

**STATE OF MICHIGAN
CIVIL SERVICE COMMISSION
COORDINATED COMPENSATION PANEL**



**Coordinated Compensation Proposal
for
Fiscal Year 2017**

**Recommendations for Nonexclusively Represented Employees in the State Classified
Service for the Fiscal Year Beginning October 1, 2016**

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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 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 participated in this year's process:

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

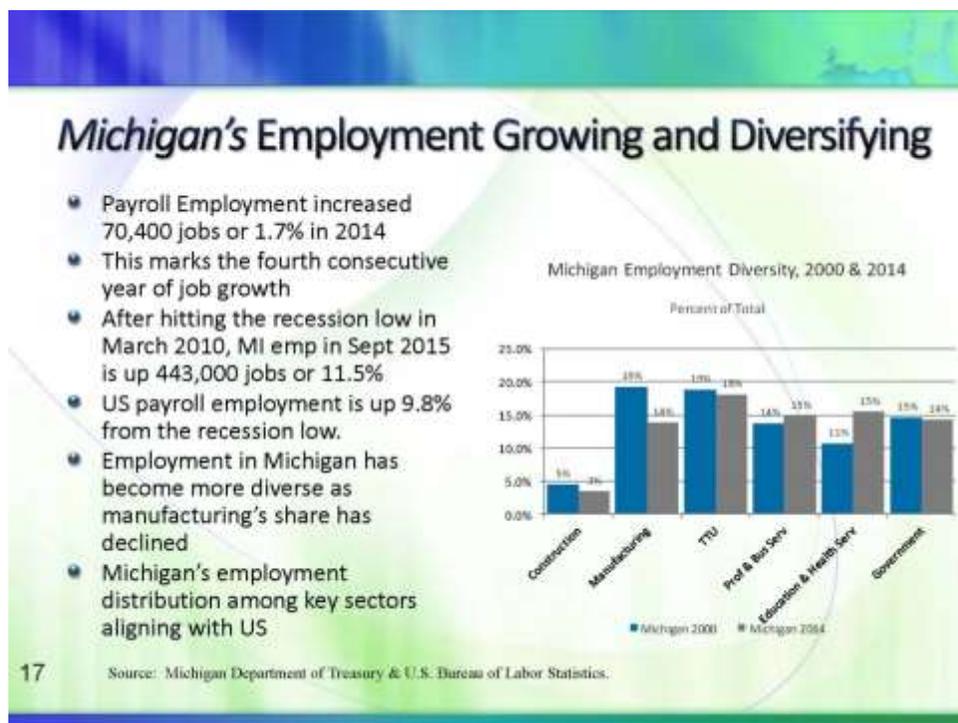
Nonexclusively represented employees (NEREs) who are not members of limited-recognition organizations may also participate upon leave granted by the panel. No employees requested to participate this year.

The panel held a hearing on November 3, 2015. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the parties' arguments and submissions, the panel offers the following summary and recommendations to the Commission.

