COUNCIL BUDGET STAFF REPORT

CITY COUNCIL *of* SALT LAKE CITY
tinyurl.com/SLCFY25

TO: City Council Members

FROM: Ben Luedtke, Senior Analyst

DATE: May 21, 2024

RE: **Fiscal Year 2025 Compensation and Benefits Budget**

Project Timeline:
Briefing: May 21, 2024
Budget Hearings: May 21 & June 4, 2024
Potential Action: June 11 or 13, 2024

ISSUE AT-A-GLANCE
The total compensation budget includes salaries, supplemental pay, health insurance, pension costs, and other benefits. The proposed FY2025 budget includes:

- $475.2 million for compensation across all departments (including enterprise funds)
  - General Fund makes up $298.9 million, which is 63% of the General Fund budget (historically it represented approximately 67% of the budget).
  - This is a $33.2 million (12.5%) increase to the compensation budget over the FY2024 adopted budget.
- New staff: 62 new fulltime employees (FTEs)
  - 32.5 are in the General Fund
  - 4 added through midyear budget amendments in FY2024.
- Salary increases:
  - 5% proposed general pay increase for all employees
  - market-based salary increases to maintain competitive compensation levels
  - previously agreed upon merit increases for represented employees
- Benefits:
  - 3.66% medical insurance premium increase
  - higher contribution to employees' Health Savings Accounts (HSAs)

The Citizens' Compensation Advisory Committee (CCAC) annual report is provided as Attachment 1 and a summary of the recommendations is in the Additional Info section. This report provides a summary of the total compensation budget, costs, historical context, and policy questions for Council consideration.

Health Savings Accounts or HSA ($4.4 Million; Increasing Front-loaded City Contribution to Employee HSAs and Increasing Deductible Employee Pays)
The Administration is proposing to continue the one-time annual contribution to front-load employees' HSAs at the start of the fiscal year at higher amounts to adjust for higher deductibles. The contributions would amount to $1,000 for singles ($250 increase) and $2,000 for doubles and families ($500 increase). The total cost is $4,422,015 and assumes all vacant positions are filled. The General Fund covers $3,601,800 of that amount.

HSA compatible high deductible health plans are subject to IRS regulations and minimum standards. The IRS increased the minimum deductibles for 2024 which are slightly higher than the City's current deductibles. See the chart below to compare the new IRS standards compared to the proposed budget, which includes setting higher deductibles than the new IRS minimums. By setting the City deductible higher than the IRS minimum requirement, it avoids having to adjust these amounts every fiscal year and provides a significant (-2.84%)

reduction to the premium increase for FY2025. If the City did not select the proposed deductibles of $2,000 for single and $4,000 for double/family, the medical insurance premium increase is estimated to be higher at 6.5%.

