STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

FOR

FISCAL YEAR 2016

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2015

Table of Contents

Introduction

Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel. Rule 5-1.3 charges the panel as follows:

> The coordinated compensation panel shall send a recommended coordinated compensation plan for all nonexclusively represented classified employees to the civil service commission. The panel shall consider negotiated collective bargaining agreements, any impasse panel recommendations, and any recommendations of the employer or employees.

Regulation 6.06 establishes a process for employee participation and guidelines for the panel in making its recommendations. Under the regulation, participants in the Coordinated Compensation Plan (CCP) process include the Office of the State Employer (OSE) and organizations granted limited-recognition rights under Rule 6-8.3. The following limited-recognition organizations (LROs) participated in this year's CCP.

- Association of State Employees in Management (ASEM)
- Michigan Association of Governmental Employees (MAGE)
- Michigan State Police Command Officers Association (MSPCOA)

Nonexclusively represented employees (NEREs) who are not members of LROs may also participate upon leave granted by the panel. No employees requested to participate this year.

The panel held a hearing on November 6, 2014. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the arguments and submissions of the parties, the Board offers the following summary and recommendations to the Commission:

Economic Overview

Consistent with Regulation 6.06, which calls for the panel to consider "the current and forecasted financial condition of the State" in making its recommendations, the panel received evidence on fiscal year (FY) 2016 revenue forecasts and budget projections as part of the OSE's presentation. The following is a brief summary of the information provided by the OSE:

Between the low point of the recession in March 2010 and September 2014, jobs in Michigan increased by 316,000, or 8.2%. Unemployment from August 2009 until September 2014 decreased from 14.2% to 7.2%. Despite the increase in employment, Michigan's payroll employment remains more than 560,000 jobs below the pre-recession peak. Michigan's unemployment rate before the recession was 7.1%. Michigan expects continued modest economic growth through 2016, with increases in total employment, motor vehicle production, and housing starts. Continued uncertainty about the housing market, stagnating world economic growth, and tensions in the Middle East and Europe pose risks to the economic forecast.

Michigan's general fund and school aid fund revenue is expected to modestly increase in FY 2015 and 2016 to $22.3 billion, an increase of $1.7 billion since FY 2000. However, when adjusted for inflation, the general fund and school aid fund are unchanged from 1992 levels and one-third less than in FY 2000. General fund revenue is expected to decrease by 2.5% during FY 2014, followed by expected 4.8% and 3.5% increases in FY 2015 and 2016, respectively. State employee costs are 29% of general fund spending, but only 11% of total state spending. Michigan's budget will be pressured in the next decade by the need to fix its deteriorating road system, financially distressed local units of government, increasing health costs, and increasing legacy costs.

Proposals and Party Positions

I. Wages and Benefits

A. Wages

The OSE recommends a general-wage increase of 2% for NEREs in October 2015, which is consistent with the increase approved for exclusively represented employees. The OSE estimates the proposed increase would cost $33.7 million.

MAGE requests a general-wage raise of at least 3% for all NEREs and no further subtractions from wages for other benefits. MAGE also requests other necessary adjustments to address wage compression issues, both generally and in relation to classifications with compression problems. Overall pay raises have not kept pace with inflation. MAGE notes that the Consumer Price Index increased by 1.5% in 2013, with 2014 tracking higher. Increasing vehicle production and decreasing unemployment bode well for state revenues. Pay has been further eroded by increased deductions for health care benefits. State employees earn 15.25% less in annual wages than their private-sector counterparts and 9.67% less in total compensation. State employees with bachelor's degrees earn only 72.4% of the pay of their private-sector counterparts. The number of NEREs continues to decrease with increased workloads, but no corresponding increase in pay. A 3% raise is appropriate because NEREs were not made completely whole for the inequity leveled upon them in 2010 when exclusively represented employees received 3% raises and NEREs received nothing.

The OSE opposes MAGE's proposed increase. The CCP Panel's recommendation adopted by the commission in FY 2014 indicated reliance on FY 2011 pay actions for further pay increases was no longer warranted.

ASEM seeks a 2% general-wage increase for NEREs, plus a 1% lump-sum payment to partially offset the effects of the state-imposed mandatory retirement deduction and increased health-insurance costs.

