STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

for

FISCAL YEAR 2010

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2009

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SUMMARY OF PROPOSAL

The Office of the State Employer (OSE) and three Limited Recognition Organizations (LROs) reached a consensus agreement in 2007 reflecting a coordinated approach to compensation increases and fringe benefits changes for fiscal years 2009, 2010 and 2011. The OSE reached an additional consensus agreement with the Michigan Association of Governmental Employees (MAGE) in 2008.

THE PANEL PROPOSES that the Commission approve the following recommendations contained in those agreements pertaining to FY 2010:

- A 1% across-the-board general wage increase effective October 1, 2009.
- An increase in the maximum annual award from $3,600 to $6,000 for the Lottery Sales Incentive Program, effective October 1, 2009, as agreed to by the OSE and MAGE.
- A special 2% wage increase for Financial Institutions Examiners 9-12, Financial Institutions Specialists 13-15, and Financial Institutions Managers 13-15, effective October 1, 2009, as agreed to by the OSE and MAGE.
- Renewal of the Professional Development Fund for MSC employees at $150,000 and renewal of the Professional Development Fund for B&A unit employees at $50,000.

THE PANEL PROPOSES that the Commission deny the following recommendation:

- The MSPCOA request for a special wage increase for State Police Lieutenants 14 and 15.

THE PANEL ALSO PROPOSES that the Commission:

- Direct CSC staff, with representatives from OSE and the Department of Labor and Economic Growth (DLEG), to conduct an in-depth classification and compensation study of the Financial Institutions Examiner/Specialist/Manager class series. The study should focus on turnover rates, compensation received by employees in competing markets, specific reasons employees are leaving, the impact that recent industry events may have on the availability of qualified candidates, and best practices for recruiting and retaining qualified candidates in this field. The study should be completed by July 1, 2009, and a report of the findings presented to the Panel prior to completion of the 2009 CCP proceedings for FY 2011.

OSE's Estimate of Known Costs of Proposal: $14,280,000

INTRODUCTION

Civil Service Commission Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel. Rule 5-1.3, *Coordinated Compensation Plan,* charges the panel with the following*:*

> *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, *Coordinated Compensation Plan,* establishes a process for participants and guidelines that may be used by 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(b)*. The following three limited recognition organizations (LROs) participated in this year's CCP, via a previous consensus agreement with the OSE:

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

Nonexclusively represented employees who are not members of LROs may also participate in the CCP process upon leave granted by the Panel. On August 15, 2008, the Civil Service Commission issued Advisory Bulletin 6.06-1, providing the guidelines for employees to submit requests to participate in the FY 2008 process. The deadline for submission was September 12, 2008. No individuals submitted requests to participate in the process.

The Panel held a hearing on November 12, 2008. The Office of the State Employer briefed the Panel on the specifics of the consensus agreement reached with the participating LROs, and responded to the Panel's questions.

The following guidelines from Regulation 6.06, Standard D*,* are used by the Panel in making its determinations:

> *(1) The public interest and welfare, including the current and forecasted financial condition of the State.*

(2) *Comparison of the overall compensation received by excluded and non-exclusively represented classified state employees with the overall compensation received by exclusively represented classified state employees as the result of negotiated agreements or impasse panel recommendations.*

(3) *Comparison of the rates of pay, the continuity and stability of employment, and the overall compensation and benefits received by excluded and nonexclusively represented classified state employees with employees performing similar services in other public employment and in private employment.*

(4) *Other appropriate considerations to the sound and rational determination of a coordinated compensation plan.*

ECONOMIC OVERVIEW

Consistent with the provision in Regulation 6.06, calling for the Panel to consider “the current and forecasted financial condition of the State” in making its recommendations, the Panel received a briefing on FY 2008 revenue forecasts and budget projections during the hearing as part of the State Employer’s presentation. Testimony and documents were received from Jeffrey Guilfoyle, Director of the Office of Revenue and Tax Analysis in the Department of Treasury, and Colleen Gossman, Director of the Office of Planning and Local Government in the State Budget Office. The following is a brief summary of the information provided.