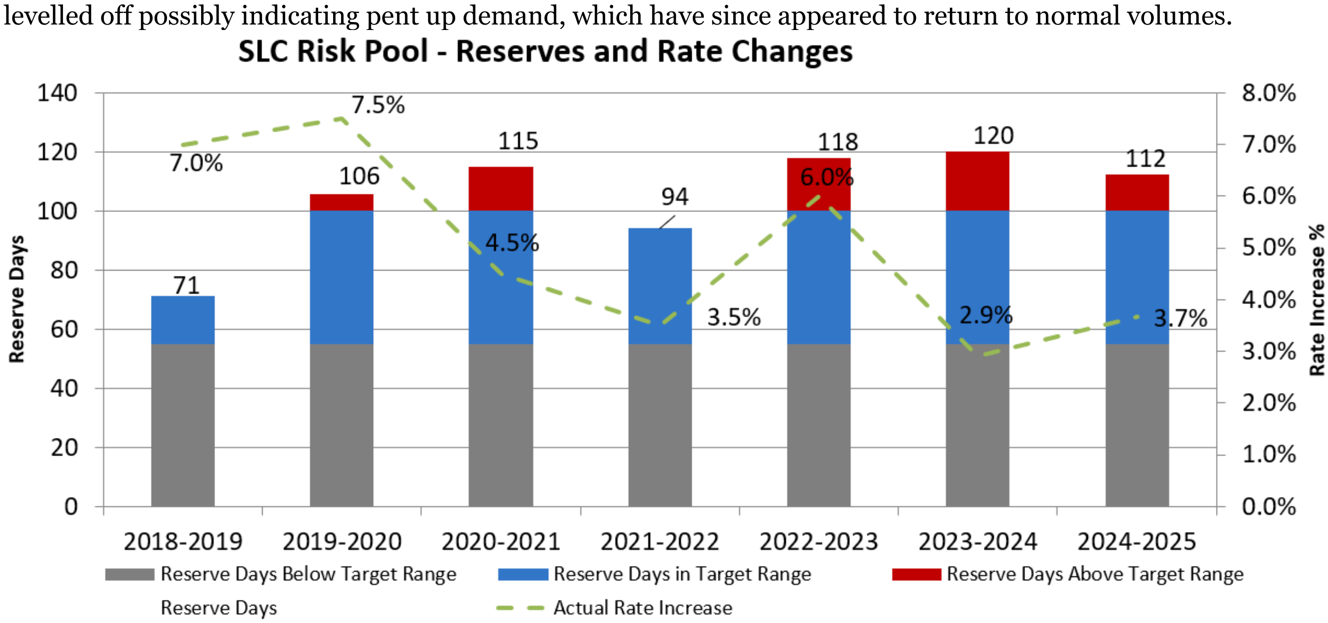
Deductible	Single	Double or Family	Notes
Current City Plan Deductible	$ 1,500	$ 3,000	Below new IRS HSA required minimums
Proposed City Plan Deductible	$2,000	$ 4,000	This deductible would reduce the FY2025 premium by -2.84%
Old IRS Minimum Deductible	$ 1,500	$ 3,000	Calendar year 2023 minimums
New IRS Minimum Deductible	$ 1,600	$ 3,200	This deductible would reduce the FY2025 premium by -0.60%

A few factors that affect the cost to the City versus the cost to individual employees:

- A higher deductible reduces premiums because a greater cost is paid by the employee before the cost hits the shared insurance plan pool.
- Shifting costs from the shared insurance pool to the individual employee deductibles causes the premium to be reduced.
- The impact to individual employees is mitigated by the higher contribution from the City to employees HSAs, and it continues the same ratio of the HSA contribution set at 50% of the employee's deductible.
    - Front loading HSAs with 50% of the employee's deductible is meant to keep up with inflationary costs of medical services and help reach higher deductible levels.
    - The deductible maximum out-of-pocket cost an employee is responsible for also increases along with the higher deductible. Historically, the IRS increases the minimum deductible every two to three years.

Medical Insurance ($3.2 Million across all departments for 3.66% Premium Increase)
The Utah Retirement System (URS) requires cities to hold a medical plan reserve sufficient to cover at least 55 days of typical claims. PEHP provided the below chart showing the City's annual medical insurance premium increases since FY2019 and the medical reserve balance measured in number of days of average claims that can be paid.

In spring 2021 medical and prescription claims paid on a rolling basis by the City's insurance increased and then levelled off possibly indicating pent up demand, which have since appeared to return to normal volumes.



The table below summarizes medical insurance premium increases and plan reserve funding since FY2016. The estimated reserve balance is $13.1 million, which is 112 days of typical claims. The City maintained a larger reserve balance in recent years. This is primarily caused by two factors: first, claims were down during the pandemic when elective surgeries were halted by state order and people voluntarily delayed / avoided healthcare services. Second, PEHP recommends maintaining a larger than typical medical reserve because claims are taking longer to be submitted and processed than usual so the resulting number of claims may be larger than expected.

