STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

for

FISCAL YEAR 2008

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2007

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SUMMARY OF PROPOSAL

In 2004, the Office of the State Employer (OSE) and four Limited Recognition Organizations (LROs) reached a consensus agreement reflecting a coordinated approach to compensation increases and fringe benefits changes for fiscal years 2006, 2007 and 2008.

THE PANEL PROPOSES that the Commission approve the following recommendations contained in that agreement pertaining to FY 2008:

- A 2 percent across-the-board pay increase effective October 1, 2007, and a 2 percent across-the-board pay increase effective April 6, 2008.
- A special 40 cent per hour wage increase for Assistant Resident Unit Supervisors 11 and Resident Unit Managers 13 effective October 1, 2007.
- A special 30 cent per hour wage increase for Corrections Shift Supervisor 11, 12, and 13, and Corrections Security Inspector 13 effective October 1, 2007.

THE PANEL PROPOSES that the Commission also approve the following recommendations pertaining to FY 2008:

- Increase the maximum annual award from $2,500 to $3,600 for the Lottery Sales Incentive Program.
- 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 recommendations:

- Creation of 10-, 15-, and 20-year pay steps for all State Police Command Officer pay ranges, as recommended by MSPCOA.
- A $755 lifetime lasik/laser surgery benefit to NEREs, as recommended by ASEM.

THE PANEL PROPOSES that the Commission take no action on the following recommendation:

- A lump sum award of up to $500 for all employees in the performance-pay program who receive a satisfactory rating for FY06/07 as recommended by ASEM.

THE PANEL ALSO PROPOSES that the Commission:

- Support the recommendation made by ASEM to increase awareness of the state's existing smoking cessation programs, by directing the Department of Civil Service to better publicize the programs and encourage employees to utilize existing services.

OSE's Estimate of Total Cost of Proposal: $39,348,800

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,* states*:*

> *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 four limited recognition organizations (LROs) participated in this year's CCP, via the 2004 consensus agreement with the OSE:

- Association of Assistant Attorneys General of Michigan (AAAGM)
- 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 23, 2006, the Department of Civil Service 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 14, 2006. This year, no individuals submitted requests to participate in the process.

The Panel held a hearing on November 8, 2006. The participants presented highlights of their positions and responded to the opposing party's response, as well as the questions of the Panel.

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.*

The approved CCP recommendations for Fiscal Year 2006 and 2007 included provisions for four special studies to be conducted and made available to the Panel prior to the Fiscal Year 2008 proceedings. At the hearing, Civil Service staff briefed the Panel on the results of studies on shift differential pay premiums, the Financial Institutions class series, Dentist recruitment and retention bonuses, and the Lottery Sales Incentive Program. No action on the part of the Panel was necessary based on the findings of these reports, although the findings of the Lottery study were taken into consideration when reviewing a proposal by the OSE to increase the annual maximum incentive as described later in this report.

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 FY07 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 Economic and Revenue Forecasting in the Department of Treasury, and Jacques McNeely, Director of Public Protection and Resources in the Department of Management and Budget. The following is a brief summary of the information provided.

Mr. Guilfoyle began his presentation by reviewing current national and state economic indicators. He explained that the national economy has recovered from the 2001 recession and is still growing, but that growth has begun to slow recently. Michigan’s economy has not seen a similar recovery, and the jobs lost during the recession have not been recovered. This is primarily because of the loss of manufacturing employment in Michigan, and the major restructuring occurring with the Big Three automakers. According to Mr. Guilfoyle, the forecast for Michigan employment growth should stay negative through 2007, but going into 2008 employment growth should slowly start to turn around.

In terms of the revenue outlook, Mr. Guilfoyle presented the impact of assumed growth rates for revenues of 2 percent to 5 percent based on the FY 2007 general fund/general purpose (GF/GP) amount contained in the May 2006 forecast. Assuming full replacement of the Single Business Tax, a baseline revenue increase of 2 percent would result in $86.7 million more available to spend in FY08 GF/GP revenues than are currently in the FY07 budget, and a 5 percent increase in revenue would result in an additional $339.8 million.