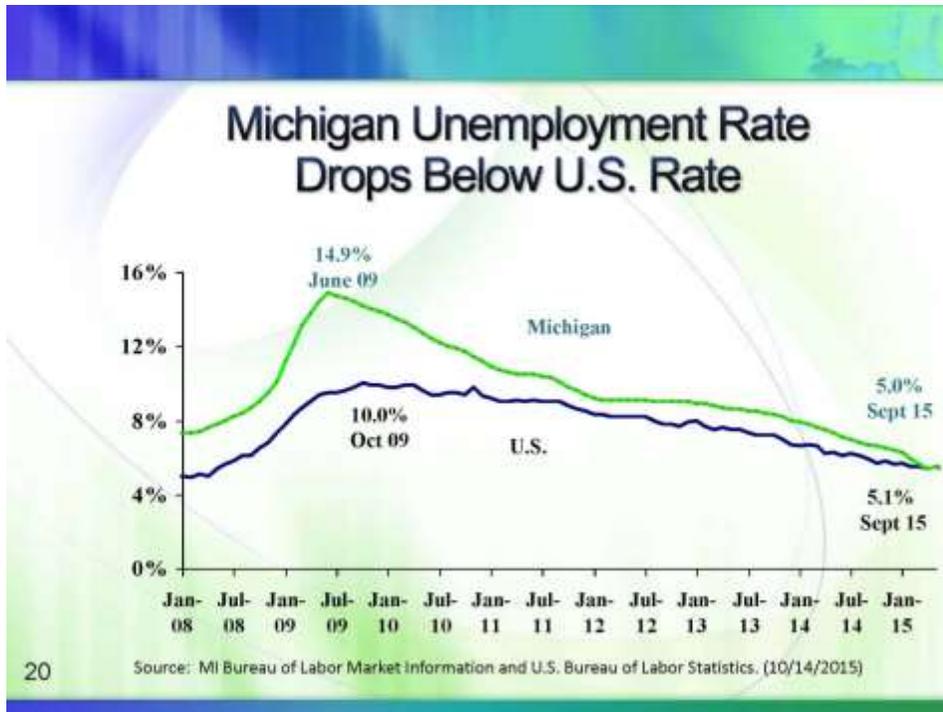
Economic Overview

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) 2017 revenue forecasts and budget projections as part of the OSE’s presentation. The following is a brief summary of the information provided by staff of the Department of Treasury and State Budget Office:

- As the chart below shows, between the low point of the recession in March 2010 and September 2015, jobs in Michigan increased by 443,000, or 11.5%.

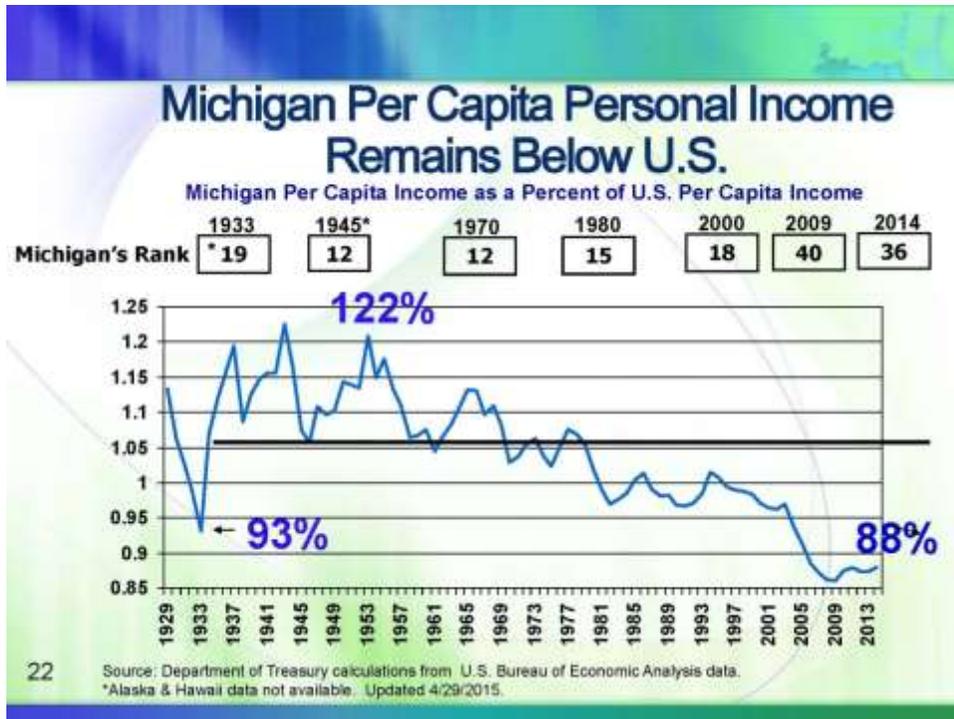


- As the chart below shows, unemployment from June 2009 until September 2015 decreased from 14.9% to 5.0%. The U.S. unemployment rate in September 2015 was 5.1%, marking the first time since 2000 that Michigan’s unemployment rate was below the national rate.