Mr. Guilfoyle began his presentation by stating that it was pretty clear “on all fronts” that the national economy has entered a recession. He noted that while the recession was triggered by declines in the housing market and record high oil prices over the summer, what really brought it to fruition was the credit crisis beginning mid-September. He then proceeded to review a number of other economic indicators in support of this contention, including the decline in the gross domestic product, falling employment, the turmoil in the stock and credit markets, as well as consumer sentiment and housing starts.

Mr. Guilfoyle then turned his attention from the national economy to Michigan’s economy, with particular focus on the plight of the Big 3 auto companies, the lack of a recovery in Michigan during the until-recent national economic expansion, and continued projected job losses in Michigan.

In terms of the impact on State government revenues, Mr. Guilfoyle noted that the slowing economy is “obviously….going to hurt revenues.” He noted that though the May consensus estimates were thought to be very conservative at the time, the economic situation had deteriorated markedly since then, so the potential exists for a significant revision at the January 2009 consensus conference.

While in recent years, the projected growth rates for revenue presented to the CCP had all been positive, Mr. Guilfoyle noted that given the current economic outlook, he had decided to include negative growth rate projections in his presentation this year. After adjusting the earlier consensus revenue estimates for projected changes in tax revenue, Mr. Guilfoyle presented the impact of revenue growth rates ranging from -3% to +3% for FY 2010. A baseline revenue decrease of 3% would result in $318 million less revenue. A 3% growth rate would increase net revenues by $214.1 million.

Revenue Scenarios for FY 2010
($ in millions)

FY 2009 GF/GP Amount	Assumed Growth	Gross New Revenue	Effect of Tax Changes	FY 2010 Net New Revenue
$8,884.6	-3%	($266.5)	($52.4)	($318.9)
$8,884.6	-2%	($177.7)	($52.4)	($230.1)
$8,884.6	-1%	($88.8)	($52.4)	($141.2)
$8,884.6	0%	$0.0	($52.4)	($52.4)
$8,884.6	1%	$88.8	($52.4)	$36.4
$8,884.6	2%	$177.7	($52.4)	$125.3
$8,884.6	3%	$266.5	($52.4)	$214.1

Ms. Gossman presented information indicating that less than 25% of the State's budget is discretionary—the other 75% either being earmarked for specific purposes (State restricted funds) or comprised of federal funds directed to Medicaid and other programs. The vast majority of the discretionary monies are targeted to five areas of the budget: community health, universities and community colleges, corrections, human services and other health care spending. The remaining 7% of discretionary revenue supports the remainder of state government functions.

Ms. Gossman stated that there was a strong potential that FY 2009 revenues will not match budget projections and that some form of corrective action would be needed this year. She mentioned possible mitigating factors such as carrying a balance forward from the book closing currently in process for FY 2008, and the impact of a possible federal stimulus package.

While not presenting specifics regarding budgetary pressures for 2010, Ms. Gossman provided data that indicated that over the last five fiscal years, baseline costs grew at an average rate of $500 million per fiscal year.

I. General Wage Adjustment

A. Base Pay Increase

The OSE recommends a 1% general wage adjustment, effective October 1, 2009, for all nonexclusively represented employees. This is consistent with the wage increases negotiated between the OSE and all of the exclusive representatives, except MSPTA, for the fiscal year beginning October 1, 2009. This recommendation is also consistent with the consensus agreement on direct wage increases for FY 2010 reached between the OSE and the three LROs in the fall of 2007. The OSE estimates the cost of the 1% increase for nonexclusively represented employees to be $13.9 million.

Recommendation

THE PANEL RECOMMENDS that the Commission approve a 1% across-the-board base wage increase for nonexclusively represented employees, effective October 1, 2009, consistent with the wage adjustments negotiated for exclusively represented employees.

II. Special Adjustments and Premiums

A. Lottery Sales Incentive Program

The consensus agreement between the OSE and MAGE recommends approval of an increase in the maximum quarterly award for the Lottery Sales Incentive Program to $1,500, or $6,000 annually. The OSE contends that the Bureau of State Lottery's favorable experience with the program justifies the requested increase.

At the hearing, Mr. Tom Weber, Acting Chief Deputy Commissioner for the Michigan Lottery, described the successes of the program and detailed record sales figures, which Lottery attributes - in large measure - to this sales incentive program. Mr. Weber noted that the lottery is unique in state government because it is a business that is expected to increase revenues by selling its products. Mr. Tom Hall, Deputy Director of the Office of the State Employer, further justified the request by explaining that when the program first started, the award amounts paled in comparison to private sector incentive programs. But as the state has gained experience, it is much more comfortable with making the awards more in line with what may be found in the private sector.

