STATE OF MICHIGAN

CIVIL SERVICE COMMISSION

COORDINATED COMPENSATION PANEL

COORDINATED COMPENSATION PROPOSAL

FOR

FISCAL YEAR 2012

Recommendations for Nonexclusively Represented Employees of the State of Michigan Classified Service for the Fiscal Year Beginning October 1, 2011

Table of Contents

Introduction

Rule 1-15.4(c) states that the Employment Relations Board shall serve as the coordinated compensation panel or appoint persons to serve as a panel. The previous administration requested that this year's Coordinated Compensation Plan (CCP) process be postponed. Due to timing constraints resulting from the compressed schedule, the Board appointed three Civil Service Commission staff members, Amy Cahoon, Matthew Fedorchuk, and John Gnodtke, to serve as the CCP panel this year.

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 participants 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. Employees James Dennis, Jay Wesley, and Allen Williams requested and were granted permission to participate in the CCP process.

The Panel held a hearing on February 3, 2011. All parties were allowed to make presentations and respond to proposals of other parties. Having reviewed the arguments and submissions of the parties, the Panel transmits the following summary, along with copies of the record, to the Commission for its consideration and the issuance of final determinations consistent with the standards in CSC Rule 5-1.2 and Regulation 6.06, §4.D.

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 a briefing on fiscal year (FY) 2012 revenue forecasts and budget projections as part of the OSE's presentation. Testimony and documents were received from Jay Wortley from the Department of Treasury and Colleen Gossman from the State Budget Office. The following is a brief summary of the information provided:

The already struggling economy in Michigan has been further weakened by the severe national recession. That recession was the longest in recent history and had the largest drops of real gross domestic product and employment for recent recessions. While the national economy has begun to turn around, the recovery has been slow. Some economic indicators, however, such as the stock market, initial unemployment claims, and sales figures, have begun to trend positively.

Michigan is still facing profound challenges due to the restructuring of an economy that was long dependent on the automobile industry. Modest increases in total employment in Michigan are expected for the next two years, but these are far exceeded by the losses over the past decade, when total employment declined every year. The last few decades have seen Michigan tumble from one of the most prosperous states to one of the poorest.

Decisions on tax rates and tax breaks have resulted in a structural deficit. Over the past three years, budgets have been balanced with over $3.4 billion in federal stimulus funds and other one-time fixes that will not be available this year. Further compounding budget pressures going forward are tax cuts and credits that, on average, will cut revenues by hundreds of millions of dollars more each year for the near future. Since 2000, general fund revenues have dropped by 25%. In real terms, general fund revenues are the lowest since 1965. Simultaneously, the need for government assistance programs like unemployment insurance, Medicaid, and food assistance continues to increase.

Party Positions and Proposals

I. General Wage Adjustment

The OSE recommends that there be no general wage increase for NEREs for FY 2012. The OSE again cites the difficult economic situation faced by the state, which last year's CCP recommendation referenced. This year's budget outlook appears even worse than last year's situation. Awarding a 3% general wage adjustment for all NEREs would have a projected cost of $38 million, which could result in the elimination of hundreds of positions. Awarding additional wage increases now could have unintended consequences by adding more budget pressures. Adding retroactive pay would be doubly burdensome. The OSE expects concession discussions to begin after the governor's budget message in mid-February. The OSE recognizes that NEREs did not receive a 3% increase last year and will consider that going forward in looking at future cost savings and concessions.

ASEM seeks a 3% increase in all steps of pay ranges for NEREs. NEREs occupy critical leadership roles and have already suffered inequitable treatment as a result of last year's denial of the 3% salary increase, which was given to all civil servants except NEREs. Multiple studies contradict political rhetoric that public servants' pay is out-of-step compared to the private sector. While the state claimed inability to pay last year, represented employees received the raise. The state "found" surplus funds this year that far exceeded the savings from its inequitable treatment of NEREs. The state has funds that would allow it to treat NEREs equitably, but has instead found other avenues to redirect or give away that money. State workers have already agreed to concessions saving the state over $3.8 billion during the last decade. While the new administration describes the need for employee sacrifices, the reported salaries of its appointees are higher than in the past. Additionally, the unfair labor practices committed by the OSE last year considerably impacted the ability of NEREs to receive equitable treatment.

MAGE requests a retroactive 3% raise. The denial of a raise last year has exacerbated longstanding pay compression issues and drastic morale problems. MAGE claims that there is a significant problem in attracting new supervisors and many existing supervisors across the state are considering demoting. MAGE submitted thirty-six requests for voluntary demotions from correctional supervisors, who complain of receiving less pay than subordinates. MAGE also referenced two classifications where default pay schedules in the compensation plan are lower than the unionized classes that they supervise. Penalizing managers facing more overtime and less staff with lower wages is a mistake, as is punishing business and administrative unit employees simply for not voting to join a union. The treatment of NEREs has been unfair and should be addressed.

MSPCOA's position statement focuses only on conditions affecting compensation for NEREs in the Michigan State Police (MSP). No position was taken on the general wage increase.

Employee James Dennis, a Corrections Shift Supervisor with the Department of Corrections (DOC), focuses most of his position statement on issues related to the DOC, but does indicate support for a 3% raise for all NEREs to address past sacrifices made. No pay or health benefit cuts should be imposed on DOC employees due to special considerations for the work of the department. The environment DOC employees face is uniquely dangerous, with health and safety risks that merit special consideration. Additionally, DOC employees have been working on several initiatives to decrease costs to the state. Whatever actions are taken, compensation for DOC employees merits separate consideration.

