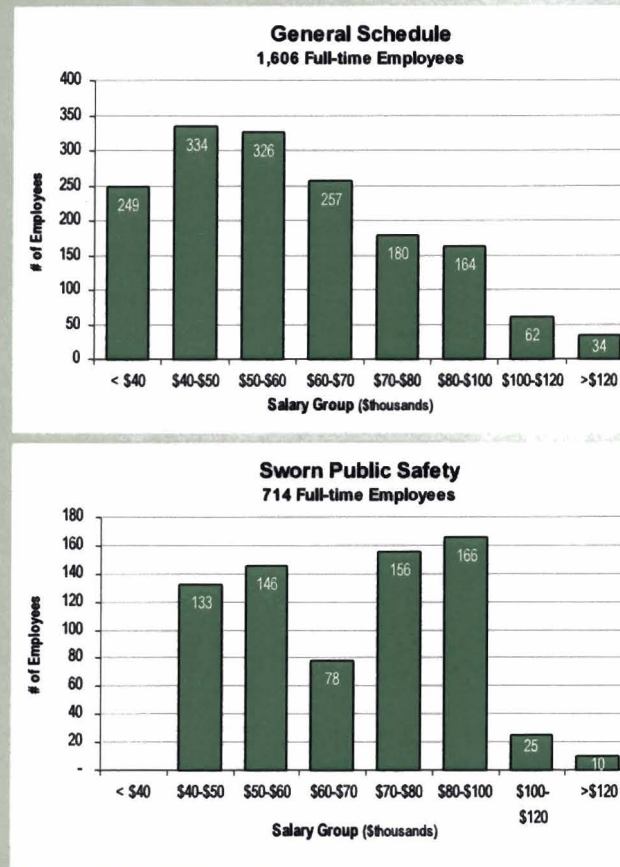
	Total Current Employees	Average Salary as of 1/1/2008
General Schedule (FT)	1,606	\$ 60,838
Public Safety (FT)	714	\$ 68,930
General Schedule (PT)	286	\$ 27,826

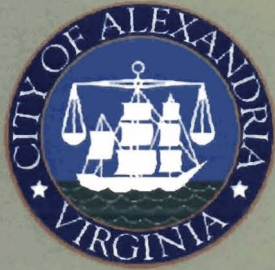


Employee Compensation-Salary Adjustments

About 57% of GS employees earn less than the average salary of all GS employees.

About half of all sworn Public Safety employees earn less than the average salary of that group.





Employee Compensation-Benefits

Retirement contribution percentages by the City vary by the retirement plan.

Retirees are living longer causing costs to rise

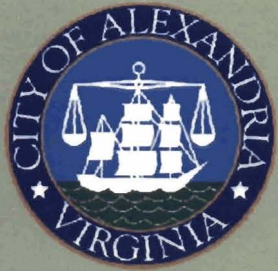
Contribution Rates

Plan	FY 2008		FY 2009	
	City	Emp'e	City	Emp'e
VRS	11.66%	-	12.06%	-
City Supplemental Plan	5.32%	-	5.64%	-
<i>VRS & City Supplement Total ¹</i>	<i>16.98%</i>	<i>-</i>	<i>17.70%</i>	<i>-</i>
Sworn Fire & Police ²	22.35%	8.0%	26.41%	8.0%
Deputy Sheriffs, Fire Marshals & ERT ³	22.41%	-	22.35%	-

¹ VRS includes only full-time GS employees; City Supplemental includes those working 20 hours or more.

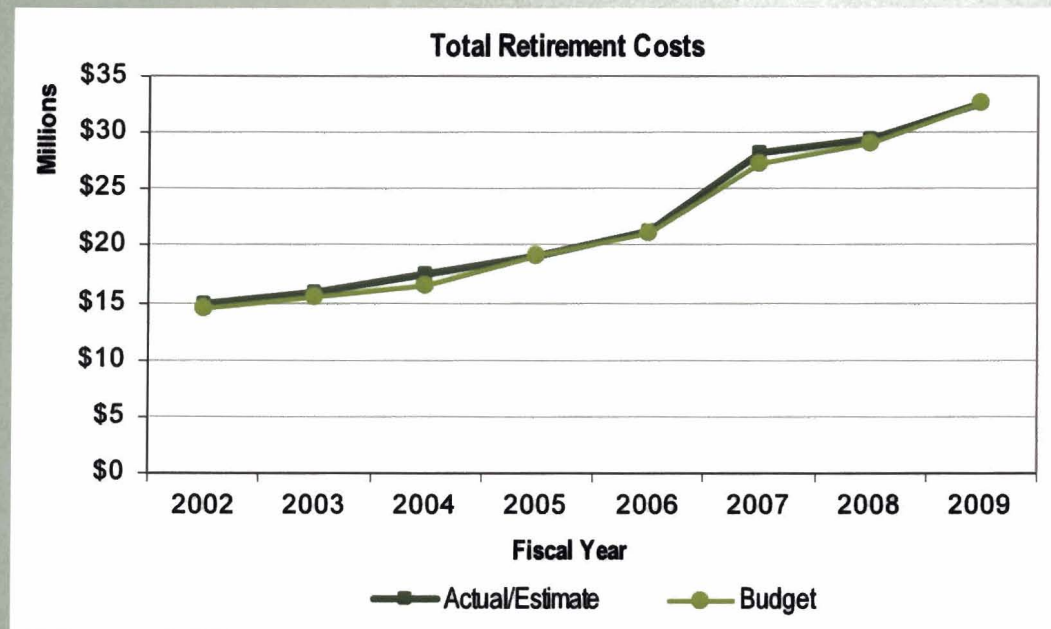
² Employer contribution includes 2.35% for Disability Income Plan. Of the 8.0% employee contribution, 7.5% is for the Defined Benefit plan and 0.5% is for the Disability component.