Fiscal Year	Premium Change	Medical Reserve Account	
		# of Days to Cover Typical Claims	$ Amount
2016	5.0%	86	$5.9 million
2017	6.6%	76	$5.5 million
2018	3.5%	76	$5.9 million
2019	7.0%	71	$6 million
2020	7.5%	106	$10 million
2021	4.5%	115	$11.1 million
2022	3.5%	94	$9.5 million
2023	6.0%	118	$12.7 million
2024	2.9%	120	$13.6 million
2025*	3.7%	112	$13.1 million
*FY2025 is an estimate from PEHP			

As shown in the table and chart above, the FY2025 budget includes a 3.66% increase to premiums for the Summit STAR high deductible health plan (HDHP), the City's only medical insurance plan. The cost of this increase is $3,212,778 of which $1,980,811 is covered by the General Fund. PEHP indicates national average medical insurance increases are 5% to 7%.

Premium Holidays – There is no premium holiday planned for FY2025. The FY2024 budget included a true-up to align payment cycles as part of the transition to Workday, the new financial system, which in effect acted as a premium holiday for medical insurance which means the City and employees do not pay premiums for a pay period. When used, a single medical insurance premium holiday adds a one-time $1 million transfer to the General Fund from the Risk Fund. The City has used this approach in recent years, although the City had no premium holiday in FY2023. The FY 2022 budget had a single premium holiday, two in FY2021, one in FY2020, none in FY2019, and two in FY2018.

Medical Insurance Premium Cost Increases by Plan Type for City and Employees – The two tables below summarize the premium increase cost impact to the City and to employees. The increase reflects the required annual actuarial contributions.

Plan	City's Biweekly Contribution	Biweekly Increase to City	Annual Increase to City
Single	$227.11	$7.62	$198.12
Double	$511.01	$17.15	$445.90
Family	$681.33	$22.88	$594.88

Plan	Employee's Biweekly Contribution	Biweekly Increase to Employees	Annual Increase to Employees
Single	$11.95	$0.40	$10.40
Double	$26.90	$0.91	$23.66
Family	$35.86	$1.20	$31.20

5% General Pay Increase for All Employees ($14.4 Million)
The $14.4 million would provide a 5% base salary increase for all employees including those represented by a bargaining unit. Of that amount, $8.4 million is covered by the General Fund. It's important to note that negotiations with the local fire union and police union were ongoing at the time the Mayor's Recommended Budget was presented to the Council. It includes funding for a 5% base salary increase to those employees. Each 1% general pay increase to all employees is estimated to cost $2,792,206. The City has provided general pay increases to all employees in recent years when incoming revenues were growing. Although not directly tied to the consumer price index, sometimes this type of pay increase is referred to as a cost-of-living adjustment or COLA increase. There was a 5% base salary increase in FY2024, a 4.5% base salary increase for non-represented

employees in FY2022 and FY2023 and no base salary increase for all City employees in the FY2021 annual budget because of the significant financial uncertainty facing the City during the early stages of the pandemic and was accompanied by a half-year hiring freeze. Employees did receive either a one-time $200 internet allowance or a $1,000 hazard payment. There was also a one-time bonus of $500 to all employees except for employees in the fire union and AFSCME union who received a one-time $2,000 bonus.

Market-based Salary Adjustments ($921,000)
Salary adjustments for benchmarked employee groups who lag local market pay rates by 2% or more are reported annually by the Citizens' Compensation Advisory Committee (CCAC). See Attachment 1 pages 9-13 for a detailed breakout of employee benchmarks lagging the market. This year, the Administration proposes funding market-based adjustments for employees that would still be lagging the market by more than two percent after the 5% base salary increase. This would cover seven job benchmarks identified as either slightly or significantly lagging the market; 23 job benchmarks would be brought to within 2% of market after the 5% general pay increase is factored into those salaries. The total estimated cost to the City for these adjustments is $921,000 of which $563,000 is covered by the General Fund and $358,000 by other funds. These annual adjustments are intended to ensure the City's salaries are competitive in the local labor market.

Represented Employee Merit Increases ($TBD)
It's important to note that negotiations with the local fire union and police union were ongoing at the time the Mayor's Recommended Budget was presented to the Council. Merit increases or sometimes called step increases, are determined through collective bargaining between the City and the three recognized unions representing most City employees. Step increases are based on years of service for represented employees. These amounts are determined through negotiations and are part of the Memorandums of Understanding between each unit and the City. Step increases begin on an employee's hiring anniversary date. See the Additional Info section for more on the City's three bargaining units.

