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Recommendation #4: Managing expenses associated with merit pay adjustments
Issue number: O-03

Background

The American Federation of State, County and Municipal Employees (AFSCME) organization has historically included in its contracts a provision which provides for eligible merit employees to receive a pay increase of one step (=4.5%) on their anniversary date until they reach the top step of their pay grade. Historically, state salary appropriations have not fully covered the costs of giving step increases in accordance with the contract. Contract provisions related to transfer and “position bumping” also lead to differential cost impacts for university units.

In the General University, it has been the policy to manage step changes centrally in order to offset the budgetary impacts. A central reserve is created and allocated to units as step increases are earned. Annually, base budget allocations are adjusted up or down to reflect the actual changes in steps during the preceding year.

Recommendation

The central reserve for merit pay adjustments for General University resource units should be discontinued for fiscal year 2009. Centrally managing, of what is essentially a direct expense for a resource unit, is inconsistent with the Resource Management Model principles. Therefore, budgeting for merit pay adjustments and the management in the variance between budgeted and actual merit pay adjustments should be the responsibility of each General University resource unit. Any savings resulting from merit position transfer and “position bumping” during the year will remain within the respective resource unit.

Projected costs of merit salary increases, including scheduled step increases, should be taken into consideration for the development of the resource units’ fiscal year 2009 budgets. Any balance in the fiscal year 2008 merit pay adjustment central reserve will be distributed to General University resource units based on the configuration of the units’ merit positions. The distribution will be determined as the fiscal year 2009 budget is being prepared.