³ This contribution includes VRS and the City Supplemental Plan plus a defined contribution amount of 1.79% to equal the Sworn Fire & Police FY 2008 contribution rate of 22.35%.



Employee Compensation-Benefits

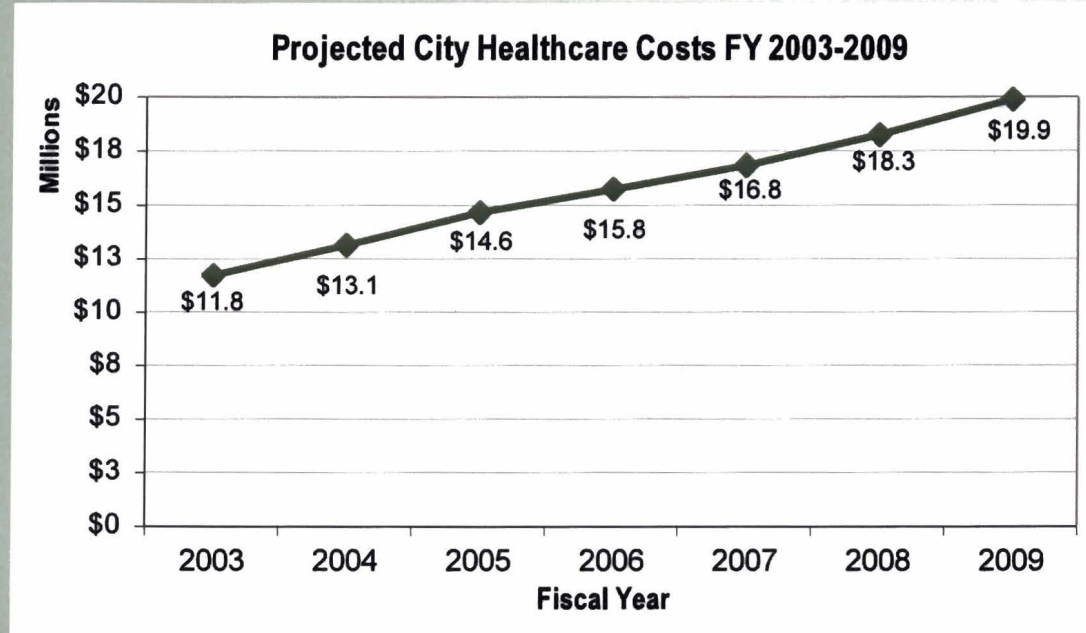
Retirement costs for the City are now at \$32.7 million or 18.1% of salary in the FY09 Proposed Budget. A large VRS rate increase in FY07 added dramatically to the City's cost for retirement in that year.





Employee Compensation-Benefits

Increased employee cost sharing has slightly offset a budgeted 10% increase in healthcare premiums, so the overall increase in healthcare cost was reduced by \$0.6 million.





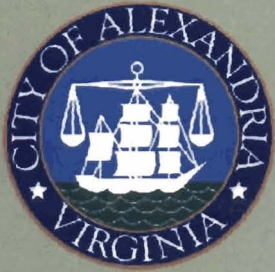
Employee Compensation-Benefits

City employees will pay at least 10% of healthcare premium costs, and some pay as much as 27%. City employees also have additional co-pays that vary by plan.

(enrollment as of 1/1/2008)

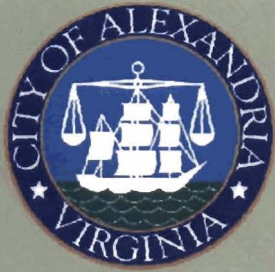
Expected FY 2009 Plan Costs

		Full-time Enrollment	Monthly Employee Share		Monthly City Share		Total Monthly Premium
Kaiser							
HMO	Single	384	\$41	10%	\$365	90%	\$405
	Family	618	\$96	10%	\$860	90%	\$956
POS	Single	8	\$104	22%	\$365	78%	\$469
	Family	3	\$236	22%	\$860	78%	\$1,096
Optimum Choice (United Healthcare)							
HMO	Single	294	\$44	10%	\$400	90%	\$444
	Family	486	\$105	10%	\$943	90%	\$1,048
POS	Single	91	\$114	22%	\$400	78%	\$514
	Family	146	\$259	22%	\$943	78%	\$1,202
PPO	Single	19	\$146	27%	\$400	73%	\$546
	Family	9	\$333	26%	\$943	74%	\$1,276



