



REPORT

LEGISLATIVE REFERENCE BUREAU

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14.

Department of Employee Relations, 2014

Proposed Plan and Executive Budget Review

14. Department of Employee Relations (DER)

I. EXECUTIVE SUMMARY.

Table 14.1. Statement of Changes in Operating Budget, 2013 to 2014.

2012 Actual Budget	\$4,500,505
2013 Adopted Budget	\$4,492,713
Personnel Costs	
Salaries & Wages	\$92,685
Fringe Benefits	\$16,432
Total Changes	\$109,117
Operating Expenses	(\$1,500)
Equipment Purchases	\$0
Special Funds	\$13,000
Total Changes	\$120,617
2014 Proposed Budget	\$4,613,330

1. Healthcare costs increase for the City and employees. The City's costs for employee healthcare and employees' costs for healthcare appear to be increasing after a significant drop in 2012. Healthcare trend and inflation continue despite the changes made by the City in 2012.

2. Workers' compensation incidents improve while costs rise. Workers' compensation costs have been steadily growing and are projected to be a total of \$15 million in 2014. With the department's efforts with a Risk Management Program, there have been significant successes at controlling the rates at which injuries are occurring but the cost continues to rise.

3. Pending retirement attrition rate high. Over half of current City staff are projected to be eligible for retirement within 10 years. This projected attrition underscores the need to retain institutional knowledge and institute succession planning.

4. New Recruiting and Applicant Tracking Management System. The department will be going live with a new web-based system which will automate and streamline the processes of the full hiring life cycle.

5. Departmental budget growth limited. The department's overall operating budget increases slightly, up 2.7%.

II. INITIATIVES AND PROGRAMS.

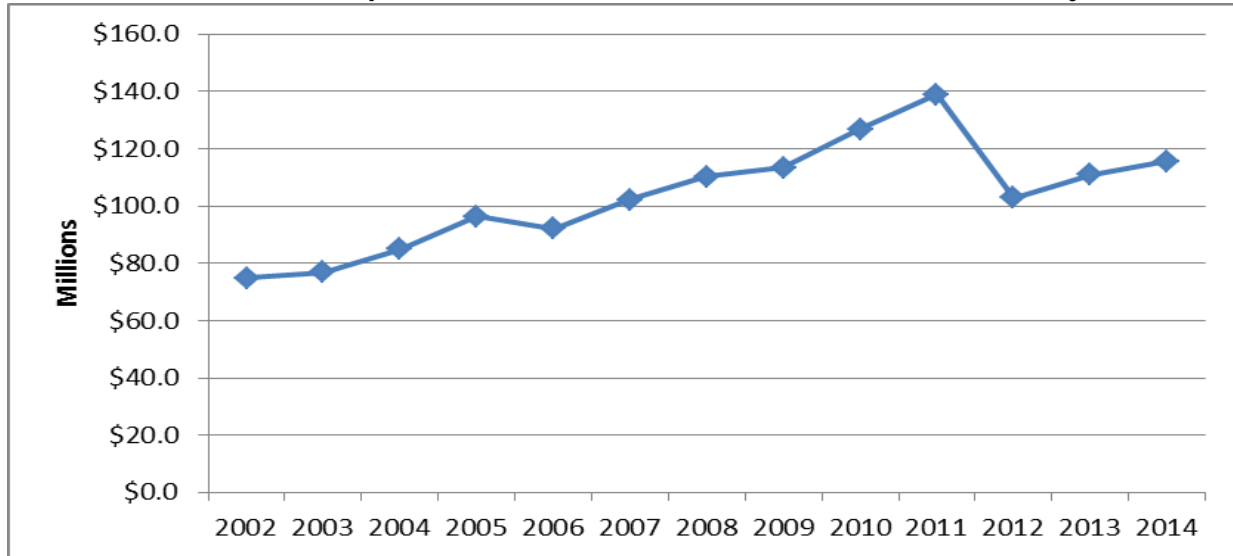
1. Healthcare Benefits.