Revenue Scenarios for FY 2008
($ in millions)

FY 2007 GF/GP Amount	Assumed Growth	Gross New Revenue	Effect of Tax Changes	FY 2008 Net New Revenue
$8,435.4	2%	$168.7	($82.0)	$86.7
$8,435.4	3%	$253.1	($82.0)	$171.1
$8,435.4	4%	$337.4	($82.0)	$255.4
$8,435.4	5%	$421.8	($82.0)	$339.8

The State's projected budgetary pressures for FY 2008 were outlined by Mr. McNeely, as summarized in the chart below:

FY 2008 GF/GP Spending Pressures
($ in millions)

Issue	Low Range	High Range
Impact of Federal Law Changes	$15.0	$125.0
Medicaid: HMO Actuarial Rates	$60.0	$75.0
Medicaid: Federal Match Increase	($150.0)	($165.0
Medicaid: Caseload/Utilization Growth	$81.0	$165.0
Federal Welfare Block Grant	$0.0	$25.0
Department of Corrections	$50.0	$80.0
Life Sciences Funding	$75.0	$75.0
Debt Service Increase	$50.0	$65.0
State Employee Health and Pension Costs	$80.0	$120.0
Other Post-Employment Benefits	$0.0	$135.0
Loss of One-Time Revenue in FY 2005 Budget	$60.0	$80.0
Single Business Tax (SBT) Repeal	$0.0	$1,300.0
Total	**$371.0**	**$2,152.0**

Several *Federal Law Changes* may present pressure on the FY08 budget. Those changes include: elimination of the ability for the state to leverage federal dollars for child support recovery efforts and use them elsewhere, lowering of the Medicaid provider tax, and removal of funding for psychological services provided under Medicaid for K-12, special needs, and at-risk children. *Medicaid* may be impacted by three primary areas: a federal requirement that we provide actuarial rates for our providers, an increase of the federal match (which represents a positive for the state budget), and growth in Medicaid caseload utilization. The *Federal Welfare Block Grant* assumes a low side impact of zero with carry-forward resources and an increase of $25 million if the Department of Health and Human Services expends the entire current year appropriation. *Corrections* bed space continues to exert budgetary pressures, although the Michigan Prisoner Reentry Initiative has helped to control bed space growth. *Life Sciences Funding* is the statutory tobacco bond with a $75 million annual general fund obligation. *Debt Service Increase* relates to the annual obligation on a number of environmental quality related bonds as well as the debt service for the 21st Century Jobs Fund initiative. *State Employee Health and Pension Costs* is related to estimates on insurance and retirement costs for FY08. *Other Post-Employment Benefits* refers to a requirement that public agencies and school districts disclose on their financial statements unfunded liabilities associated with post employment related expenses. There is no requirement to fund these liabilities, so the low range cost is zero with a high range cost of $135 million if they are funded. Next, there is the loss of a few *One-Time Revenue* items from the FY07 budget that will need to be accounted for in FY08. Finally, the *Single Business Tax (SBT)* is scheduled to end at the end of calendar year 2007. If the tax is not replaced, it represents a fiscal year impact of $1.3 billion.

Mr. McNeely concluded by stating that it would again be a very tight budget year. To adequately address the low range budget figure of $371 million, we would need at least a 5 percent revenue growth. He noted, however, that it is very early in the budget process and that state has a mix of tools at its disposal to address these pressures.

I. General Wage Adjustment

A. Base Pay Increase

The OSE recommends a 2 percent general wage adjustment effective October 1, 2007, and a 2 percent general wage adjustment effective April 6, 2008, 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, 2007. This recommendation is also consistent with the consensus agreement on direct wage increases for FY08 reached between OSE and the four LROs in the fall of 2004. The OSE estimates the cost of the two, 2 percent increases for non-exclusively represented employees to be $37.8 million.