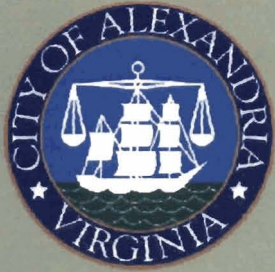
Employee Compensation-Benefits

- Self-fund for MAMSI under study
- Shifting of cost risks would result in savings
- City and Schools would act jointly
- Issue of change in PPO to POS (MAMSI only)
- Manage risks and downside experience
- Updated MAMSI rates provided on 2/18



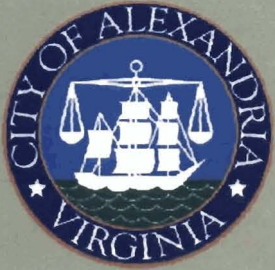
Employee Compensation-Benefits

- FY 2009 Wellness budget of \$100,000 includes:
 - Annual health fair;
 - Free use of City recreational facilities by City & School employees;
 - Health Screenings;
 - Discount memberships at the Alexandria YMCA;
 - Kaiser Permanente lunch lectures on nutrition & healthy living;
 - Weight Watchers At-Work (75% subsidy); and
 - Lunch time yoga classes at Gadsby's Tavern Museum.
- Efficiency and benchmark audit of the Personnel Services Department to look for program improvements based on best practices.



OPEB – Health and Life Insurance for Retirees

- Governmental Accounting Standards Board (GASB) and SEC disclosure and reporting mandates for post-retirement benefits
- Historically, near universal practice of pay-as-you-go cash accounting
- Mandate requires reporting, recording, and accounting for long-term
- FY 2008 GASB reporting requirement in CAFR
- SEC, bond rating agency expectations



Post Employment Benefits for Retirees

**Liability calculated
by actuaries using
trust fund model
with 7.5% annual
return assumed**

millions

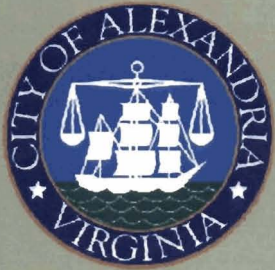
	Estimated Unfunded Liability	Annual Required Contribution (ARC)
City ^{1,2,3}	\$88.8	\$12.3
Schools ⁴	\$39.0	\$4.9
	\$127.8	\$17.2

¹ 2007 draft study

² assumes no change in \$260 monthly healthcare rate

³ City's liability calculated by actuaries using the trust fund model with a 7.5% annual return assumption.

⁴ 2006 study

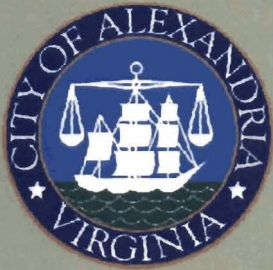


Post Employment Benefits for Retirees

Post Retirement Benefits Interjurisdictional Comparison (excludes schools, \$ in millions)¹ (ARC)		
	(AAL) Liability	Annual Contribution
Alexandria	\$88.8	\$12.3
Arlington	\$516.0	\$50.0
Fairfax County	\$191.0	\$16.0
Loudoun	\$234.0	\$31.0
Prince William²	\$67.4	\$7.4
Montgomery (MD)	\$2,600.0	\$240.0

¹ Source: Fall 2007 survey

² Includes schools

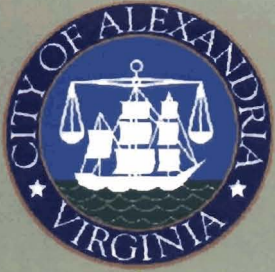


Post Employment Benefits for Retirees

Possible Funding Plan for \$12.3 million ARC*

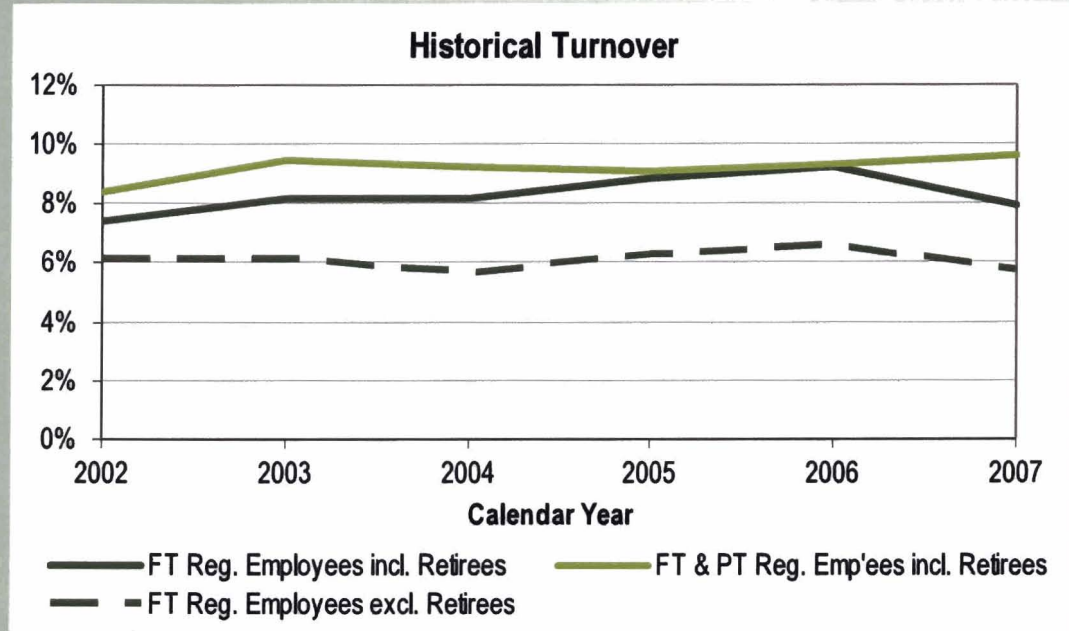
<i>Fiscal year</i>	2009	2010	2011	2012	2013
Current "pay-go"	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
Costpool subsidy	3.0	3.0	3.0	3.0	3.0
F.B. designation draw down	4.2	3.1	2.0	1.4	0.0
New funding	1.4	2.8	4.2	5.6	7.3
Total	\$10.6	\$10.9	\$11.2	\$12.0	\$12.3
% ARC Funded	86%	89%	91%	98%	100%