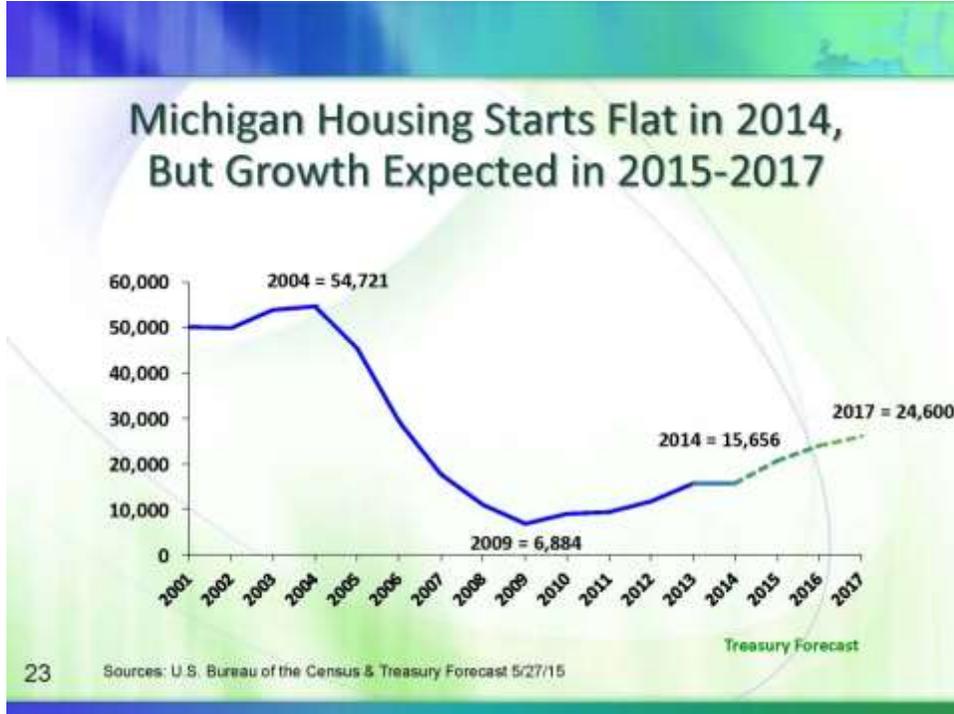


- As the charts below show, Michigan expects continued modest economic growth through 2017, with increases in personal income, although Michigan's per capita personal income remains below the national average.



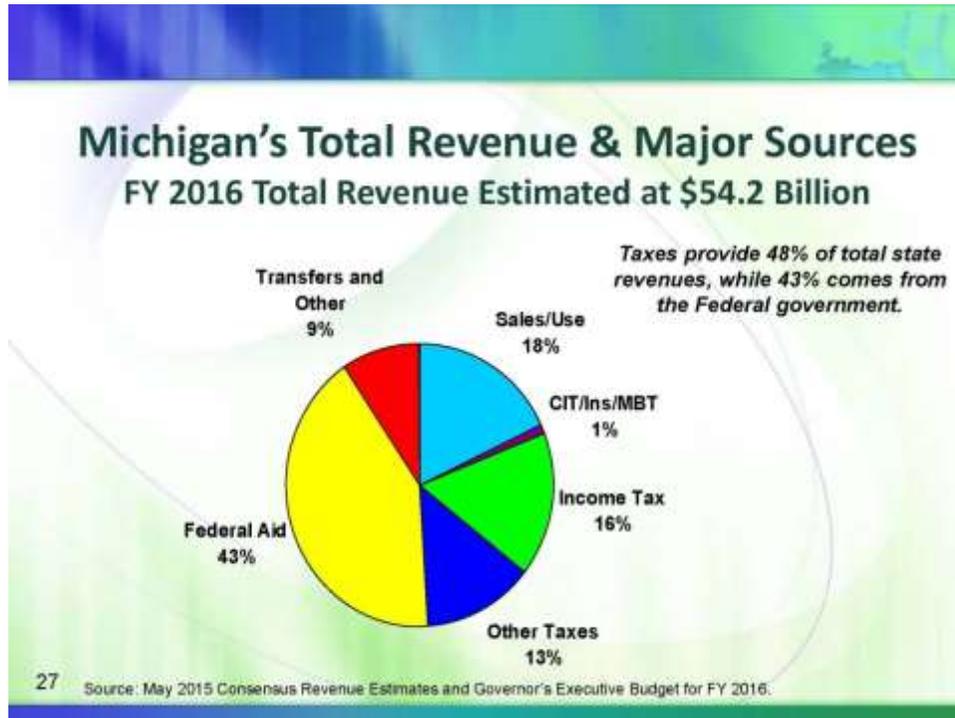


- As the chart below shows, although housing starts were flat in 2014, there should be growth between 2015 and 2017.



- But continued uncertainty about slowing economic growth in Europe and Asia and tighter monetary policy raise uncertainties as to the economic forecast.

- As the chart below shows, Michigan's total revenue for FY 2016 should be \$54.2 billion.



- As the chart below shows, General Fund revenue is expected to increase by 3.4%, or \$240 million, in FY 2017.