As can be seen in Chart 14.1, employee healthcare costs had been increasing at an accelerating rate until 2011. Between 2002 and 2011, the City experienced an increase in costs of 85% to a high of \$138.8 million. It should be noted that dental costs through the same period have remained steady at roughly \$2 million of these costs annually because the City pays a fixed share of dental costs. The employee pays any increases in dental costs.

In 2012, employee healthcare costs to the City were successfully contained by a change to self-funding, requiring an employee contribution of 12% and a change in healthcare benefit plan

design that requires higher out-of-pocket costs for employees. Out-of-pocket costs for employees are as high as \$1,000 for employees with single coverage to \$2,000 for employees with family coverage.

Chart 14.1. Healthcare Expenditures 2005 to 2012 Actual, 2013 and 2014 Projected.



In the 2014 Proposed Budget, \$110.2 million is budgeted for healthcare in the healthcare special purpose account. However, the department projects healthcare costs for 2014 to be \$115-\$116 million, which will be partially funded from carryover funds in the account from 2013 to 2014. When the City’s total healthcare costs are adjusted from 2013 budgeted and 2014 proposed amounts to account for this carryover, there was a decrease of \$2.8 million (-2%) from 2012 to 2013 and an increase of \$2.1 million (1.9%) from 2013 to 2014. Therefore, healthcare costs for the City would appear somewhat flat. However, if the projected costs for 2013 and 2014 are used, as in Chart 13.1, costs appear to be increasing.

Another change which was successful in controlling costs for the City has been changing the City’s share of premium costs. Recently, the City changed the amount that it pays towards an employee’s premium to 88% of the lowest-cost plan offered, presently Choice. In 2014, the City will pay the same dollar amount for all employees in health plans by shifting a greater burden of the cost to employees who choose the premium Choice Plus plan that covers out-of-network costs. It is estimated that this will save the City \$700,000 in 2014.

While premium equivalent rates decreased 14% for the majority of employees in 2013, in 2014, rates increase 9.6% for the Choice plan and 4.5% for the Choice Plus plan.

2. Wellness Program.

The City began a wellness program in 2010 that is aimed at long-term improvement in employee health and ideally a reduction in healthcare costs. The program is in its 4th year and has identified that some City employees are unhealthy—59% of those who participated in all 3 of the first 3 years of the program are considered to be “at risk” or “high risk” based on a biometric-driven score of population health. Eighty percent are at an unhealthy weight, nearly half have a blood pressure problem, over a quarter are diabetic or at a risk to be and over one in 5 smoke.

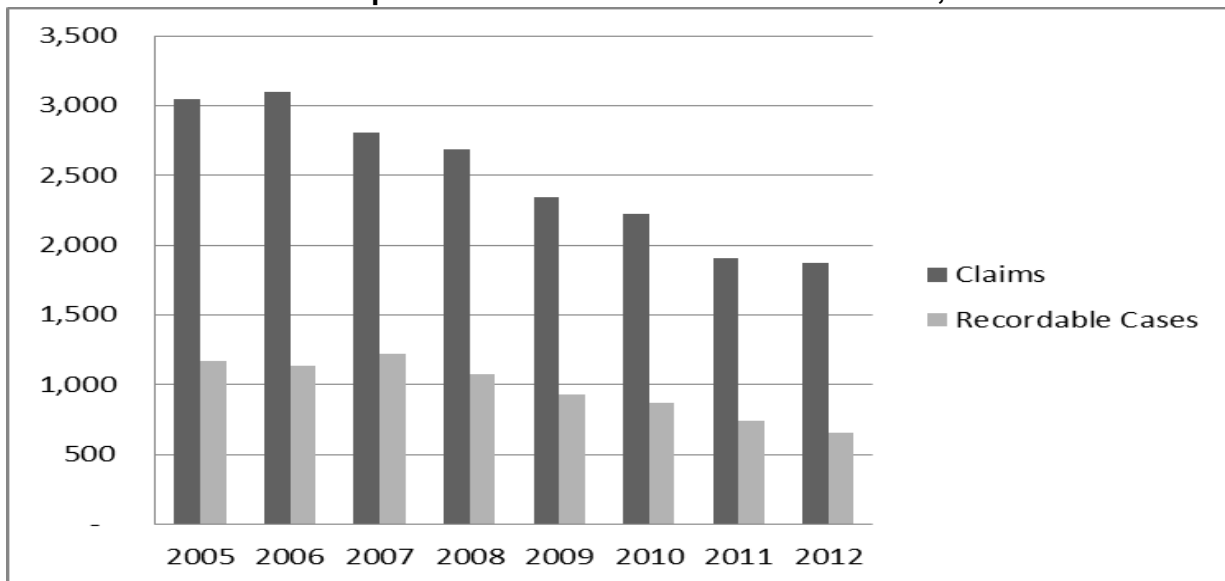
After 3 years of the program, there has been some improvements in the measures of smoking and blood pressure and some worsening in measures of weight and diabetes. It is not known whether these changes have been statistically significant.