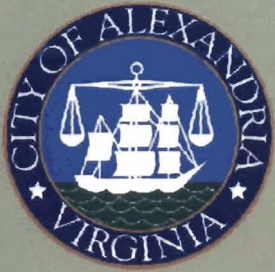
* Figures subject to periodic actuarial analysis, trust fund earnings, health insurance costs, and assumed no change in the \$260 monthly reimbursement rate. Fund balance drawdown timing TBD.



Attracting & Keeping a Competent Workforce

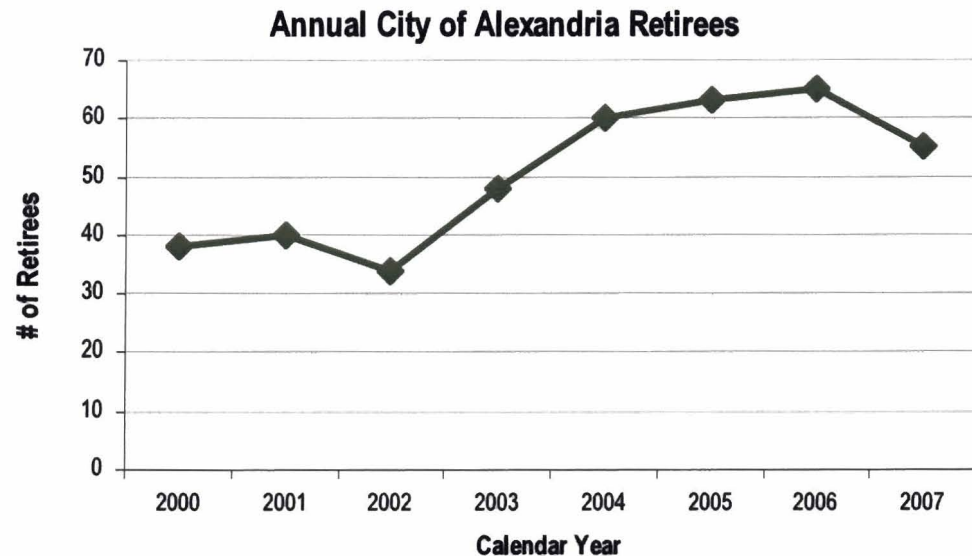
Turnover among full-time employees is relatively stable over this time period. However, part-time employee turnover increased in CY 2007, and retirements decreased.