GF-GP Revenue Scenarios for FY 2017 (millions)

FY 2016 GF-GP Amount	FY 2017 Assumed Growth	FY 2017 Gross New Revenue	Impact of Tax Changes	FY 2017 Net New Revenue
\$9,881.9	-2.0%	(\$197.6)	(\$88.4)	(\$286.0)
\$9,881.9	0.0%	\$0.0	(\$90.3)	(\$90.3)
\$9,881.9	2.0%	\$197.6	(\$92.1)	\$105.5
\$9,881.9	3.4%	\$333.0	(\$93.4)	\$239.6
\$9,881.9	4.0%	\$395.3	(\$94.0)	\$301.3
\$9,881.9	6.0%	\$592.9	(\$95.9)	\$497.1

35 Source: Office of Revenue and Tax Analysis, MI Dept. of Treasury. (8/14/2015). Current estimate in box (May 2015 consensus).

- As the chart below shows, assuming a 3.4% growth rate, new costs in FY 2017 are expected to total \$300 to \$400 million, which means a net General Fund deficit of \$60 to \$160 million. The new costs reflect early projections of spending not in the FY 2016 budget, but do not include potential new road funding.



- A deteriorating road system, Medicaid expansion, expiration of certain taxes, increasing health costs, and increasing legacy costs will pressure Michigan’s budget in the coming years.
- The OSE presented evidence on costs per state employee for FY 2015 by bargaining unit. The average statewide base wage per employee was \$58,976.24, while the average base wage per NERE was \$73,100.88. According to the OSE, the estimated average earnings for all Michigan workers will be \$49,959 in 2015; \$50,998 in 2016; and \$52,048 in 2017.

Office of the State Employer
FY15 Estimated Cost Per Employee
By Bargaining Unit

OSE Exhibit 1

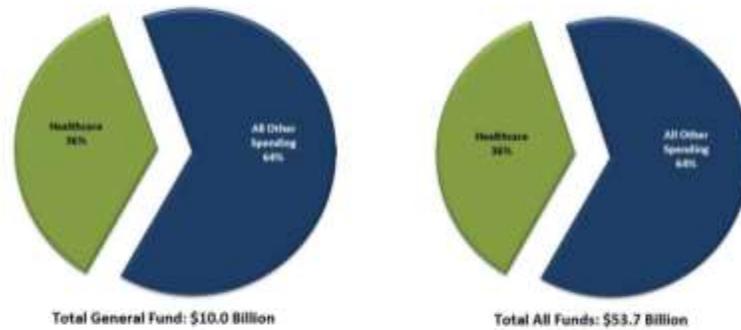
	MSEA Inf. & Reg. A02	MSEA Labor & Trucks A01	MCO Security C13	DEU S17M Human Srv. Support S02	DEU S17M Science & Engineering H01	DEU S17M Technical L03	MEPTA Police-Exempt T01	AFSCME Institutional U11	UAW Human Srv. W22	UAW Admin. Supt. W01	NERE Yes	Statewide AVG
Base Wage	53,202.24	48,775.68	50,079.24	51,239.52	69,780.96	52,300.00	63,830.16	43,409.82	55,937.52	44,662.32	73,100.88	58,976.24
Benefits, Other Payments and Base Wage State Cost	103,073.21	100,206.73	111,247.87	98,292.93	128,919.79	106,674.26	162,255.73	96,729.49	106,352.30	85,605.44	134,327.81	115,205.47

MAGE argued that economic trends are largely positive with significant recovery in the automobile sector and housing market. MAGE also highlighted several consecutive years of job growth, a major improvement in unemployment, and increasing tax collections.

There was considerable discussion at the November 3, 2015 hearing on health care costs. The OSE later provided materials to the panel that showed:

- Over one-third of the State budget, based on FY 2016 enacted appropriations, goes to health care spending.

Over One-Third of State Budget Supports Healthcare Spending

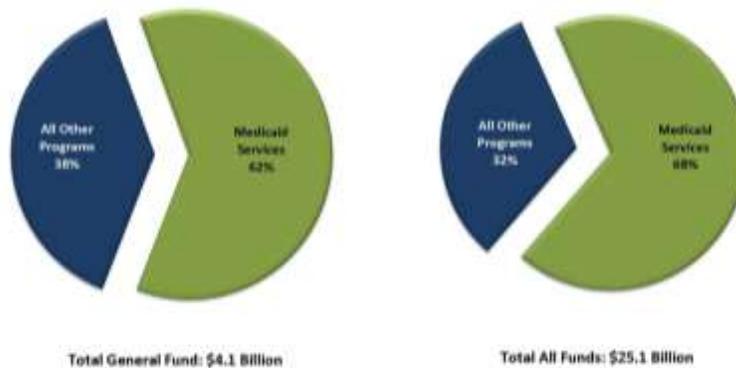


Healthcare programs include: Medicaid services, residential facilities, prisoner healthcare, non-Medicaid healthcare programs, and employer costs of active employee insurances and retiree healthcare

Source: FY 2016 Enacted Appropriation

- Medicaid spending dominates the budget for the Department of Health and Human Services.