Discussion

The Panel is compelled by the evidence and testimony received at the hearing regarding the sales figures and the apparent positive effect that this program has had since its inception in 2005. While the economic forecast is far from encouraging, the benefit to the state of continued increases in lottery sales growth clearly outweighs the cost of increasing the annual sales incentives for this program.

Therefore, **THE PANEL RECOMMENDS** that the Commission approve an increase of the annual maximum Lottery Sales Incentive Program amount to $6,000, effective October 1, 2009.

B. State Police Lieutenants 14 and 15

1. Special Wage Increase

The MSPCOA recommends a special “equity” pay adjustment for State Police Command Officers to address salary compression issues with their subordinates who are represented by the Michigan State Police Troopers Association (MSPTA). They note that the maximum pay rate for a Lieutenant 14 is $36.79, which is only 6.3% more than the maximum for a represented Sergeant 12 at $34.60. They argue that when other factors are considered, such as different work schedules, insurance premiums and deductibles, and overtime pay, the 6.3% differential is eradicated. MSPTA employees work an 8 hour day with a one-half hour paid lunch, while MSPCOA members work 9 hour days with a one hour unpaid lunch break. MSPCOA members also pay health care premiums, higher deductibles and higher co-pays. The Lieutenants are also exempt from overtime pay except in special circumstances, while the Sergeants are eligible for overtime at the rate of time and one-half their hourly rate. For these reasons, the MSPCOA recommends the following pay equity adjustments:

- Lieutenant 14 - $0.50 per hour increase at the maximum rate effective October 1, 2009, and another $0.50 effective April 1, 2010.

- Lieutenant 15A – $0.75 per hour increase at the maximum rate effective October 1, 2009, and another $0.75 effective April 1, 2010.
- Lieutenant 15B - $1.00 per hour increase at the maximum rate effective October 1, 2009, and another $1.00 effective April 1, 2010.

OSE Response

The OSE opposes a special wage adjustment for State Police Lieutenants for several reasons. First, the OSE contends that MSPCOA is making the same argument they made in 2006 when the Panel rejected the requested pay increase. They note the Panel's history of rejecting the concept of a standardized pay differential between supervisors and their subordinates and argue that nothing has changed since MSPCOA last made this request. Additionally, they provided further information at the hearing indicating that over 60% of represented Sergeants actually report to Lieutenants at the 15 level, rather than the Lieutenant 14. For these employees, the pay differential is actually 10.7% for the 15A, or 15.1% for the 15B. Another exhibit submitted by OSE indicates no evidence of recruitment and retention problems for these classifications. The turnover rates for the last three years have been 1% or less. In response to the MSPCOA claim that the Sergeants' ability to earn overtime affects the pay differential, the OSE provided data that shows that during both FY 2007 and FY 2008, employees classified as Lieutenants 14 actually worked more overtime, on average, than Sergeants 12 during the same periods. The OSE concluded that the pay relationship between command officers and their MSPTA subordinates warrants continued monitoring, but no evidence has been submitted which would justify a special increase at this time.

2. Work Schedule Change

The MSPCOA also proposes that the daily schedule of command officers be modified to mirror that of their represented subordinates who work an eight hour day with a one-half hour paid lunch. "In light of fairness, equality, and an opportunity to provide a prideful environment for supervisors who are in a limited recognition organization," the MSPCOA requests approval of a similar schedule for the Lieutenants.

OSE Response

The OSE opposes approval of a change to the work-day schedule for command officers. They believe that this issue is not a proper subject for consideration by the Panel. The establishment of the work schedule is a Management Right under Civil Service Rule 6-4.1, and not subject to the authority of the CCP process. Even if the matter were considered, the MSPCOA is making an apples-to-oranges comparison. Troopers and Sergeants represented by the MSPTA are normally on road patrol. During their shift, they must eat their meals in a publicly visible setting and respond immediately to calls or activity during their meal period. Many Lieutenants are normally working in an office setting and relieved of obligations during the lunch period.

