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# MEMORANDUM

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Date: June 12, 2012

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator 

Re: **History of County Employee Salary Adjustments and Benefits Costs**

The ongoing recession has significantly impacted all aspects of the Pima County Budget, including employee compensation and benefits. This memorandum provides the Board with an historical perspective of how the County has handled salary adjustments and additional benefits costs for our employees, both before and after the start of the economic decline.

### History of Employee Salary Adjustments

Over the years, to the extent resources were available, the Board has demonstrated its commitment to providing equitable compensation to County employees by approving market adjustments, anniversary pay increases, step plan funding, and matching or absorbing the employee share of retirement rate increases.

Table 1 below summarizes the employee salary adjustments since Fiscal Year (FY) 1999/2000.

**Table 1. Salary Increase Summary**

<b>FY</b>	<b>Salary Increase</b>
1999/00	2.5% <u>general adjustment</u> effective January 2, 2000 2.5% anniversary with successful performance evaluation
2000/01	2.5% anniversary with successful performance evaluation
2001/02	2.5 % <u>general adjustment</u> effective September 9, 2001 5.0% <u>market adjustment</u> on anniversary Establish <u>step plan</u> for Law Enforcement
2002/03	\$0.8135 per hour or one-time \$500 <u>general adjustment</u> effective December 19, 2002 1 <u>step adjustment</u> for Sheriff non-command staff effective date in class

**Table 1. Salary Increase Summary**

FY	Salary Increase
2003/04	No general adjustment, anniversary increases, or step increases awarded
2004/05	2.5% <u>general adjustment</u> effective August 8, 2004 2.5% <u>general adjustment</u> effective December 26, 2004 1 <u>step adjustment</u> for Sheriff non-command staff effective date in class New <u>step plan</u> for Sheriff's non-command staff, offering a market adjustment to bring officers in line with other local jurisdictions
2005/06	2.5% <u>general adjustment</u> effective July 10, 2005 1.7% <u>general adjustment</u> effective July 10, 2005 to compensate for increased retirement rate contribution for members of the Arizona State Retirement System (ASRS) 1 <u>step adjustment</u> for Sheriff's corrections non-command staff effective date in class
2006/07	2.8% <u>general adjustment</u> effective July 1, 2006 1.7% <u>general adjustment</u> effective July 1, 2006 to compensate for increased retirement rate contribution for members of the ASRS 1 <u>step adjustment</u> for Sheriff's corrections non-command staff, deputies, and sergeants effective date in class
2007/08	2.1% <u>general adjustment</u> effective July 8, 2007 2.5% <u>market adjustment</u> effective July 8, 2007 0.5% <u>general adjustment</u> effective July 8, 2007 to compensate for increased retirement rate contribution for members of the ASRS 10% and 5% <u>step adjustment</u> for Sheriff's deputies, sergeants, and corrections non-command staff effective January 6, 2008

Resources available in FYs 2008/09, 2009/10 and 2010/11 were insufficient to fund an employee compensation package, though existing employee benefits have been maintained, and in many instances, increased. While other government jurisdictions have been forced to resort to unpaid furlough days and other similar actions during this time of economic downturn, Pima County has managed to avoid these salary reductions.

The Board of Supervisors approved a one percent general adjustment for existing employees in FY 2011/12 to partially offset the impacts of increased retirement plan employee contributions as well as mandated shifts between some employee and employer retirement contributions percentages. Though the mandated shift of contribution

percentages for employees in the Arizona State Retirement System was reversed by the State Legislature and the Courts retroactive to its inception date of July 1, 2011, the FY 2012/13 Recommended Budget retains this one percent general adjustment for employees.

### **Employee Benefits**

Pima County offers a comprehensive and competitive package of benefits to employees and their families. Major components of these benefits include:

Medical Insurance Plans. High Deductible Health/Health Savings Account (HDHP/HSA) and Preferred Provider Organization Health Plans.

Dental Insurance. Includes the option of a dental maintenance organization or an indemnity type plan.

Retirement. Participation for all eligible employees who are covered by one of the ASRS plans. These are defined benefit plans in which the County and the employee contribute a prescribed percentage based on the employee's salary.

Life Insurance. The County pays for \$50,000 of basic life insurance coverage for each eligible employee, which includes a \$50,000 Accidental Death and Dismemberment policy. Supplemental Life Insurance Coverage and Dependent Life Insurance Coverage are also available for all eligible employees.

Workers Compensation and Occupational Disease Benefits. These benefits are available to eligible employees and cover accidental injury, disease or death that occurs as the result of employment and is job-related.

Paid Leave. Accrued Annual Leave, Accrued Sick Leave and Paid Holidays for All Eligible Employees.

Other Benefits. While not an exhaustive list, other benefits available to eligible County employees include Deferred Compensation, Flexible Spending Accounts, Domestic Partner Coverage, and an Employee Assistance Program.

Budgeted benefits costs also include the County's share of Social Security and Medicare payroll taxes.

The costs associated with many of the benefits provided to eligible employees are either fully or partially paid by the County. On average, an employee's benefits cost to the County amounts to over one-third of their total salary. For some position classifications within the County, this ratio is even higher due primarily to mandatory higher retirement contribution rates.

### Historical View of Benefits

Over the years, the County has continued to change and upgrade its benefits package for employees. Not only has the County expanded its benefits package, but the cost to provide these benefits has steadily increased. The actual cost to the County for employee benefits in FY 2003/04 totaled \$65,428,051. The proposed final budgeted benefit cost in FY 2012/13 will total \$119,802,479, which represents an increase of over 83 percent from FY 2003/04. A significant portion of this increase is the result of increases in the cost of medical insurance and retirement contributions. Since FY 2002/03, the County's retirement contribution rate for employees enrolled in the ASRS increased from 2.49 percent to 11.15 percent in FY 2012/13.