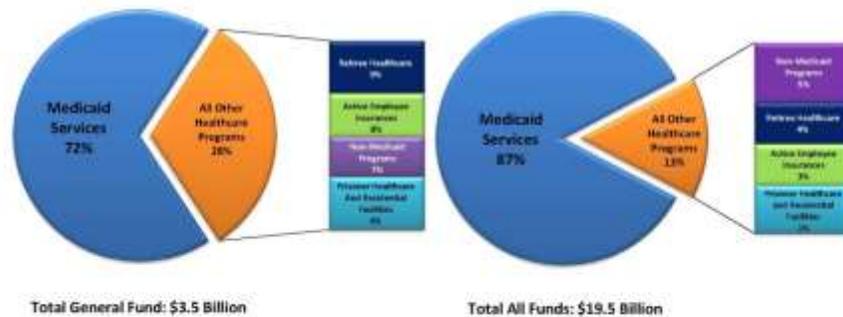
Medicaid Spending Dominates the Department of Health and Human Services Budget



Source: FY 2016 Enacted Appropriation

- Health care spending is largely allocated to Medicaid services. However, of the 13% of health care spending allocated to non-Medicaid programs from all funds, 7% is allocated to retiree health care and active employee insurances.

Healthcare Spending Largely Allocated to Medicaid Services



- The Department of Treasury asserts that health care costs are likely to increase in all sectors of the budget (Medicaid, prison health costs, and retiree and active state employees) due to expensive new drug therapies for Hepatitis C, cystic fibrosis, cancer, and other diseases.

Proposals and Positions

I. Wages and Benefits

A. Wages

1. The OSE Proposal

The OSE recommends a general-wage increase of 1% and a 1.5% lump-sum payment for NEREs in October 2016. According to the OSE, these increases are consistent with tentative agreements reached for exclusively represented employees. The OSE estimates the proposed 1% increase would cost \$16.9 million, and the 1.5% lump sum would cost \$24.9 million.

2. ASEM Proposal

ASEM requests a 4% general-wage increase for NEREs. ASEM argues the additional three percentage points compared to the tentative agreements will help to restore pay equality after exclusively represented employees were given a 3% increase in 2011 and NEREs were given no increase. ASEM agrees with the OSE's proposed 1.5% lump-sum payment.

3. MAGE Proposal

MAGE seeks a general-wage raise of 4% for all NEREs to recognize dedicated state employees and recover from previous lean years with meager wage increases. MAGE also requests other adjustments to address wage compression issues, both generally and for specific classifications. MAGE asserts that:

- Overall pay raises have not kept pace with inflation. The Consumer Price Index increased by 1.5% in 2013 and 1.67% in 2014, and 2015 is tracking similarly.
- Pay has been further eroded by increased deductions for health care benefits.
- Factoring in inflation, NERE compensation is \$2,400 less than 10 years ago.
- State employees earn 15.25% less in annual wages than their private-sector counterparts and 9.67% less in total compensation. However, MAGE presented no evidence of this alleged discrepancy.
- State employees with bachelor's degrees earn only 72.4% of the pay of their private-sector counterparts. Again, MAGE presented no evidence of this alleged discrepancy.
- The number of NEREs continues to decrease with increased workloads, but no corresponding increase in pay.

4. The OSE Response

The OSE opposes ASEM's and MAGE's proposed increases. The OSE asserts that:

- The proposed 4% increase would cost an estimated \$67.6 million in FY 2017.
- The panel's recommendation that the Commission adopted in FY 2014 indicated reliance on FY 2011 pay actions for further pay increases was no longer warranted.
- Both proposals fail to recognize that total pay and benefits—and not just base wages—must be considered. Other NERE benefits reflect an additional 80% of

total wage costs that the panel should view as part of NERE compensation. Additionally, NEREs enjoy leave benefits that are more generous than most employers.

