STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

FOR

FISCAL YEAR 2014

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2013

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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 (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 7, 2012. All parties were allowed to make presentations and respond to proposals of other parties. Representatives from ASEM did not appear at the hearing. 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) 2014 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:

From 2001 through 2010, Michigan lost 815,000 jobs. Since 2011, Michigan has gained over 128,000 jobs, but remains well below its peak economic level. Michigan expects continued modest economic growth through 2014, which should slightly increase net General Fund revenue in FY 2014 despite reductions of some Michigan taxes. Michigan's unemployment rate is expected to decline to pre-recession levels

A wage survey conducted by the OSE last year indicated that Michigan's wage and benefits package compare favorably with those received by other public and private employees. The average vacancy posting receives over 90 applicants.

Proposals and Party Positions

I. Wages and Benefits

The OSE recommends no general wage adjustment and a 1% lump-sum payment for NEREs at the start of October 2013. The lump-sum payment would be prorated for employees who do not work full-time. Voluntary agreements reached this fall with unions included a 1% lump-sum award. General wage increases were not discussed.

The OSE also recommends increasing the pay schedules of approximately 525 employees in excluded "split positions" to match the pay of exclusively represented employees in the same classifications. Split classifications can arise when some positions in a classification are excluded from a bargaining unit based on, for example, confidential duties. The 3% general wage increase awarded to exclusively represented employees in FY 2011 altered pay equity between included and excluded positions in split classifications. This disparity continues even after FY 2013's 3% NERE wage increase because exclusively represented employees received an additional 1% general increase for FY 2013.

In its written statement, MAGE requests a 3% general wage raise and a 1% lump sum. MAGE points out that while NEREs received a 3% general wage raise and a 2% lump sum for FY 2013 compared to the exclusively represented employees' 1% general wage increase and 1% lump sum for FY 2013, NEREs' base pay is still 1% behind exclusively represented employees', who received a 3% wage increase in FY 2011 while NEREs received nothing. NEREs have also been denied the equivalent of a 6% lump-sum payment during FYs 2011 and 2012 when non-NEREs received the benefits of the 3% raise for FY 2011. MAGE also requests that any NERE wage increase be at least 2% more than any wage increase awarded to exclusively represented employees for FY 2014 to begin to eliminate the accumulated pay differential over time.

MAGE points to specific examples of pay compression or pay inversion caused by the lack of comparable treatment between NEREs and represented employees. Psychiatrist Managers earn only $0.43 more per hour than the Psychiatrists that they supervise. Department of Natural Resources supervisors, who are NEREs, earn only $0.25 more per hour than their subordinates, unionized Park Rangers. Department of State Branch Managers, who are NEREs, earn $0.21 less per hour than the unionized employees they supervise. Pay inversion continues to worsen morale. MAGE also requests that the inequitable pay in split positions be addressed. MAGE reminds the CCP that in prior years the OSE wanted to award raises to NEREs, but budget constraints prevented it. The OSE did, however, give raises to exclusively represented employees, whose numbers far exceed those of NEREs, and therefore caused greater costs to the state. MAGE also notes that the Consumer Price Index increased by 3.2% in 2011, with a similar increase expected for 2012.

In its written submission, ASEM supports MAGE's position on pay compression and also seeks a 3% general wage increase for NEREs, plus a 1% lump sum payment. ASEM cites similar reasons for the necessity of the increase as MAGE, including the need to completely rectify the pay inequities created in FY 2011.

MSPCOA highlights pay compression between State Police Lieutenants, who are NEREs, and State Police Sergeants, who are exclusively represented. In 1991, the difference between the maximum Lieutenant and Sergeant rates was 10.7%. Today, at the respective pay scales' maximum levels, Lieutenants make only 5.28% more than Sergeants. Those rates are unacceptable when compared to the 15.47% difference between Sergeants and Troopers at their maximum levels. MSPCOA requests the difference between Lieutenants and Sergeants be restored to 10.7% at the pay scales' maximum levels.

MSPCOA also requests that the difference between the maximum pay rate of a Lieutenant 14 and First Lieutenant 15-B be increased to a minimum of 10%. MSPCOA criticizes the abandonment of longstanding pay-equity notions between NEREs and represented employees and the high burden of proof required to justify a pay increase.

MSPCOA recognizes that funds may not be available to accomplish the above requested adjustments, and alternatively requests that NEREs receive a 1% general wage increase instead of a 1% lump sum payment.

Recommendation

The denial of raises for NEREs for FY 2011 created a 3% gap from equitable pay treatment between the exclusively represented and NERE workforces. Last year's award of a 3% general pay increase remedied this, but the concurrent 1% pay increase for the unionized workforce has left an ongoing gap of 1%. While there is no requirement that the pay increases track each other, the commission has historically endorsed equitable treatment between the two groups. A comparison of the compensation between the two workforces is one of the guidelines provided in Regulation 6.02. Absent evidence of structural changes or other considerations requiring different treatment, the Panel and commission have generally supported similar treatment of the two groups.