Multiple Salary Increases for Some Employees
(See policy question #1)
It's important to note that some City employees could receive two or more of the above salary increases (merit, negotiated, general 5%, and market-based adjustments) depending on what position they are in. The Administration is currently in wage negotiations with the fire union and the police union. Additional compensation changes for those represented employees may be recommended to the Council as part of the FY2025 annual budget based on those ongoing negotiations.

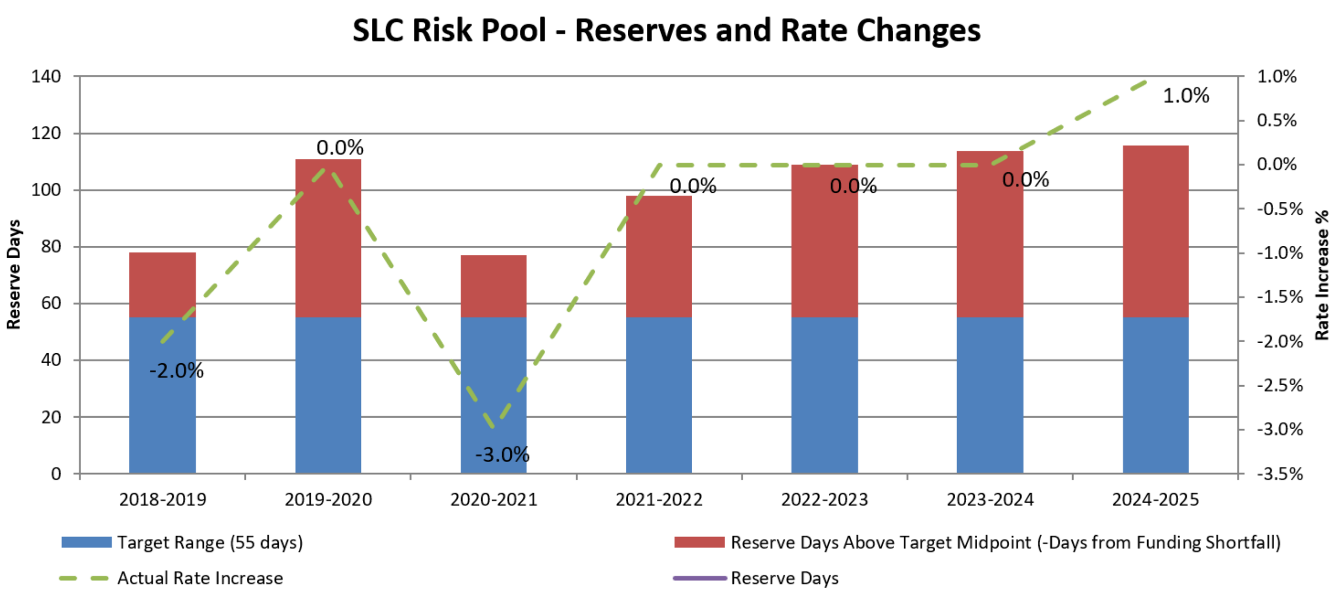
Annual Compensation Plan Changes:
(See Attachment 2 for redlined version of the plan)
The proposed FY2025 Annual Compensation Plan has several adjustments to existing compensation items:

- Changing the **shift differential for non-represented employees** who are not police sergeants and lieutenants from $1/hour to 7.5% of base hourly pay. This is meant to provide equity by matching shift differential provided to FLSA non-exempt employees represented by AFSCME.
- Removing $65 **uniform allowances** for non-sworn employees in the Police Department and Watershed Management Division because those departments have agreed to provide uniforms directly to the employees.
- Expanding **bereavement leave** from three to five days for incidents of miscarriage or stillbirth. Bereavement leave may be used consecutively or spread out non-consecutively within one calendar year from the date of death.
- Several positions on the **Appointed Pay Plan** are being eliminated to reflect departmental organizational changes including 911 executive assistance, Airport Director of Operational Readiness and Transition, Deputy Fire Chief, REP Commission Policy Advisor, and Assistant Chief of Police.
- Several positions on the Appointed Pay Plan are proposed to receive **higher pay grades** including the Arts Division Director (from 33 to 35), Business Development Division Director (from 33 to 35), Assistant Fire Chief (from 35 to 38), Deputy Chief HR Officer (from 37 to 38), Justice Court Judge (from 38 to 39), Communications and Content Manage in the Mayor's Office (from 21 to 30), Deputy Chief of Police (from 37 to 38)
- An adjustment to **elected officials compensation**, based on a review of the City Mayor's salary compared to other city mayors and city managers (depending on the form of government) in Utah as well as Department Directors. Council Member salaries are set at 25% of the Mayor's salary so those are also automatically adjusted with the annual budget per ordinance.

Discontinuing Lifestyle Spending Account (Reduction of (-$500,000) for the General Fund)
In the last annual budget, the Council approved funding for a new employee benefit called a Lifestyle Spending Account that provides $500 as an annual use-it-or-lose-it reimbursement to full-time employees. Unused funds for individual employees do not accrue over multiple fiscal years (i.e., a *spending* account not a *savings* account). The total cost across all departments was estimated at $2 million of which half a million was from enterprise funds. Eligible reimbursement categories varied from childcare, out-of-state medical expenses, student loans, home down payments, physical fitness, and emotional wellness. The Administration stated the eligible reimbursements are meant to be flexible in response to employee needs. A third-party administrator manages the program for a fee after a request for proposal (RFP).

Employee Utilization of the Lifestyle Spending Account
The benefit is being provided on a calendar year basis in 2024. Final figures on participation won't be known until early calendar year 2025. The City could reevaluate this benefit after the first full year is completed. The Administration provided the following status update on participation: "participants since January 2024 have numbered 1276. There have been 2,355 transactions for Physical Wellness; 850 transactions for Financial Wellness, 493 transactions for Social Wellness, 128 transactions for Emotional Wellness and 329 transactions for Personal Wellness. Note: The total number of transactions is greater than participants because many employees utilized the LSA funds multiple times and/or in multiple categories.

Dental Plan Premium 1% Increase (no budget impact to the General Fund)
The FY2025 budget includes a 1% increase to the dental premiums paid biweekly by employees (the City does not contribute towards dental insurance for employees). This is first dental premium increase in nearly a decade and reflects increasing utilization across all three plan options of single, double, and family. For the past several years dental premiums were unchanged or even reduced which was possible for the preferred and premium dental plans because the dental reserve had a healthy balance to absorb the revenue decreased from lower premiums. The dental reserve has a balance estimated to cover 116 days of typical claims.



Pension Contributions (Reduction of (-$1,368,659) for the General Fund)
For the third year in a row, changes by the Utah Retirement System (URS) are resulting in a net decrease for the General Fund. This year the decrease is over $1.3 million in lower costs for the General Fund. The reduction was almost (-$1.3 million) in FY2024 and (-$30,000) in FY2023. This trend is expected to continue. The reductions are mostly caused by Tier 1 employees retiring. Tier 1 employee retirements are generally more expensive for the City than Tier 2 employees who are becoming most of the workforce. Tier 1 enrollment ended in July 2011 partly because of the financial fallout from the Great Recession. Large mandatory contributions occurred in the years after the 2009 recession to make up for retirement system funds lost during the financial crisis. Retirement funding and rates are based on a rolling five-year average of investment returns. URS has an established process to change rates that requires audited financial and investment return information as of December 31 annually.