5. Recommendation

During this year's round of bargaining, the OSE reached voluntary agreements including 1% general-wage increases and 1.5% lump sum payments for exclusively represented employees for FY 2017. The panel has previously recognized the need for equitable treatment of NEREs. The panel further finds that, given the combination of improving economic conditions and remaining budgetary uncertainties, the OSE's proposal represents a reasonable wage adjustment. Neither MAGE nor ASEM provided compelling evidence of a need for pay increases greater than those suggested by the OSE. Accordingly, **the panel recommends** adopting the OSE's proposal.

B. Special Pay Increases

1. MAGE Incentive Bonus Proposal

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 NERE positions. MAGE asserts that:

- There are examples of pay compression or pay inversion caused by the lack of comparable treatment between NEREs and represented employees.
- Child 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 losing overtime pay and shift preference rights by taking promotions.
- Pay inversion continues to worsen morale.

2. The OSE Response

The OSE opposes the proposed promotion incentive. The OSE asserts that:

- Such payments would be made to approximately 20% of NEREs each year, in addition to the State's longstanding longevity program. That program already represents over \$17 million in total annual costs to reward long-serving NEREs.

- The cost for FY 2017 for MAGE's proposed program would be an additional \$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 accepting promotions. Many persons, both in and outside state government, apply for NERE positions. Employee engagement surveys indicate growing levels of positive responses from NEREs.

3. MAGE Registered Nurse Proposal

MAGE requests a special 2% base-wage increase for all Registered Nurse Managers.¹ MAGE asserts that:

- The Department of Health and Human Services has persistent problems recruiting and retaining Resident Nurse Managers, who must work overtime three days each week.
- While this problem is partially because of the nationwide nursing shortage, many nurses do not want to work in the dangerous environments of state mental hospitals and prisons.
- Turnover has increased due to diminished state employee benefits, including retirement benefits.
- Recruited nurse supervisors often quit shortly after completing training.
- The median pay for Registered Nurse Managers in the classified service is approximately \$75,000, while the median salary for nurse managers in Michigan is between \$80,000 and \$89,000.

4. The OSE Response

The OSE does not support the proposed Registered Nurse Manager wage increase. The OSE asserts that:

- The proposal would cost over \$1.7 million in total for FY 2017.

¹ MAGE initially requested a 4% base-wage increase for Registered Nurse Managers. MAGE corrected its request at hearing.

- Since 2013, the average Resident Nurse Manager posting has resulted in 14 applicants.
- The departments employing most of the State's Registered Nurse Managers have not indicated a recruiting or retention problem requiring such a program.

5. The MSPCOA Proposals

MSPCOA requests several actions to create and maintain a 10% wage differential between State Police Lieutenant 14s and State Police Sergeant 12s. The MSPCOA asserts that:

- It is easy to eliminate lieutenants' current 6% pay differential over sergeants when a sergeant works overtime. Special wage increases for lieutenants of 1% in October 2016, 1.5% in October 2017, and 1.5% in October 2018 would bring the pay differential up to 10%.
- To maintain this differential, the State should also award lieutenants pay increases equal to any pay increases that Michigan State Police Troopers Association members obtain through collective bargaining or arbitration.
- There should be base-pay increases of 1% after 10, 15, and 20 years of seniority, similar to those that sergeants currently receive.
- Sergeants have greater overtime opportunities than lieutenants, which leads to lieutenants' final average compensation being only 1.54% greater than sergeants' final average compensation. This contributes to a situation where only 30% of eligible sergeants seek promotion to lieutenant.
- The eight promotional postings to lieutenant last year resulted in only one to four applicants, while promotional postings for sergeants resulted in three to nineteen applicants.

6. The OSE Response

The OSE opposes the MSPCOA's proposals to address compression between the sergeant and lieutenant classes by establishing an effective automatic 10-percent wage gap between the classes. The OSE asserts:

- Over the last decade, the MSPCOA has offered several proposals to address this issue, but has never demonstrated a compelling need for its proposals.
- Sergeants are part of a bargaining unit with its own contractual provisions.

- The proposal would effectively remove lieutenants from the Coordinated Compensation Plan process by tie-barring future pay increases to Michigan State Police Trooper Association negotiations.
- The Michigan State Police have not indicated that recruitment and retention issues require further addressing through the Coordinated Compensation Plan process.

7. Recommendation

In addition to comparisons with other workforces, the Coordinated Compensation Plan 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 panel previously rejected MAGE’s proposal for 1% incentive bonuses at 5-, 10-, 15-, and 20-years of service for all employees in supervisory, managerial, and administrative positions. MAGE has not presented new or compelling evidence showing that such increases are necessary or would solve a problem. It further failed to discuss how such pay increase would be administered. The **panel recommends** rejecting MAGE’s request for a general seniority-based incentive program.