The OSE opposes ASEM's request for the lump-sum payment. The OSE estimates the payment would cost an additional $16.5 million in FY 2016. ASEM's rationale does not recognize the dwindling number of defined benefit plan members or the state's enormous contributions to both retirement plans. State payroll retirement costs for FY 2012-13 were over $1.4 billion on a total payroll of over $5.2 billion. The OSE also disagrees with ASEM's argument that increases in NERE health-care costs justify the 1% lump sum. The state's health-insurance options are very competitive, as was shown at last year's CCP. Any decrease in employer share has been done largely because of concern over the Affordable Care Act's excise tax, which charges a 40% tax on all amounts provided to employees for health care that exceed pre-determined cost levels.

Recommendation

The OSE offers a 2% general-wage increase. MAGE requests a 3% general-wage increase. ASEM requests a 2% general increase and a 1% lump-sum.

In IP 2013-01, the panel previously recommended and the commission accepted a 2% general-wage increase for exclusively represented employees for FY 2016. The panel explained its reasons in that recommendation and finds they are still valid. Those reasons, plus the need for equitable treatment of NEREs, justify a similar recommendation in the CCP process. Accordingly, the panel recommends that a 2% base-pay increase award be provided to NEREs, effective October 2015.

B. Special Pay Increases

The OSE also recommends a special pay increase for Financial Institution Examiner 12s, Financial Institution Specialists, and Financial Institution Managers in the Department of Insurance and Financial Services (DIFS) to address high turnover rates. These classes were awarded a 2% special wage increase in FY 2010. During the first five years of examiners' employment, the state must invest in substantial training. A 2009 DIFS case study estimated cumulative training costs during these first five years at over $250,000 per examiner. When examiners leave, DIFS must then train new employees. A DIFS review shows 44% of employees in these classes hired from FY 2003 to FY 2014 left the state for other opportunities, with 72% of those leaving during the past five years. Exit interviews showed that most left for higher-paying jobs in the federal government. For 2014, the midpoint pay of federal positions is $9,000 to $38,000 more than the maximum pay at comparable state classes at the 12-level and above. The OSE proposes a three-year pilot program in which DIFS has discretion to award these employees a bonus of up to 10% of their base pay for the fiscal year. If turnover in the classes falls during the pilot, the program could continue. Currently 96 employees are in these classes. The proposal's maximum cost is $1.2 million.

MAGE points to general examples of pay compression or pay inversion caused by the lack of comparable treatment between NEREs and represented employees. Child Protective Services Supervisors and Adult Protective Services Supervisors are called at all hours to handle dangerous situations without overtime pay enjoyed by represented employees. Sergeants, lieutenants, and captains in the Department of Corrections are laughed at by the rank and file for promoting, resulting in the loss of overtime pay and shift preference rights. Pay inversion continues to worsen morale. The Department of Community Health has persistent problems recruiting and retaining RN Managers, and existing RN Managers are required to work excessive amounts of overtime. MAGE requests incentive bonuses of a 1% wage increase or lump-sum bonuses at 5-, 10-, 15-, and 20-year intervals for employees remaining in supervisory, managerial, and administrative positions.

The OSE opposes the 1% wage increase or lump sum. Such payments would be made to approximately 20% of all NEREs in a given year, in addition to the state's longstanding longevity program. The OSE estimates the cost for FY 2016 to be $3.3 million for the lump sum. The amount would change each year depending on the pay rate and number of employees reaching a five-year service interval. There is no concrete evidence that employees are not interested in promoting. Many applicants, both within and outside state government, apply for NERE positions.

MSPCOA requests a 5% salary increase for all classifications it represents. The state has saved over $3.7 billion since 2002 by denying pay increases to state police command officers, instituting banked-leave-time and furlough days, and increasing health-care premiums, deductibles, and co-pays. The Consensus Revenue Agreement shows that Michigan personal income is expected to increase by 3.3% during 2014, 4.3% in 2015, and 4.6% in 2016. The state cannot claim it lacks the financial ability to pay the requested raise. MSPCOA again highlights pay compression between State Police Lieutenant 14s, who are NEREs, and State Police Sergeants, who are exclusively represented. Twenty-seven years ago, the pay differential between a State Police Sergeant III and State Police Lieutenant 14 was 12.3%. That pay differential has decreased. Sergeants are entitled to time-and-a-half overtime and a paid lunch, while lieutenants are not. In its FY 2013 recommendation, the CCP noted that the OSE indicated at hearing that it would examine the workforce's pay structure to determine what pay differentials make sense, but it had to make sure that it did not mandate pay differentials based on "one moment in time." In those twenty-seven years, the OSE has not shared what "differentials make sense." The 5% salary increase for command officers would help restore the 12.3% pay differential.