The department and Wellness Committee wished to begin implementation of an incentive plan in 2013 in an effort to further engage employees and tie health outcomes and activities to monetary rewards. To accomplish this, the program will begin in October 2013 and end in March 2014. Future programs will occur in a more normal calendar-year timeframe.

The cost of the wellness program for the first 3 years, or through calendar year 2012, has been \$4.4 million. It is estimated that the program will cost an additional \$2.1 million in 2013. The addition of the initial incentive program ending in May 2014 adds another \$1 million. This totals to \$7.5 million in costs for the wellness program, or over roughly \$1,000 per employee.

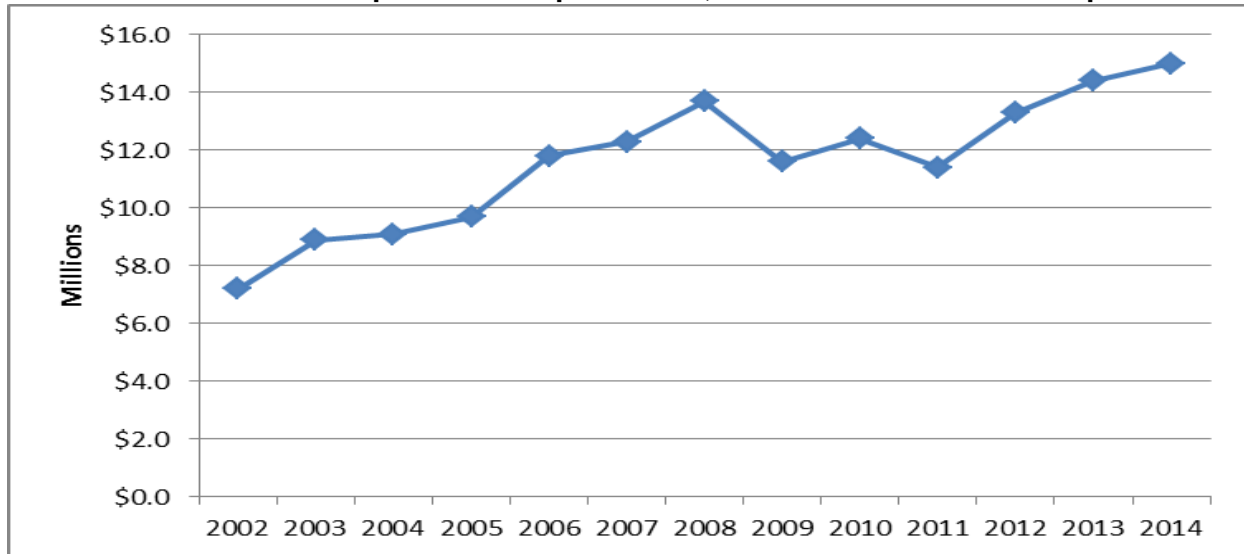
3. Workers' Compensation.

Chart 14.2. Workers' Compensation Claims and Recordable Cases, 2005 to 2012.