Though MAGE presented anecdotal evidence of difficult working conditions and long hours for Resident Nurse Managers, it did not present reliable evidence showing this has led to excessive attrition, turnover, or other operational problems. Accordingly, the **panel recommends** rejecting MAGE’s request for a special wage increase for Registered Nurse Managers.

At the hearing, MAGE asked that the panel alternatively recommend further study of the Registered Nurse Manager issue. While MAGE has not carried its burden to demonstrate the need for its proposal, the panel recognizes that the issues raised merit further investigation. Therefore, the **panel recommends** that the OSE and MAGE meet during the coming year to discuss the concerns raised over the positions and provide at next year’s hearing either (1) a joint proposal to address identified issues or (2) a more fully developed record of the parties’ understandings if there is no consensus reached.

The MSPCOA has similarly not shown that pay compression has caused a recruitment problem for State Police Lieutenant 14s. While some promotional postings have received few applicants, the MSPCOA did not show that any promotional postings went unfilled or that such levels are unusual given the Michigan State Police’s unique organizational and

promotional structure. The OSE indicated that it would be meeting with Michigan State Police leadership to discuss perceived pay-compression issues this year. The **panel recommends** rejecting the MSPCOA's proposal for special pay increases, but encourages the OSE to raise the issues noted by the MSPCOA with the Michigan State Police and then hold discussions with the MSPCOA to similarly allow a more informed consideration by the panel next year.

C. Health, Dental, and Vision Insurance

1. The OSE Proposal

The OSE makes several additional proposals in this area:

- The State should add telemedicine as an optional alternative to office visits under the health and mental health provisions.
- The State should extend the TruHearing discount hearing-aid program to active employees.
- The State should enhance the dental plan to allow an occlusal guard once every five years instead of once per lifetime.
- The State should enhance the vision plan's frame allowances and lens option and add VDT/CRT or computer and safety glasses to the plan instead of through departmental reimbursement.
- The State should add two new coverage levels for dependent life insurance.

The OSE estimates these changes would cost \$475,000 if adopted for both NEREs and represented employees. ASEM agrees with the proposed enhancements.

The OSE also recommends reducing or eliminating the medical-flexible-spending-account option for calendar year 2018 if necessary to avoid excise-tax thresholds under the Patient Protection and Affordable Health Care Act. The OSE has negotiated similar language for exclusively represented employees. The Act charges a non-deductible excise tax of 40% to the employer on health coverage provided to employees over individual- and family-coverage thresholds. Under current Internal Revenue Service guidance, the thresholds include employee pre-tax amounts contributed to medical flexible spending accounts.

2. Recommendation

The **panel recommends** adopting the OSE's proposal on telemedicine, TruHearing, dental and vision plan enhancements, and Dependent Life insurance. The **panel further recommends** that the Commission agree to preauthorize curtailing flexible-spending-account availability if health-insurance rates for the 2017-18 plan year would cause excise-tax liability. The panel **also recommends** that the Commission provide that no medical

flexible spending account plan will be offered where the total aggregate cost when calculated in accordance with Internal Revenue Service regulations would exceed excise tax limits.

II. Miscellaneous

A. Professional Development Fund Contribution

1. The OSE Proposal

The OSE recommends continuing the NERE Professional Development Fund and providing additional funding of \$250,000 in FY 2017. NEREs requested nearly \$200,000 in reimbursements during the past fiscal year. ASEM agrees with the OSE's proposed increase to the fund.

2. Recommendation

The **panel recommends** adopting the OSE's proposal.

B. Annual Leave Program Adjustments

1. ASEM Proposal

ASEM proposes increasing the annual leave cap from 356 to 396 hours because many state employees cannot 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 to mitigate some of the increased wage deductions and lack of pay increases. ASEM requests to meet with the OSE over this issue.

2. The OSE Response to the ASEM Proposal

The OSE opposes ASEM's proposal. Over the past four years, over 95% of employees accrued 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. Annual leave is provided to allow needed breaks from work and should be used during years of service. The OSE is, however, willing to meet with ASEM over its request.

3. Recommendation

ASEM has made similar requests, which the Commission has rejected, during five of the previous six Coordinated Compensation Plan processes. The panel has asked ASEM to present evidence that such an increase is needed. Though ASEM has not presented

evidence that an increase is needed, the OSE has expressed willingness to meet with ASEM to discuss this issue. The **panel recommends** rejecting ASEM's proposal, but **further recommends** that the OSE and ASEM discuss ASEM's concerns and provide a more concrete discussion of the perceived need and merits for increasing the caps next year.