Discussion

In its discussions, the Panel again expressed concerns over recommending pay increases in light of the current and projected condition of the state's economy. The "current and forecasted financial condition of the State" is listed in Civil Service Regulation 6.06, as one of the four guidelines to be used in making its Coordinated Compensation Plan recommendations to the Commission. However, the economic condition of the state is only one of several factors to be considered. The Panel noted and gave great weight to the concept of equity with exclusively represented employees and the good faith consensus agreement reached between the OSE and the LROs in making its recommendation.

Recommendation

Upon consideration of all relevant guidelines set forth in Regulation 6.06, **THE PANEL RECOMMENDS** that the Commission approve a 2 percent across-the-board base wage increase for nonexclusively represented employees effective October 1, 2007, and a 2 percent across-the-board base wage increase for nonexclusively represented employees effective April 6, 2008, consistent with the wage adjustments negotiated for exclusively represented employees.

II. Special Adjustments and Premiums

A. Corrections Shift Supervisors 11, 12, 13, Corrections Security Inspectors 13, Assistant Resident Unit Supervisors 11, & Resident Unit Managers 13

The OSE recommends approval of the second part of a two-year special wage increase included in the consensus agreement reached with MAGE in October 2005 for the above-listed classifications. They recommend a special 30 cent per hour wage increase for Corrections Shift Supervisors 11, 12, and 13 and Corrections Security Inspectors 13, to be effective October 1, 2007. They also recommend a special 40 cent per hour wage increase for Assistant Resident Unit Supervisors 11 and Resident Unit Managers 13. The OSE estimates the cost of this proposal for FY 2007 to be $1,329,000. The special increase approved last fiscal year for these classifications was 25 cents per hour and 40 cents per hour, respectively.

At last year's CCP hearing, Pat Caruso, Director of the Department of Corrections, presented the department's rationale for these increases, including new required intensive supervisory training courses, staff reductions, and recruitment difficulties for these classifications.

Discussion

Last year, the Panel found Director Caruso's presentation and rationale to be persuasive and recommended approval of this special increase. Additionally, the Panel respects the consensus agreement reached in good faith between the OSE and MAGE on this issue.

Therefore, **THE PANEL RECOMMENDS** that the Commission approve a special 30 cent per hour wage increase for Corrections Shift Supervisors 11, 12, 13, and Corrections Security Inspectors 13 effective October 1, 2007, and a special 40 cent per hour wage increase for Assistant Resident Unit Supervisors 11 and Resident Unit Managers 13 effective October 1, 2007.

B. Performance-Pay

In its position statement, ASEM made a recommendation that all NEREs in a Performance-Pay Program who are at or above the fixed control point (maximum base salary) and who receive a satisfactory performance rating, receive a $500 lump sum bonus for FY 2007/2008.

During the hearing, ASEM representative Micki Czerniak adjusted ASEM's proposal by asking that instead of awarding lump sum payments to employees at the fixed control point, Civil Service modify the performance-pay program to better reflect the state's economy. She did not offer a specific suggestion for the modification, but asked that Civil Service review the program and make changes that better fit with the current financial constraints of the state.

OSE Response

The OSE opposes ASEM's original request for $500 lump sum payments. The OSE maintains the position that given current budgetary constraints, lump sum payments should still not be provided to performance-pay employees at this time. If this request were granted, it would be countermanding the policy decision of the Administration. Additionally, OSE argues that this position is identical to what was proposed by ASEM last year, and rejected by the Panel. The request could be denied for lack of compelling evidence of a material change since last year. The OSE requests that the Panel again recommend that the Commission take no action on this proposal.

Discussion

The Panel is not compelled by ASEM's arguments, nor does it see any difference in what had been submitted last year. Civil Service Rules and Regulations regarding performance-pay have still not changed. It is policy of the Administration that directs departments under the authority of the Governor not to award performance-pay lump sum bonuses to their employees.