Discussion

The Panel has repeatedly rejected the notion of a standard pay differential between supervisors and subordinates. While it agrees that this factor could have an impact on recruitment and retention and is worth consideration, absent evidence that a problem exists, the Panel is not persuaded that a special wage increase for State Police Lieutenants 14 and 15 is warranted. The exhibit provided by the OSE showing only three turnovers in three years for the command officer classifications clearly demonstrates that retention is not a problem.

Recommendation

THE PANEL RECOMMENDS that the Commission deny the MSPCOA request for a special wage increase for State Police Lieutenants 14 and 15.

With regard to the work schedule modification request, the Panel does not believe this is an issue under its purview. It falls under the rights of the employer in accordance with Civil Service Rule 6-4.1. Therefore, **THE PANEL RECOMMENDS** that the Commission take no action on this request.

C. Financial Institutions Examiners 9-12, Specialists 13-15 and Managers 13-15

The consensus agreement between the OSE and MAGE recommends a special 2% wage increase for employees classified as Financial Institutions Examiners 9-12, Specialists 13-15 and Managers 13-15. The OSE notes that a special study of these classifications was conducted for the CCP proceedings in 2006, which suggested that there was no compelling evidence indicating the inability to attract and retain quality candidates. However, the agency (the Office of Financial and Insurance Regulation) conducted its own study in 2008 which now shows possible recruitment and retention difficulties, particularly for employees with less than five years of service. According to this study, fifteen of the 35 Examiners hired between FY 2003 and FY 2005 have since resigned, representing a 42.86% turnover rate. Based on this information, the OSE is convinced that the special increase is warranted. The OSE estimates the cost of this increase to be $180,000.

In addition to the special wage adjustment, the OSE recommends an in-depth classification and compensation study to be undertaken during 2009 for consideration during the CCP process for FY 2011, focusing specifically on turnover among the 5-10 year employee groups.

Discussion

The Panel last considered a request for a special wage increase for these classifications in 2005. At that time, turnover data did not warrant recommendation of a pay increase. The overall turnover rates for these classifications were 2.2% during FY 2004 and 3.2% during FY 2005, which were still well below the statewide average rate of 6.3%. While this newly presented turnover statistic for new Examiners is alarming, the Panel expresses concern over granting a special wage increase for all of these classifications without more detailed information, particularly in light of the state's dismal economic forecast.

However, given the information and support provided by the Department of Labor and Economic Growth, and recognizing that this special increase was part of a good faith agreement between the OSE and MAGE, the Panel is prepared to support this recommendation. The Panel also strongly supports conducting the in-depth study as outlined by the OSE. The study should be led by Civil Service staff, and include representatives from the OSE and from the Department of Labor and Economic Growth. The study should focus on the following areas: turnover rates for these classifications, with a special focus on newer employee retention; total compensation received by employees performing these jobs in competing labor markets; identification of the employers that the Office of Financial and Insurance Regulation is competing with; identification of the specific reasons employees are leaving; review of the impact that recent events in the industry may have on the availability of qualified candidates; and identification of best practices in the industry for recruiting and retaining qualified candidates in this field.

THE PANEL RECOMMENDS that the Commission approve a special 2% wage increase for Financial Institutions Examiners 9-12, Financial Institutions Specialists 13-15, and Financial Institutions Managers 13-15, effective October 1, 2009, after any approved general wage increase is implemented.

THE PANEL FURTHER RECOMMENDS that the Commission direct Civil Service staff, along with representatives from the Office of the State Employer and the Department of Labor and Economic Growth, to conduct an in-depth study of these classifications as described above. The study should be completed by July 1, 2009, and the results should be shared with the Panel before next year's CCP proceedings.

III. OTHER GROUP BENEFITS

A. Professional Development Funds

OSE and LRO Recommendation

The OSE recommends continuation of the Funds at their current levels. The fund for MSC employees would remain at $150,000 and the Fund for B & A employees would be renewed at its current level of $50,000. OSE noted that there continues to be an increased interest in the funds and they continue to be utilized by employees at a high rate.

Recommendation

The Panel supports and encourages the professional development of the state workforce. Therefore, **THE PANEL RECOMMENDS** that the MSC Fund be renewed at its current level of $150,000, and the B & A Fund be renewed at $50,000.