It should also be remembered that for employees enrolled in the High Deductible Health Plan (66 percent of enrolled employees), the County contributes \$1,000 for an employee and \$2,000 for an employee plus spouse, child or family to the employee's Health Savings Account. This benefit costs the County approximately \$5.7 million per year. Overall, employees currently have Health Savings Account balances totaling \$8.7 million.

### FY 2012/13 Benefit Cost Increases

On April 9, 2012, I provided the Board with the attached memorandum to the Board entitled: Personnel Expenses to be absorbed in the Fiscal Year 2012/13 Budget. In that memorandum, I provided a list of the primary benefits cost increases with a brief description of each. The FY 2012/13 aggregate benefits increased in excess of \$14 million. It was not viable for me to recommend a salary increase for County employees in this upcoming budget year given the magnitude of these increased costs. On average, these primary benefits cost increases for an employee enrolled in the ASRS are detailed below:

**Table 2. Average County Cost Increase per Employee  
Average FY 2012/13 Primary Benefits Increases for Employee Enrolled in ASRS<sup>1</sup>**

ASRS Refund to County Employees (Return to 50/50 Ratio)	\$228
ASRS Continuing Contribution at 50/50 Ratio	228
FY 2012/13 ASRS Rate Increase	169
County's 50 Percent Share of Health and Medical Insurance Increase	612
County Cost Impact if Employee Takes All Four Wellness Discounts	520
<b>Total Cost of Primary Benefit Increases</b>	<b>\$1,757</b>

<sup>1</sup>Based on average employee salary of \$35,076 per year.

While not receiving a direct salary adjustment, employees are receiving a significant increase in benefits cost coverage by the County. This benefits increase will be absorbed in

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FY 2012/13 despite a shrinking property tax base and increasing costs within other areas of the County's budget.

CHH/mjk

Attachment

c: Presiding Judge, Superior Court  
Elected Officials  
Appointing Authorities  
Martin Willett, Chief Deputy County Administrator  
Tom Burke, Director, Finance and Risk Management  
Robert Johnson, Budget Manager, Finance and Risk Management



# MEMORANDUM

Date: April 9, 2012

To: The Honorable Chairman and Members  
Pima County Board of Supervisors

From: C.H. Huckelberry  
County Administrator

Re: **Personnel Expenses to be absorbed in the Fiscal Year 2012/13 Budget**

There are numerous increases in personnel expenses that must be paid by the County in Fiscal Year (FY) 2012/13. These expenses are significant, totaling in excess of \$14 million. Given the magnitude of these increases, it becomes increasingly difficult to consider any general employee compensation adjustments during FY 2012/13 when our tax base continues to decline in value.

The table below lists the primary employee benefit cost increases with a brief explanation of each.

Description	General Fund	Total County
<b>1. <u>Arizona State Retirement System (ASRS) refund to County employees.</u></b> Last year, the State Legislature enacted a rate structure whereby the employee paid 53 percent of the ASRS contribution and the State (or its political subdivisions, in this case the County) paid 47 percent. This contribution structure was challenged in court as being noncompliant with the legal requirements of the employment contract between the State and its employees. As a result, the State is processing legislation to repeal this differential payment structure and refund the overpayments to employees. This will result in employees receiving a one-time reimbursement of their overpayment, but it will require the County to pay this reimbursement. This overpayment adjustment must also be paid on a continuing basis in future budget years and result in an additional ongoing cost beginning in FY 2012/13.	\$1,556,000	\$2,593,333
<b>2. <u>ASRS continuing equal payment as described above.</u></b>	1,556,000	2,593,333
<b>3. <u>FY 2012/13 ASRS rate increase.</u></b> There are further adjustments to the normal ASRS contribution. The	551,699	972,013

Description	General Fund	Total County
compensation percentage is being increased, and this increase must come from the General Fund.		
4. <b>Corrections officer retirement contribution.</b> The retirement contribution for corrections officers is also being adjusted upward, resulting in an increased cost to the General Fund.	554,923	557,285
5. <b>Elected officials retirement contribution.</b> The elected official retirement contribution is also being increased.	201,096	201,096
6. <b>Deputy Sheriff Retirement Contribution.</b> The most significant increase in retirement contributions is for the Public Safety Retirement System.	1,597,827	1,646,473
7. <b>Health and medical insurance premium contribution.</b> Employee health and medical insurance premiums are estimated to increase by as much as 18 percent this year. Our standard has been for these cost increases to be shared equally with the employees. This amount is the County's share of the increase.	1,951,672	3,252,786
8. <b>County impact if all employees take the full wellness discount.</b> Because the County tries to reduce health insurance premium increases for our employees, we offer, and have significantly expanded, premium discounts for employee wellness programs. Last year, these discounts amounted to a single discount of \$5.00 per employee per pay period.  This year, these employee premium discounts are being increased to as much as \$20.00 per pay period. This means that if an employee takes advantage of all four tiers of wellness discounts, they will see little, if any, premium increase. These wellness insurance premium discounts are paid by the County General Fund. Based on previous employee participation in wellness discounts, it is estimated that approximately 83 percent of the health and medical premium cost will be paid by the County.	1,657,760	2,763,280

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These employee benefit cost increases equal \$9.63 million from the General Fund and \$14.58 million overall for the County. These are significant cost increases for FY 2012/13; and because of a shrinking property tax base, they will be difficult to absorb in our budget next year.

Overall, the Sheriff is experiencing the largest single benefits increase, totaling nearly \$2.1 million for increased retirement contributions alone, plus that Department's share of the increases in medical and health insurance premium costs.

CHH/mjk

c: Presiding Judge, Superior Court  
Elected Officials  
Appointing Authorities