Mandatory 0.7% Payroll Deduction for all Employees in Tier 2 Retirement Systems
State law limits city contributions to employee pensions in the Tier 2 retirement system to 10% of the employee's annual salary. The actuarial analysis URS relied upon for these retirement systems accounted for less wage growth than occurred in recent years which causes higher future benefits for the members. Investment returns from the system's funds were insufficient to cover the higher-than-expected future benefits. As a result, greater contributions are required to cover the higher future benefits. Once the cost of these contributions exceeds the 10% employer (city) contribution rate the remaining portion (0.7% this year) is automatically taken from employee salaries through payroll deduction. An employer may increase salaries to offset the required employee contribution but an employer may not directly pay the employee's required contribution to the pension plan.

$1.5 Million to Potentially Move Away from Self-Insured Workers Compensation Plan
The Insurance and Risk Fund includes $1.5 million one-time to explore moving the City away from the current self-insured model of workers compensation. The funding is a placeholder pending further research into workers compensation insurance options. Any change would likely occur mid fiscal year to coincide with the start of calendar year 2025. The actual cost of a workers compensation insurance plan could be more or less than the placeholder budget.

Medical Coverage Changes
Like most years, there are adjustments to expand coverage for some types of treatment. Through the Midtown Employee Clinic, new certified dietitian services will be available from group meetings to private one-on-one appointments. Federal law is also requiring expanded coverage for costly prescriptions utilizing eligible manufacturer coupons. The Administration reports the cost of these coverage changes is negligible to the plan.

Vacancy Report (299 Vacant Positions)
(See policy question #3 and Attachment 3 for the list of vacant positions by department)

HR and Finance provided a vacancy report dated May 7, 2024 which provides a snapshot in time of current positions that are unfilled across all departments. The table below summarizes vacancies in the May 7, 2024 snapshot report by department. At the time of publishing this staff report, a more detailed report was requested to show the duration of vacancies throughout the year, the associated budget that is unused, and to clarify whether some divisions are included or were missed such as Fleet and Golf. The report found 301 vacant positions in the City. It's important to note that some of the positions listed are grant funded, some are part-time, and some in the 911, Fire, and Police Departments are authorized but unfunded so help with turnover (hiring entry level positions shortly before expected retirements / terminations).

Department	Vacant Positions
Police	60
Public Utilities	57
Airport	49
Public Services	23
Public Lands	21
Community & Neighborhoods	20
911	18
Fire	17
IMS	6
RDA	6
Finance	4
Attorney's Office	4
Council Office	4
Economic Development	3
Sustainability	3
HR	2
Justice Court	1
Mayor's Office	1
TOTAL	**299**

POLICY QUESTIONS

1. **Balancing Multiple Salary Increases for Employees** – The Council may wish to ask the Administration how the proposed annual budget balances some employees receiving multiple salary increases with other employees that may receive a single increase. It's important to note that some City employees could potentially receive two or more of the above-mentioned salary increases (merit, negotiated, general 5%, and market adjustments) depending on what position they are in.

2. **Expanded Parental Leave from Six to 12 Weeks at TBD Time in FY2025** –The Administration stated that parental leave expansion is being developed to offer 12 weeks instead of paid leave instead of the current six. In addition, the requirement to use Short-term Disability Insurance would be eliminated.

    a. The Council may wish to ask the Administration when the expanded parental leave benefit might return to the Council for consideration to amend the FY2025 Annual Compensation Plan.

b. The Council may wish to review the estimated financial impacts of the expansion, perhaps due to the shift away from short-term disability coverage, and increased costs for departments if temporary help is needed.
c. The Council may also wish to ask the Administration whether a placeholder in Nondepartmental for smaller departments that may not have available vacancy savings to cover the cost (this is a similar approach to how the City handles retirement payouts).

3. **Number, Duration, and Cost of Vacancies and Zero-Based Budgeting** – The Council may wish to confirm that the Administration will include evaluation of vacancies in the zero-based budgeting exercises planned for FY2025, and could consider a legislative intent on the topic. The Council may also wish to request the Administration provide a more detailed vacancies report annually such as the number, duration, and unused budgets from vacancies by position and by department.