Recognizing the need to contain Workers' Compensation costs, DER and the Office of Budget and Management developed a risk management program. In 2009, a Risk Management Program focusing on prevention and return-to-work options in the departments of Public Works, Fire and Police was implemented. As can be seen in Table 14.3, this program appears to have been successful in the reduction of the number of claims and recordable cases. There had already been decreases in claims beginning in 2007 and decreases in recordable cases beginning in 2008. Between 2008, prior to program implementation, and 2012, injury incidence rates decreased 33.2%, injury pay decreased 43.2% and overall Workers' Compensation expenditures decreased 2.9%.

Workers' Compensation costs represent a significant City expenditure and, as can be seen in Chart 14.3, despite the Risk Management Program are steadily growing. These costs represented 3.2% of total salaries and wages in 2008, increasing somewhat to 3.5% in 2012. Workers' Compensation expenditures have been budgeted to increase 4.2% in 2014 over 2013. The department reports that this is due primarily to the cost of healthcare and medical inflation.

Chart 14.3. Workers' Compensation Expenditures, 2005 to 2013 and 2014 Proposed.

Building on past success, the Risk Management Program implemented additional enhancements to the program in 2013 as a result of a recent audit conducted by the Comptroller's Office. These include improved efforts to combine claims management and risk prevention, implementation of a quality claims review process and improved use of nurse case management for complex medical cases. The department is also working with a consultant to better understand total injury costs to the City and improve the budgeting of expenditures from year to year.

4. Pending Retirements and Succession Planning.

Based on data produced by the Employees' Retirement System, it is estimated that 54% of current general City, 62% of fire and 52% of police employees will be eligible to retire in the next 10 years. The City has recently seen dramatic turnover in the Office of the Comptroller with more expected in that department as well as in other departments. The departments where attrition may hit the hardest are the Assessor's Office, Department of City Development, Comptroller's Office, Election Commission, City Attorney and DER itself.

This projected attrition underscores the need to retain institutional knowledge and institute succession planning. The department reports that it believes a number of employees eligible to retire are delaying retirement.

Data supplied by the Employees' Retirement System indicates somewhat of a trend in this direction with the number of years until employees' retire after becoming eligible increasing from 1.8 in 2003 to 2.7 in 2013. However, the numbers of retirements has normalized at approximately 200 per year since the highs in the pension-sweetener years of 2010 and 2011. It would be useful to further study these patterns to more accurately project retirement attrition.

The department is working to develop a succession planning program with the Comptroller's Office that could also be applied to other departments. DER reports that it will work with other departments as the need may arise and department resources are available.

5. Competency and Skill-Based Pay Systems.

With a compensation system that is stagnant from pay freezes and was previously based solely on seniority, one way to address this situation, while also building in an enhancement in the skill base of the workforce, is to introduce competency and skill-based pay systems. This has successfully been implemented in the Department of Neighborhood Services with Code Enforcement Inspectors and most recently in the Department of Public Works with Vehicle Service Technicians. DER is currently considering similar restructuring in the Health Department, Assessor's Office and further restructuring in the Department of Public Works.

6. City-wide Issues of Employment.

The following are some of the issues that may need to be addressed on a City-wide basis:

Succession Planning: The City is facing the potential of over half of City employees retiring over the next 10 years with some departments impacted much more than others. The department reports that succession planning efforts like that made for the Comptroller's Office is not a City-wide initiative due to lack of resources. The department reports that it will roll out the template created as the need arises and resources are available.

Retention: With so many employees retiring, many in leadership positions, the issue of retention has increased in importance. DER reports that their role in addressing retention issues involves assessing the appropriateness of the City's compensation and benefits package. The department reports that they will be producing total compensation and benefit statements for general City employees so that employees can better understand the total value of what they receive as City employees. The department further states that this information will help employees understand how their City employment package compares to other potential employers so that they can make informed decisions.