Employee Jay Wesley, a Natural Resource Manager with the Department of Natural Resources and Environment (DNRE), requests that the 3% raise that NEREs were denied last year be reinstated. Mr. Wesley highlights higher workloads faced in his department by fewer employees who work without overtime and have already accepted numerous concessions. If employees are asked for further cuts in the future, the additional concessions already made by NERE should at least be recognized. Mr. Wesley was unable to attend the CCP hearing, but asked that his position statement be considered.

Employee Allen Williams, a State Office Administrator with the Department of Energy, Labor, and Economic Growth (DELEG), focuses his position statement on the pay-for-performance system, but is generally supportive of the 3% increases proposed by the LROs.

II. Miscellaneous

A. Special Wage Increase for MSP Command Officers

MSPCOA requests a 2% base wage increase for MSP Command Officers to address longstanding pay compression concerns. The maximum pay rate for a Lieutenant 14 is only 6.35% higher than that for a Sergeant IIIB. In 1989, the gap was 14.14%. Even more compression is evident when looking at the gap between the Lieutenant 15 and Sergeant IIIB classes, where the pay gap shrank from 22.33% to 10.73% over the same period. Beginning next fiscal year, sergeants will receive a 2% increase under their collective bargaining agreement, which will further decrease the gaps to 4.29% and 8.58%, respectively. If a sergeant receives shift differential, they will actually make more than a supervising Lieutenant 14. In 1985, State Personnel Director John Hueni stated that the ideal pay differential between levels is 10%. While the MSPCOA has made similar requests in past years, the continuing deepening of the problem provides a basis to reevaluate the issue. Failing to address worsening pay compression issues at MSP will further hinder the ability to find employees willing to accept promotions.

OSE Response

OSE believes that special wage increases will not solve all problems. Similar proposals have been received in the past and the CCP has typically required compelling evidence before reopening previously debated matters. Current budgetary pressures also prevent supporting such an increase.

B. Performance Pay System Reform

ASEM requests reform of the pay-for-performance (PFP) program by (1) returning to a step-increase system or (2) allowing pay increases to resume. While initially designed to reward employees, it has been transformed by executive directives into a program to reduce state expenditures at the expense of NEREs. Despite past CCP findings and commission approvals for comprehensive reviews of the PFP program, no good-faith action has been undertaken by OSE or commission staff. The long-term freezing of PFP bonuses had led to inequities as newer hires are paid higher salaries than longer serving and higher classified coworkers simply because it is recognized that pay levels cannot be adjusted due to PFP freezes. ASEM also concurs with Allen Williams.

MSPCOA requests that PFP employees be brought to their fixed control with appropriate pay adjustments from their date of promotion. With recent moratoriums on PFP, salary structures are not proportional to professional maturity.

Employee Allen Williams offers several proposals for the Panel's review. The current PFP program is not functioning properly and should be replaced by returning to a salary-step structure. Alternatively, performance pay for new hires or promotions into Group 4 could be capped at the level of the lowest-paid employee already in the class in that department. Additionally, forfeited PFP awards should be credited as concessions. Mr. Williams expressed disappointment at the lack of any action since last year's CCP process, during which the commission ordered a comprehensive review of the PFP system. No such review has occurred. During several years of inaction, Group-4 employees below the fixed control point have suffered significant financial damages. The PFP freeze may have resulted in disparate treatment based on age and partisan consideration because of younger employees hired during the freeze and political appointees hired with the recent change in administrations. The compounding cost of the PFP freeze has harmed many employees in PFP classes and will have long-lasting effects on recent retirees who could not receive raises to increase their final average compensation at the end of their careers.

OSE Response

The fundamental problem over the last few years has been a lack of payments. The executive directive prohibiting payments is no longer in place. A quick study to address concerns could be completed. Capping salaries in a PFP program could create its own set of problems. Counting PFP awards as concessions also would be difficult because the awards are discretionary, based on performance, and therefore could not be easily and accurately estimated.

C. Healthcare Trust Contribution Relief

Beginning in November 2010, a payroll deduction of 3% was initiated for all state employees, as required by MCL 38.35. The provision, which was enacted as part of the incentivized retirement program is scheduled to sunset in September 2013, although legislation to remove the sunset provision has been introduced. Several unions are currently pursuing legal challenges to the deduction. The deducted money is currently being held in escrow pending resolution of the litigation.

ASEM requests that NEREs be relieved from paying the 3% contribution or from making such payments if the unions prevail in their lawsuits.

OSE Response

The legislative payroll deduction is a legislative matter and not properly in this forum.

D. Annual and Sick Leave Program Adjustments

ASEM requests that the annual leave cap be increase by 10 to 20 hours in recognition of the higher workloads faced by remaining employees who are even less able to take time off. ASEM requests that the cap for annual leave that may be paid out at separation be increased by 10 to 20 hours to mitigate concessions at minimal cost to the state. ASEM also asks that a sick leave bank be created to allow employees to donate sick leave to coworkers.

OSE Response

There has been no demonstration of any serious problems with the lapsing of leave. Also, doing anything to add extra costs at this time is not feasible given the serious economic difficulties. The CCP has received similar proposals in the past and no compelling evidence to merit reopening has been shown.

E. Seniority-Based Shift Preference

James Dennis requests that Corrections Shift Supervisors (CSS) be allowed to select shift assignments. Mr. Dennis argues that line staff enjoy shift preference and employees are hesitant to give up control of their lives by accepting a promotion and being subject to changes in schedule. The possibility of shift changes makes it difficult for employees to establish a life outside work.

OSE Response

Shift preference has been previously proposed and found not to be a compensation issue that is a proper subject for the CCP process.

Recommendation

As authorized in SPDOC 11-02, the CCP Panel recommends that the commission make a final decision consistent with the standards usually considered, as listed in Regulation 6.06. Complete copies of the record, including transcripts, exhibits, and position statements will be forwarded to the Commission to assist in its consideration at its meeting on February 9, 2011.