4. **Metrics** – The Council may wish to ask the Administration what metrics are tracked related to compensation, benefits, and the City's workforce and share metrics that Council Members would find valuable. Examples in recent discussions have included annual departmental turnover (voluntary and involuntary), benefits utilization rates, time from job posting to hiring date, duration of vacancies and unused budget amount.

5. **Workers Compensation Insurance vs. Current Self-Insured Plan** – The Council may wish to ask the Administration what factors prompted the $1.5 million placeholder to explore moving away from a self-insured approach for workers compensation and instead potentially use an insurance plan?

ADDITIONAL & BACKGROUND INFORMATION

A. Citizen's Compensation Advisory Committee (CCAC) Findings and Recommendations

(See Attachment 1 for the CCAC 2024 Annual Report)

Each year the CCAC is responsible for preparing and submitting a written report, with any recommendations, to the Mayor and City Council for their consideration. The full CCAC report had a briefing for the Council at the March 26, 2024 work session and is included as Attachment 1. One role of this Committee is to study and compare the City's salary groups, or job benchmarks, against the salaries of comparable employers, especially those that compete with the City for talent, to see if the City's compensation levels are competitive in the current job market. A summary of the Committee's recommendations is available on page 2 of the attachment and is copied below for reference.

1. No Less than a 5% Salary Adjustment to Maintain Competitive Position in Market – Considering the impact of current market conditions, including labor shortages, increased cost of labor and inflation on employer salary budgets in 2024, the Committee recommends leaders increase the City's overall salary budget by no less than 5%.

2. City as a Pay Leader in the Market – The Committee continues to express its support for the City's compensation strategy to position Salt Lake City as an area pay leader for employees. The Committee has long recognized that Salt Lake City employees deal with a volume of diverse situations and problems not seen by most other municipal entities in the state. Therefore, it is in the City's best interest to attract the most capable employees to all positions and to encourage them to stay. The Committee believes that compensation should be an important factor in this equation and that this policy will prove beneficial to the City's citizens in the future.

3. Market-based Salary Adjustments – Furthermore, as funds permit, the Committee recommends the Mayor and City Council appropriate financial resources necessary to grant market salary adjustments for employees in benchmark jobs identified in this report as lagging market.

   - Priority should be given to those lagging significantly; and,
   - Second priority should be given to those lagging slightly behind the market.

   Detailed breakdowns of which job benchmarks are leading or lagging the market are available in Attachment 1 for AFSCME employees on page 9, Fire and Police employees on page 11, and Non-represented employees on page 13

B. Longevity Pay

As a long-standing policy, the City offers employees, except elected officials, a monthly longevity pay benefit based on years of employment as detailed in the below table. In total, approximately 49% of the City's total workforce receive longevity pay.

Years of Employment	Monthly Benefit	Annual Benefit	Number of Employees	Total by Category
Six	$50	$600	512	$307,200
Ten	$75	$900	392	$352,800
Sixteen	$100	$1,200	288	$345,600
Twenty	$125	$1,500	492	$738,000
TOTALS			**1684**	**$1,743,600**