Therefore, **THE PANEL RECOMMENDS** that the Commission take no action on this proposal. Furthermore, should this issue be raised in future years without any new compelling evidence to justify reconsideration, the Panel will reject its consideration for that year's proceedings.

C. Lottery Sales Incentive Program

In the CCP recommendation for FY06, the Panel recommended approval of a Sales Incentive Program, on a pilot basis, for certain classifications in the Bureau of State Lottery. The OSE indicates that experience with this program has been very favorable, and recommends increasing the maximum annual award from $2,500 to $3,600 per employee. Under the program, employees are eligible for an award if there is an increase in the percentage of retailers in an employee's area of account responsibility who achieve the quarterly sales goal.

At the hearing, Tom Weber, Director of Marketing for the Bureau of State Lottery, addressed the Panel regarding the program and the changes being requested by the OSE. Mr. Weber indicated that the Lottery just had a record year of $2.2 billion in sales, with $686 million going to public school funding. According to Mr. Weber, the incentive program has played a large part in reaching the sales goals and setting these records. He noted that these employees are unique in state government because they are salespeople who respond to incentives, and the modest increase in the maximum annual award allowed under the plan is appropriate.

Discussion

When the incentive program was approved in 2005, the panel recommended that one year after implementation the Department of Civil Service conduct a study, with input from the Office of the State Employer and the Bureau of State Lottery, to determine the program's effectiveness, and share the findings with the Panel during the fall of 2006 at its hearing for fiscal year 2008.

In May of 2006, Civil Service and OSE staff met with Lottery Commissioner Gary Peters and his staff to discuss the results of the program to date. Lottery indicated at that time that the program had directly increased their sales and also was indirectly having a positive impact on staff morale. The increase for fiscal year 2006 was $46.6 million over four quarters for the instant games, and a $68.7 million increase over three quarters for the club games. The total amount paid to employees in incentives during that time was just slightly over $90,000 for the year. The study concluded with a recommendation that Civil Service and Lottery continue monitoring the program's effectiveness in the future.

THE PANEL RECOMMENDS that the Commission approve an increase of the maximum Lottery Sales Incentive Program award to $3,600 annually, or $900 per quarter, effective October 1, 2007.

D. State Police Command Officers

The MSPCOA proposes that the Panel recommend adopting creation of 10-, 15-, and 20-year pay steps for all MSPCOA positions, similar to what has been bargained with the MSPTA for Troopers and Sergeants, representing increases of 2 percent, 3.5 percent and 4.5 percent above base salary rates effective April 6, 2008. The MSPCOA contends that if this proposal is not approved, "wage compression between sergeants and command officers who have completed 10 or more years of service *will* take place this year."

OSE Response

The OSE opposes MSPCOA's request to add these additional steps to the pay ranges of all command officers. The OSE believes it is inappropriate for MSPCOA to single out one piece of the total collective bargaining agreement reached with MSPTA covering all terms and conditions of employment, and argue that the provision should be granted to another group. The bargaining process involves give and take. In exchange for a complete, voluntary agreement in these negotiations, the parties each made gains and concessions. The Union added these new steps to the pay ranges, and the Employer made gains in other areas.

Discussion

The argument made by MSPCOA is based solely on the fact that additional steps were bargained for the MSPTA-represented employees whom the command officers supervise, and identical treatment should be accorded to them. A comparison of the current differential between the pay range maximums for a Sergeant 12 and a

Lieutenant 14, with the differential of the adjusted pay range maximums in April 2007 and April 2008, does show a decrease. The current 9.03 percent differential will decrease to 6.33 percent by April 2008. However, the Panel has historically rejected the concept of a standardized pay differential between supervisors and subordinates. Absent evidence of recruitment or retention problems, the smaller differential alone does not warrant adoption of the new pay steps. Additionally, the Panel recognizes that this agreement on new pay steps with MSPTA was only one part of a larger collective bargaining process with give and take on both sides of the table.