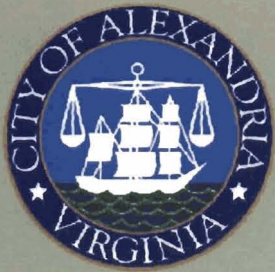




Attracting & Keeping a Competent Workforce

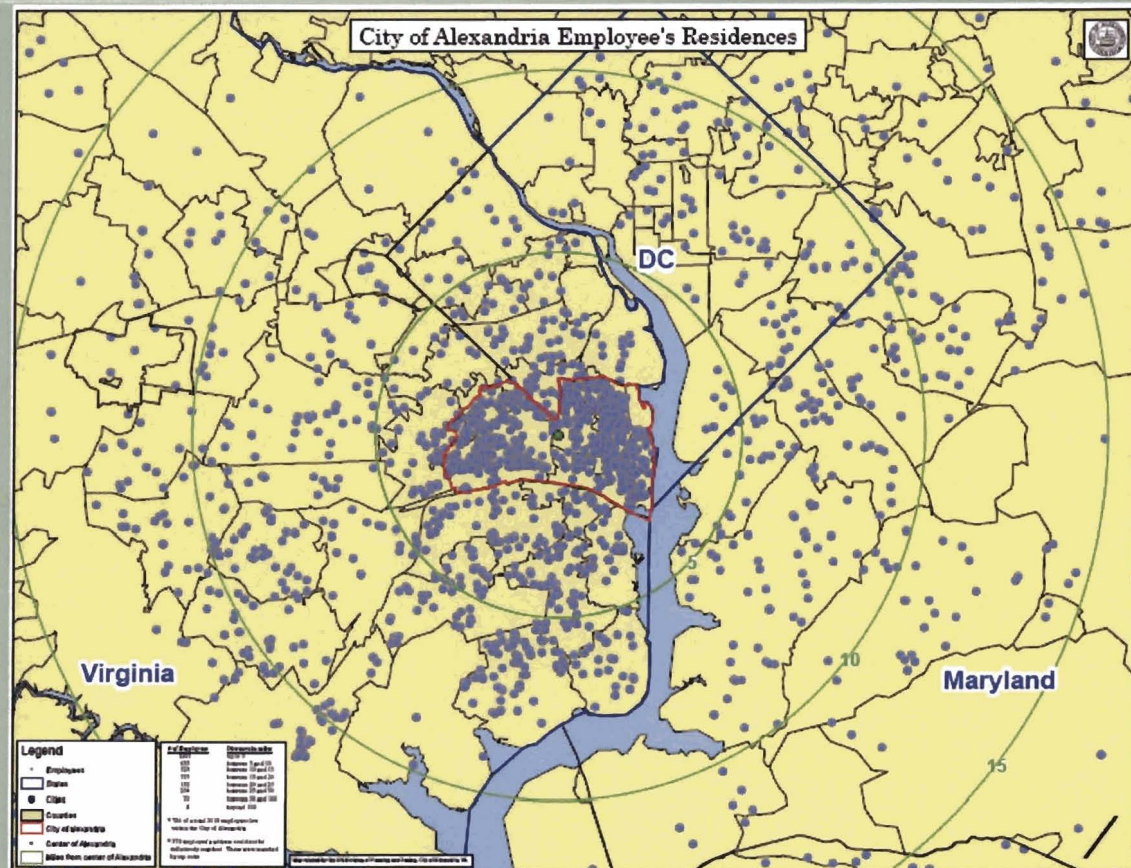
Although Calendar Year 2007 realized a decrease in retirees, the total number of retirees in coming years is expected to increase dramatically because of the number of employees who are retirement eligible.

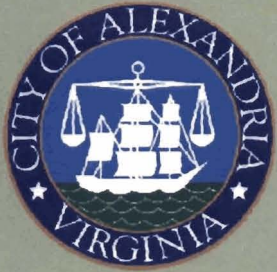




Attracting & Keeping a Competent Workforce

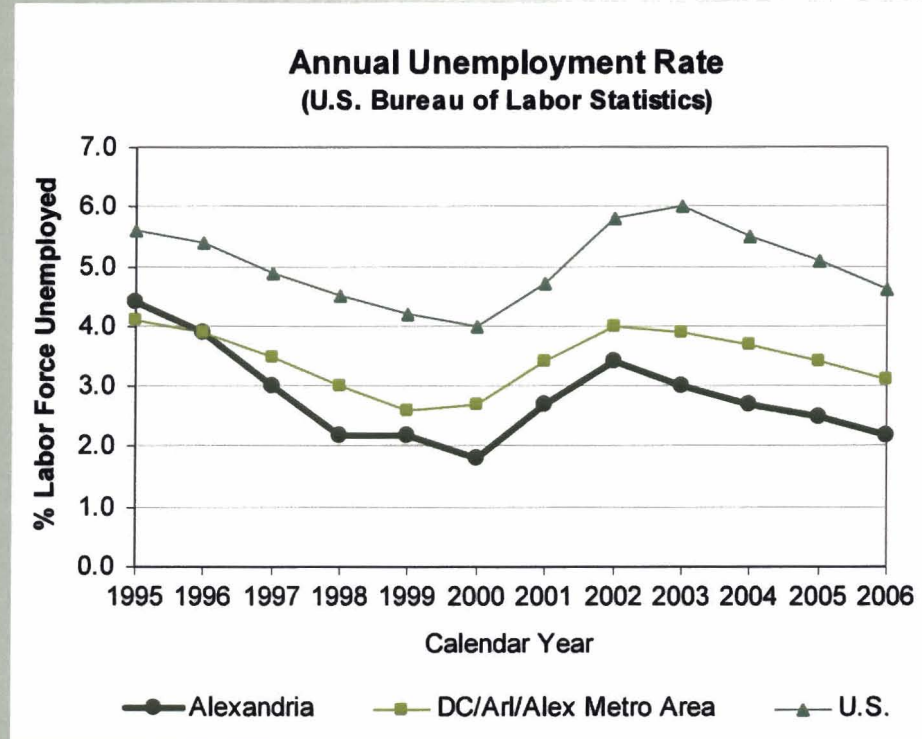
The vast majority of Alexandria City employees live outside the City. Consequently, Alexandria competes in the regional labor market for workers.





Attracting & Keeping a Competent Workforce

The unemployment rates in the United States, D.C. metro area and Alexandria have been declining since about 2002. This signifies an increase in jobs as compared to job seekers. The job seekers have more choice in which jobs they accept. This makes it more difficult to attract quality candidates.