C. Long-term Disability for All Employees ($1.2 million)

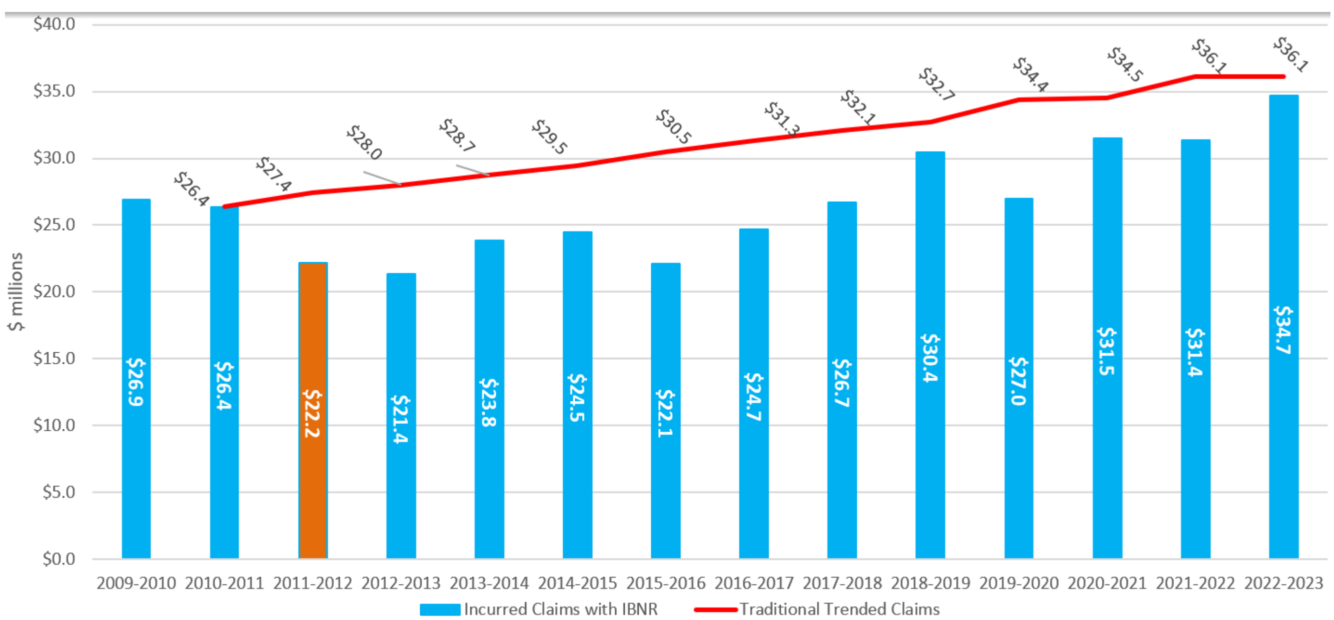
The City began providing long-term disability insurance for all employees in FY2023. This converted the existing long-term disability benefit from a voluntary opt-in program to a City sponsored program for all employees. The total cost is estimated at $1.1 – $1.25 million of which $750,000 comes from the General Fund. The benefit provides a percentage of an employee's annual salary after short-term disability runs out which is typically after 12 weeks. Short and long-term disability benefits are intended to provide income security when an employee is unable to work, such as after an injury or illness. This was necessary to bring City into compliance with URS regulations and is a benefit offered by many other municipalities in Utah.

D. Bargaining Units

The City has three bargaining units with which the Administration negotiates compensation and comes to agreements through three-year Memorandums of Understanding (MOU) – Salt Lake Police Association, International Association of Firefighters Local 81, and the American Federation of State, County, and Municipal Employees (AFSCME) Local 1004. Agreements with City bargaining units are developed prior to and after the Mayor presents the recommended annual budget, depending on the timing of negotiations concluding. The recommended budget includes total compensation adjustments for all City employees, both union represented and non-represented alike. However, depending on the outcome of negotiations, recommendations for union employees may be modified. Negotiations are governed by the 2011 Collective Bargaining Resolution. Approximately two-thirds of City employees are represented by a bargaining unit.

E. City Historical Medical Claims

PEHP provided the below chart showing actual claims in blue bars and projected claims as a red line if the City had remained on a traditional health care plan instead of moving to a high deductible health plan in 2011. The chart shows that the City is estimated to have saved money each year since the plan changed.



ATTACHMENTS

1. Citizens Compensation Advisory Committee or CCAC 2024 Annual Report
2. Redlined FY2025 Annual Compensation Plan for Non-represented Employees
3. May 7, 2024 Vacancies by Department Report (a snapshot in time)

ACRONYMS

AFSCME – American Federation of State, County and Municipal Employees
CCAC – Citizens Compensation Advisory Committee
COLA – Cost-of-living-adjustment OR Cost-of-labor-adjustment
FTE – Full-time Employee
FY – Fiscal Year
HDHP – High Deductible Healthcare Plan
HSA – Health Savings Account
MOU – Memorandum of Understanding
PTSD – Post Traumatic Stress Disorder
RFP – Request for Proposals
URS – Utah Retirement System