In its written response, the OSE opposes the MSPCOA's request for a 5% salary increase, which would cost an estimated additional $1.5 million in FY 2016. The pay differential between sergeants and lieutenants has shifted over time. The MSPCOA did not address the substantial changes in state police classifications, duties, and the organizational structure and delivery of state police services. The OSE also disagrees with the MSPCOA's claim that the state has saved $3.7 billion since 2002 due to state police command officer concessions. The OSE cites a commentary by Dr. Gary Wolfram stating that $3.0 billion of the savings was attributed to wage concessions by assuming what employees who left state government would have earned had they stayed. Base salary increases have a significant effect on increases in retirement costs for those employees in the DB plan.

Recommendation

In addition to comparisons with other workforces, the CCP standards in Regulation 6.06 include consideration of "the continuity and stability of employment." When seeking special pay adjustments, evidence of a strong program need, such as difficulty recruiting and retaining qualified candidates for supervisory positions should accompany a request.

The OSE requests a special pay increase for Financial Institution Examiner 12s, Financial Institutional Specialists, and Financial Institution Managers. Using twelve years of data of employee turnover in the affected classes, including costs to the department because of turnover, reasons for departures, departing employees' destinations, the OSE and DIFS have shown evidence of a strong need. The targeted pilot program proposed to address this problem is a measured and reasonable response.

MAGE requests a special 1% wage increase or lump-sum longevity award for all supervisory, managerial, and administrative employees. While MAGE has generally raised the issue of pay compression and offered anecdotal evidence that some supervisory positions may deserve a higher rate of compensation, it has not offered any specific data on pay compression, how an award would solve a specific problem, or why an increase to all NEREs is necessary. The CCP does not discount that there may be some classes deserving special consideration, but the blanket approach suggested by MAGE to provide benefits untied to specific demonstrations of need is not reasonable.

The remaining special pay request is for a 5% salary increase by the MSPCOA for all classifications it represents. While the MSPCOA has presented evidence of narrowing of the final pay between the represented and non-represented portions of the uniformed service, the panel is not convinced that an award is required at this time. Again, proponents of special pay increases should demonstrate the need for particular classes' pay increases based on data. Here, MSPCOA requests an increase for all classes it represents, yet only Lieutenant 14s are mentioned in its statement on pay compression. MSPCOA seeks to restore the 12.3% pay differential between Lieutenant 14s and Sergeant 12s in place 27 years ago, but has not shown that the narrowing gap has negatively affected recruitment or retention of Lieutenant 14s nor demonstrated why the pay differential at that particular time is needed or appropriate now.

Accordingly, the panel recommends approving the OSE's request for a special pay increase for the specified Financial Institution classifications in DIFS. The panel further recommends denying MAGE's and the MSPCOA's requests for special pay increases.

C. Health, Dental, and Vision Insurance

The OSE recommends no changes to the health insurance coverages offered by the state. ASEM agrees that health insurance benefits for all NEREs should remain unchanged.

Recommendation

The panel recommends that state-sponsored health, dental, and vision insurance plan designs remain unchanged from FY 2015.

II. Miscellaneous

A. Professional Development Fund Contribution

The OSE recommends continuing the NERE Professional Development Fund and providing additional funding of $250,000 in FY 2016. NEREs requested nearly $200,000 in reimbursements during the past fiscal year. MAGE recommends a more extensive effort to educate employees about the Professional Development Fund.

Recommendation

The Panel recommends approving $250,000 of additional funding for the Professional Development Fund in FY 2016.

B. Annual Leave Program Adjustments

ASEM proposes increasing the annual leave cap from 356 to 396 hours because many state employees are unable to use their annual leave due to short staffing. ASEM also requests increasing the number of annual leave hours paid off at separation from 316 to 324 for the same reasons and to mitigate some of the increased wage deductions and lack of pay increases.

The OSE opposes ASEM's proposal. Over the past three years, over 95% of all employees have been able to accrue the entire 16 hours of annual leave awarded each October 1, showing that the current cap is appropriate. Raising the accrual cap would create an additional unfunded liability to the state.

Recommendation

Similar requests to modify these caps have been rejected by the commission in the past. The Panel is unaware of the precise fiscal implications of increasing the annual leave cap and ASEM has not presented evidence that such an increase is needed. The panel encourages ASEM to present to the panel at future coordinated compensation plan hearings data, if any exist, showing a need to increase the annual leave caps. Accordingly, the Panel recommends denying ASEM's request to increase the caps.