For the reasons stated above, **THE PANEL RECOMMENDS** that the Commission deny the request to add 10-, 15-, and 20-year pay steps to all state police command officer pay ranges.

III. GROUP INSURANCE

A. Lasik/Laser Eye Care Benefits

The ASEM recommends that lasik/laser eye surgery be a covered benefit under the State Health Plan with a lifetime coverage limit of $755. ASEM has made this same request for several years, and notes that effective October 1, 2005, this benefit was approved for MSEA bargaining unit employees. If the surgery reduces the need for glasses, the state will save money over time. The ASEM also notes that this benefit was accorded on a pilot basis through collective bargaining to members of the MSEA. ASEM believes NERE’s should also have this benefit because it was the MSEA pattern of concessions that was also accorded to NERE’s rather than the UAW pattern or the SEIU pattern. It involved more furlough time than the other pattern agreements involving other bargainers.

OSE Response

The OSE opposes the addition of this benefit to the group insurance plan. It is the OSE’s position that there has been no evidence of a compelling change since ASEM submitted this same request last year. The proposal is the same as the proposal which the Panel rejected last year.

The OSE notes that the benefit still only applies to MSEA represented employees. The OSE also indicates that the cost of the group insurance program is staggering, and they do not believe there is any indication that providing reimbursement for this surgery will result in a lessening in cost for glasses. In response to the argument regarding concessions, the OSE notes that MSEA was in the midterm of their collective bargaining agreement at the time that they agreed to the concessions that the OSE was seeking. They were under no compulsion to agree to that, therefore, the comparison of circumstances is not a truly “one-for-one” comparison.

The OSE also noted that the various concession agreements, when viewed in their entirety, while not necessarily identical, were equivalent.

Discussion

This benefit has not been extended to any other exclusive representatives, and the ASEM has not presented any new evidence this year that would justify extending this benefit to nonexclusively represented employees. Last year, the Panel noted that the experience with MSEA employees utilizing this benefit should provide necessary information for determining any potential cost savings to the state. However, only twelve employees have utilized the benefit since it became available, and this is insufficient experience to make conclusive cost savings determinations.

THE PANEL RECOMMENDS that the Commission deny the ASEM request to offer lasik/laser eye surgery as a covered benefit under the State Health Plan.

B. Smoking Cessation Programs

In its position statement submitted on October 23, 2006, ASEM made a recommendation for increasing the reimbursement for smoking cessation programs from the current level of $50 to $300. Micki Czerniak, speaking at the hearing on behalf of ASEM, indicated that after the initial position statement was submitted, ASEM learned from the OSE that many of the state’s health plans offer free smoking cessation programs to their members. Given that information, ASEM would be satisfied if the Department of Civil Service actively encouraged employees to avail themselves of existing programs and that these programs be clearly communicated to and shared with employees. This would satisfy ASEM's goals, without the need for increasing the reimbursement amount.

OSE Response

The OSE opposes an increase in the maximum reimbursement amount for smoking cessation programs. These programs are already available through all of the HMO's and the state health plan at no cost to the members. However, during the hearing, Mr. Hall agreed that the existing smoking cessation programs need to be better publicized. He indicated that he would be willing to work with Civil Service to get the programs publicized and offered several existing avenues for doing so, including, employee benefit letters, the Working on Wellness (WOW) program, and the Civil Service News.

Discussion

The Panel supports efforts made to assist employees with smoking cessation. Since these programs are already available to state employees, they should be better publicized so all employees wishing to take advantage of them are aware of their existence and how to access them.

THE PANEL RECOMMENDS that the Commission direct the Department of Civil Service, in cooperation with the Office of the State Employer, to take steps to increase awareness and accessibility of the various smoking cessation programs available to state employees.

IV. 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. There continues to be increased utilization of the funds – more than $97,000 was spent from the MSC Fund during fiscal year 2006, and about $78,500 was spent from the Business and Administrative Fund.

Discussion

The Panel continues to support use of these funds as a way to encourage professional development in the state workforce.

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.