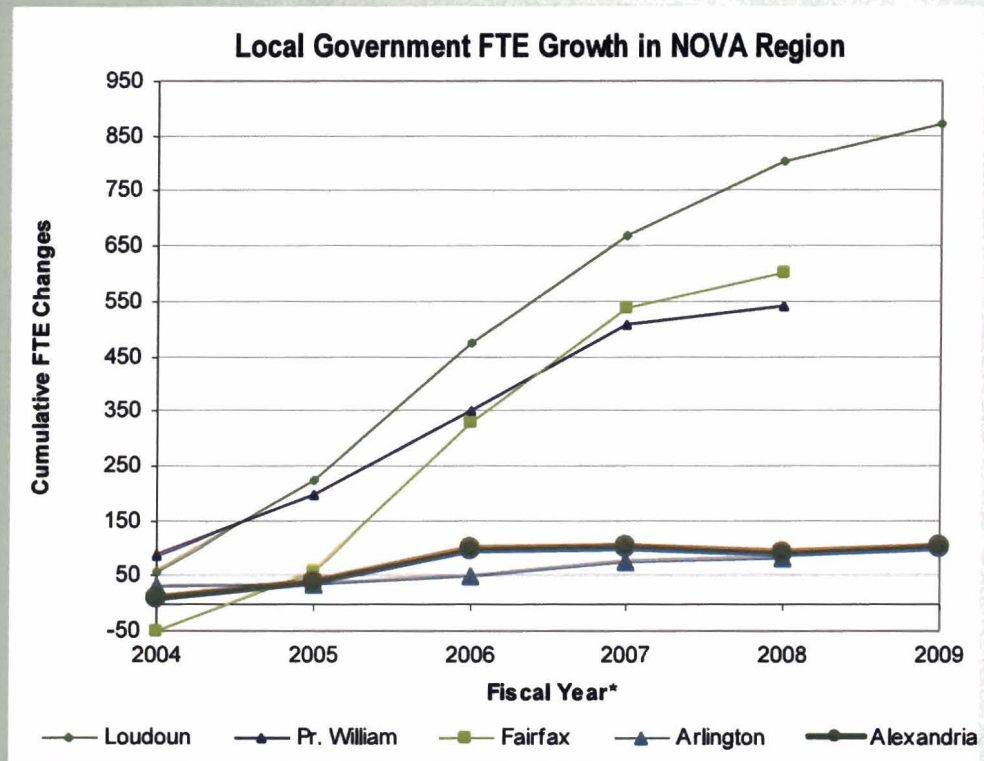




Attracting & Keeping a Competent Workforce

Prince William, Fairfax and Loudoun Counties continue to expand their workforces, which adds competitive pressure for the City's workforce.

* FTE counting definitions vary, as do the services each locality provides. Use of outside contractors and non-profit service providers also varies by jurisdiction.




60
WS
2-20-08

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 15, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO #3: COMPENSATION REVIEW PROJECT OVERVIEW

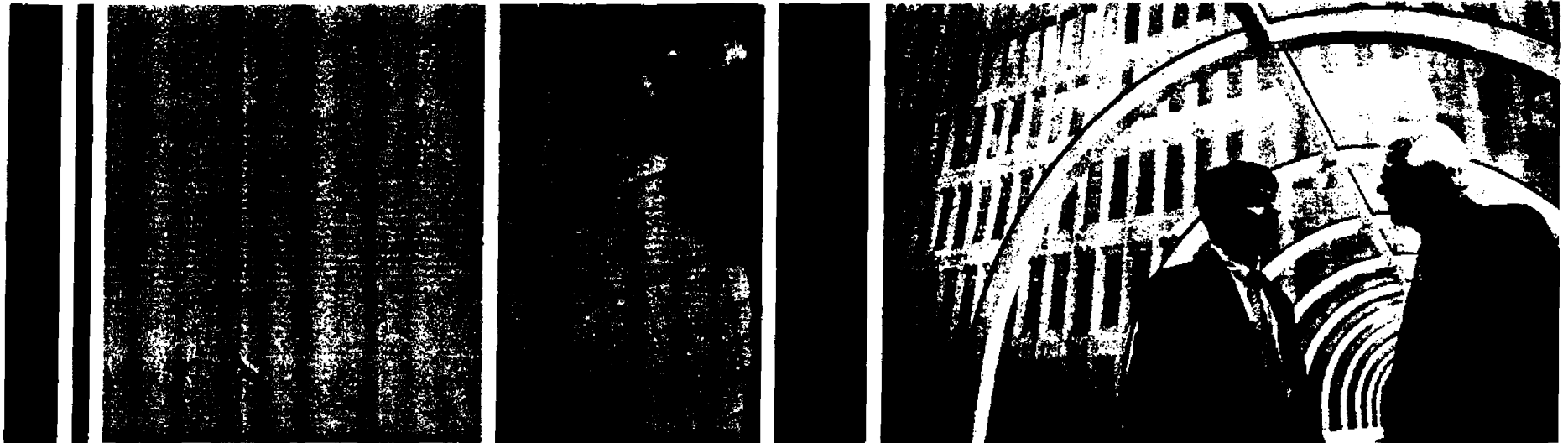
The City has engaged Watson Wyatt Worldwide in a contract to review the City's compensation policies. The attached material provides a project overview for Council's information. An employee committee has been involved in the study and we expect to have a report back to Council in the fall so that we can implement recommendations from the study as part of the FY 2010 budget. We will be available to answer any questions about this project at the next Council Budget Work Session on Wednesday, March 20, 2008.