C. Sick Leave Amendments

1. MAGE and ASEM Proposals

MAGE and ASEM request to allow use of sick leave to care for grandchildren, which is allowed for some exclusively represented employees.

2. The OSE Response

The OSE supports the suggested modification to Regulation 5.10. Approximately half of State employees currently may use sick leave to care for a grandchild. The OSE does not see an operational need to maintain this distinction.

3. Recommendation

The **panel recommends** adopting MAGE's and ASEM's proposal. The **panel recommends** that the Commission instruct the State Personnel Director to amend Regulation 5.10 to allow sick leave use to care for grandchildren.

D. Overtime Amendments

1. The MSPCOA Proposals

MSPCOA requests amending Regulation 5.02 to allow specific-grant-funded overtime in pay periods that sick or annual leave is used to help maintain a 10% pay differential between Lieutenants and Sergeants.

2. The OSE Response

The OSE opposes the overtime proposal. The OSE asserts that:

- The change would be unduly burdensome by requiring tracking of overtime eligibility based on the source of funding.
- Lieutenants already have an exception allowing overtime pay or compensatory time.
- The average lieutenant received around \$5,000 in overtime payment and 30 hours in compensatory time in FY 2015.

3. Recommendation

Over the past several years, amendments to Regulation 5.02 have restored the requirement under federal law that employees must actually work hours for them to count toward meeting thresholds to qualify for overtime pay. Previously, hours in various leave statuses were included toward qualification. These changes have not been adopted in the Michigan State Police Troopers Association collective bargaining agreement, which has led to the request for relaxing of the recent amendments if overtime is based on a grant-funded pay source.

As indicated above, the OSE indicated it will meet with Michigan State Police leadership to further discuss pay compression issues raised by MSPCOA. While the **panel recommends** that the MSPCOA's proposal be denied, it should be included in discussions that the panel referred to earlier involving the MSPCOA's other economic proposals.

E. Pay for Performance

1. ASEM Proposal

ASEM requests that each department create a policy setting forth the criteria Group 4 employees must meet to earn pay-for-performance awards. Having the goals in writing before the beginning of each fiscal year would ensure the pay-for-performance program is handled equitably.

2. The OSE Response

The OSE does not support the proposal. The OSE believes that the civil service rules and regulations adequately address the pay-for-performance program and that departments should retain discretion to develop specific policies on departmental implementation.

3. Recommendation

ASEM did not present evidence to the panel showing that changes to the pay-for-performance program are necessary. ASEM also did not provide clear parameters of how its proposal would be implemented. Though the **panel recommends** rejecting ASEM's pay-for-performance proposal, it **further recommends** the OSE and ASEM jointly discuss this issue and present their findings at next year's hearing.

F. Shift Preference for Corrections Shift Supervisors

1. MAGE Proposal

MAGE requests allowing Corrections Shift Supervisors to bid on positions based on seniority as their subordinate employees can under collective bargaining provisions. MAGE argues that the proposal would have no associated cost and would improve morale for supervisors and provide benefits for remaining in supervisory positions. Alternatively, MAGE suggests a pilot program could be tried.

2. The OSE Response

The OSE does not support MAGE's proposal, which it views as inappropriate for the Coordinated Compensation Plan process. The OSE encourages discussions between MAGE and the Department of Corrections over the proposal.

3. Recommendation

Parties must offer position statements "proposing a change to the compensation or benefits plan." Assignment of employees is a management right under Rule 6-4.1 and not a compensation or benefits issue, which Chapter 5 of the rules and regulations address. Accordingly, the **panel recommends** denying MAGE's proposal on shift bidding.

G. Membership Information

1. ASEM Proposal

ASEM requests to develop a plan with the OSE to provide information to all NEREs about ASEM membership. This would allow more input to help the OSE find solutions to problems and provide better representation to all eligible employees.

2. The OSE Response

The OSE is willing to discuss the issue with ASEM.

3. Recommendation

Parties must offer position statements "proposing a change to the compensation or benefits plan." Issues related to the rights of limited-recognition organizations are labor-relations issues under Chapter 6 of the rules and regulations and not compensation or benefits issues under Chapter 5. Accordingly, the **panel recommends** denying ASEM's proposal on sharing membership information.