The OSE's proposal would correct pay inequity for NEREs in split classes, but would not address the existing base-pay imbalance for most NEREs. The lump-sum award would provide net salary equity for this year, but the gap would persist. While MAGE and ASEM's proposals would gradually address the relatively lower wages over the past two years, they would also require later corrections in favor of exclusively represented employees.

The Panel believes that the alternative suggested by the MSPCOA at the CCP hearing of awarding a 1% general wage increase instead of a 1% lump sum payment would have the benefits of not costing any more in FY 2014 than a 1% lump sum while correcting the remaining disparity in base wages between NEREs and exclusively represented employees. A 1% general wage increase should also correct most of the split classes referred to in the OSE's proposal. To the extent that any gaps remain within classes, the Panel recommends that the gaps be eliminated by adjusting the pay schedules for NERE positions to match those for exclusively represented positions within the class. This "truing up" should eliminate disincentives to serving in confidential positions within a class.

In making its proposal, the OSE referred to the need to draw a line at some point in addressing the pay actions for FY 2011. The Panel concurs. Significant action was taken to address these issues during FY 2012 and the Panel believes that its recommendation today addresses the ongoing structural component. The Panel recognizes that the differing treatment during FYs 2011 and 2012 troubled many NEREs, but also feels that closure is appropriate. Due to employee turnover, many of those affected would see no relief and many beneficiaries would have never been affected by the initial actions. Further, as last year's CCP recommendation noted, the additional sacrifices made by NEREs were considered in allocating employee concessions last year, so some credit has already been received.

The remaining pay dispute is the request for special pay adjustments by the MSPCOA. While the MSPCOA has presented evidence of narrowing of the pay differentials between the represented and non-represented portions of the uniformed service, it has not offered evidence of any effects from this trend. In addition to comparisons with other workforces, the standards for the CCP established 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 Lieutenant positions should accompany a request. While some anecdotal evidence was offered for a small number of positions, the Panel would expect more definite verification of ongoing and serious operational issues to justify recommending a special pay increase.

Accordingly, **the Panel recommends** that the Commission grant a 1% general wage increase to all NEREs for FY 2014. **The Panel further recommends** that—to the extent the 1% general wage increase fails to equalize pay in any split-classifications differentials—the pay schedules be "trued up" to eliminate the disparities within classifications by setting NERE pay schedules in split classifications at the same level as equivalent exclusively represented pay schedules. Finally, **the Panel recommends** that the MSPCOA's request for special-pay adjustments be denied.

II. Miscellaneous

A. Lottery Sales Incentive Program Expansion

The OSE recommends expanding the Lottery Sales Incentive Program to include 16 additional positions whose duties directly impact lottery sales and marketing. Targeted goals for the new participants would be developed based on meeting specific percentage increases in overall contributions to the School Aid Fund. The amount of potential incentives would be the same as those under the existing sales incentive program, which would also continue for employees in designated classifications.

Recommendation

The Lottery Sales Incentive Program has been shown to have a positive effect on lottery sales, which increase contributions to the School Aid Fund. The amounts of the incentives are modest, but reflect a common practice in sales and marketing positions—an employment type uncommon to the classified service.

The Panel recommends adopting the OSE's proposal to expand the Lottery Sales Incentive Program. The **Panel further recommends** that the Commission amend Commission Rule 5-6.13, *Lottery Sales Incentive Payments,* as necessary, to allow the positions listed by the OSE to be included in the program, and to allow the State Personnel Director to include and exclude positions from the program.

B. Professional Development Fund

The OSE recommends increasing the Professional Development Fund for NEREs by $150,000 for the Managerial, Supervisory, and Confidential Fund, and by $50,000 for the Business and Administrative Unit Fund. At present reimbursement rates, the funds will be depleted by the end of FY 2013 without these additional contributions.

Recommendation

The Panel recommends adopting the OSE's proposal regarding the Professional Development Fund.

C. Annual Leave Program Adjustments

ASEM requests that annual leave accumulation and payout caps be increased by 5 to 10 hours due to increased NERE workloads. ASEM believes these increases would mitigate some of the recent wage inequities at a minimal cost to the state.

The OSE argues that increasing the caps could have the unintended consequence of encouraging employees to bank, rather than use, available annual leave and ultimately increase state costs by making higher payouts to employees.

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. Accordingly, **the Panel recommends** denying ASEM's request to increase the caps.

D. C.O.P.S. Trust Plan Option

The MSPCOA requests that its NERE members be allowed to enroll in the C.O.P.S. Trust health insurance plan offering available to represented members of the Trooper/Sergeant Unit under similar terms. This would include capping the employer's cost to the same employer cost for enrollment in the State Health Plan PPO.

The OSE opposes the MSPCOA's request. The C.O.P.S. Trust is an insurance carrier selected through collective bargaining between the Michigan State Police Troopers Association and the Michigan State Police. Any insurance plan for NEREs should be subject to the Commission's approval and an open competitive bid process under the Department of Technology, Management and Budget's purchasing procedures.

Recommendation

The Panel concurs that the appropriate venue to add carriers to the list of health-insurance options for state employees is not the CCP process. Accordingly, **the Panel recommends** denying MSPCOA's proposal to offer C.O.P.S. Trust.