For Council's information, the City also has engaged the Corbin Company to conduct a separate performance audit and efficiency study of the Personnel Services Department. This study will focus on the internal systems and processes used by the City's Personnel Services Department and benchmark them against best practices in similar organizations. The activities to be examined include classifications, employee relations and training, recruitment and selection, benefits and records, and the employee wellness program. We expect the study to be completed by late Spring.

ATTACHMENT: City of Alexandria: Compensation Consulting Services Project Overview
February 14, 2008; Watson Wyatt Worldwide

STAFF: Michele Evans, Deputy City Manager
Bruce Johnson, Director, Office of Management and Budget

watsonwyatt.com



City of Alexandria

COMPENSATION
CONSULTING SERVICES Project
Overview

February 14, 2008



- Project Overview
- Project Approach in Detail
- Current Project Status
- Questions?

- Project Overview
- Project Approach in Detail
- Current Project Status
- Questions?

Project Overview

Project Objectives

- Conduct audits, studies and reviews regarding best practices related to:
 - performance management
 - position classification and compensation
 - compensation philosophy
 - benchmarking of City benefits
- Make recommendations to the City regarding these programs

About Watson Wyatt

- World leader in human capital consulting. We help clients:
 - Improve organizational performance
 - Achieve competitive advantage
- Clients include 70% of the Fortune 1000
- Over 6,000 associates worldwide
 - Largest compensation consulting practice in the Washington DC area
- Watson Wyatt has several of the largest databases of employee pay in the world:
 - Compensation information on over 3,800 jobs positions
 - 131 Industries
 - 24,000 Zip Codes

Project Overview

- The project is divided into 3 Phases:
 - **Phase 1 Discover:** Assess current state by gaining an understanding of City of Alexandria's Classification, Compensation and Performance Management Programs
 - **Phase 2 Invent:** Develop, test and finalize design recommendations
 - **Phase 3 Deliver:** Design and Deliver Outline of Implementation Plan, Determine Fiscal Impact
- We estimate this project to take approximately 6 months to complete
- Watson Wyatt is working closely with a Steering Committee and a Project Team made up of City employee's to accomplish the project objectives

Project Approach in Detail – Discover Phase



Phase I: Discover

- Project Kick-off
- Review of Compensation Philosophy
- Benchmarking of City Benefits
- Local Government Survey
 - Interviews of lessons learned and results with supporting data
 - Report results to Steering Committee
- Evaluate Current Classification System and Merit Process
 - Confirm objectives
 - Test for differentiation of rewards based on merit
 - Conduct comparison of achievement of objectives to other types of systems
- Leadership interviews
- Focus groups

Project Approach in Detail – Invent Phase



Phase II: Invent

- Formulate recommended revisions to the performance management system, comparing to best practices in performance management and ensuring alignment with organizational objectives and present options
- Conduct fiscal impact analysis
 - Use assumptions based on current distribution of ratings
 - Use Watson Wyatt's Reward software
- Review and Evaluate the City's Classification and Compensation Process
 - Local Government Survey
- Evaluate current operating status of City's QES system

Pay for Performance Study: Deliver



Phase III: Deliver

- Outline implementation plan
 - Implementation timeline
 - Plan for system development
 - Training
 - Communications
 - Change Management Strategy
- Develop and deliver final report

Current Project Status


- We are currently in the Discover phase of the project
- What has been accomplished to date:
 - Kick off meetings with Steering Committee (Jan. 7) and Project Team (Jan. 16). Discussed with groups:
 - The Near Future: Organizational Mission, Strategic Planning, Goals and Objectives
 - Attraction/Retention Issues
 - Communications Priorities and Preferences
 - Defined outcomes of a successful project and working relationship
 - Project Team Meeting #2 (Jan. 31)
 - Compensation Philosophy Discussion
 - Overview of current philosophy
 - Relevant labor markets
 - Identification of targets for local government surveys
 - Washington Metropolitan area
 - Other local government organizations
 - Assign interim research/tasks
 - Project Team Meeting #3 (To take place on Feb. 21)
 - Finalize draft list of local government organizations
 - Draft interview guide for local governments
 - Immediate Next Steps
 - Contact organizations and conduct interviews

69

WS 69
2-20-08

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 15, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER 
SUBJECT: FUNDING OF POST-RETIREMENT BENEFITS LIABILITIES (BUDGET
MEMO #4)

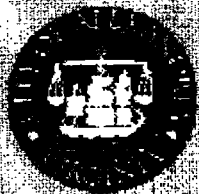
Attached you will find information from the October City Council Retreat on a proposed funding plan for post-retirement benefits (i.e., health and life insurance benefits for retirees). This issue will be discussed at the Council work session on employee compensation.

Attachment



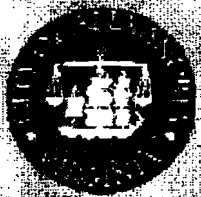
OPEB – Health and Life Insurance for Retirees

- Governmental Accounting Standards Board (GASB) and SEC disclosure and reporting mandates for post-retirement benefits
- Historically, near universal practice of pay-as-you-go cash accounting
- Mandate requires reporting, recording, and accounting for long-term
- FY 2008 GASB reporting requirement in CAFR
- SEC, bond rating agency expectations



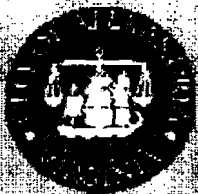
Health Insurance for Retirees

- Current Programs (City Government)
 - Must be enrolled in City Health Plan at retirement
 - \$260 per month/\$3,120 per year maximum
 - 683 total participants
 - 446 in City health plans, currently 237 reimbursed
 - \$2.0 million estimated pay-as-you-go cash cost in FY 2008



Life Insurance for Retirees

- City pays for Basic Life Insurance
- 2 x basic annual earnings
- Amount decreases after age 65 to 50% of basic annual earnings by age 70
- Example: $2 \times \$75,000 = \$150,000$ value of life insurance which declines by age 70 to \$37,500 and remains at that level until death



Post Retirement Benefits for Retirees

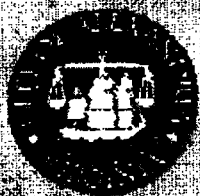
■ Liability calculated by actuaries using trust fund model with 7.5% annual return assumed

	Estimated Unfunded Liability	Annual Required Contribution (ARC)
City ^{1,3}	\$88.8 M	\$12.3 M
Schools ²	\$39.0 M	\$4.9 M
	\$127.8 M	\$17.2 M

¹ 2007 draft study

² 2006 study

³ assumes no change in \$260 monthly rate



Post Retirement Benefits for Retirees

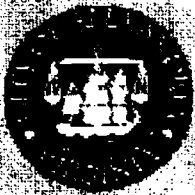
Post Retirement Benefits Interjurisdictional Comparison (excludes schools, \$ in millions)¹

	(AAL) Liability	(ARC) Annual Contribution
Alexandria	\$88.8	\$12.3
Arlington	\$516.0	\$50.0
Fairfax County	\$191.0	\$16.0
Loudoun	\$234.0	\$31.0
Prince William ²	\$67.4	\$7.4
Montgomery (MD)	\$2,600.0	\$240.0

¹ Source: Fall 2007 survey

² Includes schools

76

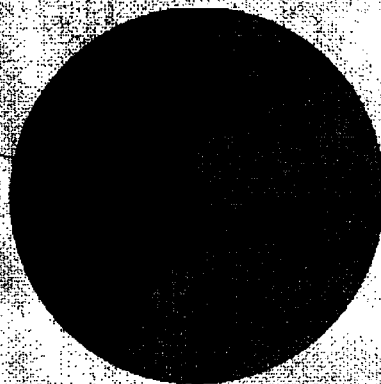


Post Retirement Benefits for City Government Retirees

Annual Required Contribution (ARC)

Uses

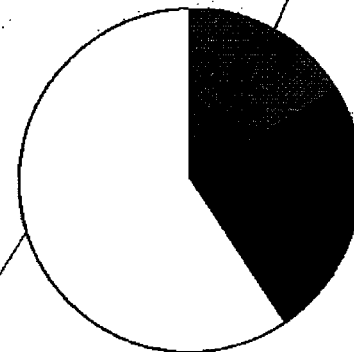
Active
Employees,
\$5.3



Retirees,
\$7.0

Sources

Funded pay-
go cost, \$2.0



Needed
contribution
unfunded,
\$7.3

Funded cost
pool subsidy,
\$3.0

\$12.3 million estimated ARC



Post Retirement Benefits for City Government Retirees

Proposed Funding Plan for \$12.3 million ARC¹

	FY 2009	FY 2010	FY2011	FY 2012	FY2013
Current "pay-go"	\$2.0	\$2.0	\$2.0	\$2.0	\$2.0
Costpool subsidy	3.0	3.0	3.0	3.0	3.0
F.B. designation draw down	4.2	3.1	2.0	1.4	-
New funding	1.4	2.8	4.2	5.6	7.3
TOTAL	\$10.6	\$10.9	\$11.2	\$12.0	\$12.3
% ARC Funded	86%	89%	91%	98%	100%

¹ Figures subject to periodic actuarial analysis, trust fund earnings, health insurance costs, and assumed no change in the \$260 monthly reimbursement rate.



Post Retirement Benefits for Retirees

Summary

- FY 2009 Budget Impact
 - \$1.4 City + \$0.8 Schools = +\$2.2 million
- FY 2013 Budget Impact
 - \$7.3 City + \$4.1 Schools = +\$11.4 million
- Proposed 5-year funding phase-in for City and Schools
- Establish trusts before end of FY 2008
- Creation of separate trusts by City and Schools