Salary Compression/Equity: The former seniority-based compensation model often resulted in the longest-serving employees being the most highly compensated, and new employees beginning at the bottom of the salary range regardless of their background. The department reports that the issues of salary compression and equity are addressed on a case-by-case basis through the classification or reallocation process or by approving special appointment rates when promotion rules do not provide an adequate differential.

7. New IT Initiative.

In 2014, DER anticipates going live with a new web-based Recruiting and Applicant Tracking Management System that will automate and streamline the full hiring life cycle, including online requisition and referrals, on-line job postings and applicant tracking, examination planning and scoring, email and paper notices and state-of-the-art reporting. The implementation of this system will enhance the Staffing Division's ability to more effectively and efficiently work with departments to fill vacancies by 1) increasing access to on-line candidate information and credentials, 2) automating the requisition, certification, and referral processes, and 3) working with departments to prepare recruitment and job analysis information in advance of a vacancy.

III. EXPENDITURES.**Table 14.2. Changes in Expenditure Amounts by Account.**

Expenditure Account	2012 Actual	2013 Adopted Budget	% Chng.	2014 Proposed Budget	% Chng.
Salaries and Wages	\$2,656,795	\$2,712,982	2.1%	\$2,805,667	3.4%
Fringe Benefits	\$1,300,624	\$1,302,231	0.1%	\$1,318,663	1.3%
Operating Expenditures	\$423,187	\$388,500	-8.2%	\$387,000	-0.4%
Equipment Purchases	\$53,085	\$20,000	-62.3%	\$20,000	0%
Special Funds	\$66,814	\$69,000	3.3%	\$82,000	18.8%
Total Operating Budget	\$4,500,505	\$4,492,713	-0.2%	\$4,613,330	2.7%

1. Budget Summary.

The total 2014 Proposed Budget is \$4,613,330, an increase of \$120,617 (2.7%) from the 2013 Adopted Budget amount of \$4,492,713. The increase is due primarily to increases in personnel costs.

2. Personnel Costs.

Personnel costs in the 2014 Proposed Budget are \$4,124,330, an increase of \$109,117, (2.7%). Salaries and wages increase \$92,685, (3.4%). Fringe benefits increase \$16,432 (1.3%). The increase is due to the full-year implementation for the Management Trainees Program.

3. Operating Expenditures.

Operating Expenditures in the 2014 Proposed Budget are \$387,000, a decrease of \$1,500 (-0.4%) from the 2013 Adopted Budget amount of \$388,500. This is largely attributable to a \$20,000 decrease in Other Operating Services.

4. Equipment Purchases.

Equipment purchases in the 2014 Proposed Budget are \$20,000, the same as the 2013 Adopted Budget amount of \$33,000.

5. Special Funds.

The 2014 Proposed Budget provides \$82,000 in special funds, an increase of \$13,000 (13.8%) from the 2012 Adopted Budget. This increase is an adjustment to more accurately reflect the costs of drug testing and pre-placement exams.

IV. PERSONNEL.**Table 14.3. Changes in Full-Time Equivalent (FTE) and Authorized Positions.**

Position Category	2012 Actual	2013 Adopted Budget	Change	2014 Proposed Budget	Change
O&M FTEs	47.41	46.9	-0.51	47.67	0.77
Non-O&M FTEs	3.62	8.6	4.98	5.71	-2.89
Total Authorized Positions	73	76	3	78	2

1. Personnel Changes.

The total number of authorized positions in the department under the 2014 Proposed Budget is 78, an increase of 2 from 76 in the 2013 Adopted Budget. The increase is the result of a correction in the number of Equal Rights Commissioner positions. These positions receive no monetary compensation from the City.

2. Vacancies.

There is currently one vacancy in the department. One Claims Adjuster Senior in the Workers' Compensation Section has been vacant since February 2013. The department is searching for a suitable candidate while the work is being done by a temporary staff person.

V. SPECIAL PURPOSE ACCOUNTS (SPA).

SPAs are budgeted outside of departmental operating accounts, and control over SPAs is provided to departments by resolution. The 2014 Proposed Budget includes funding for the SPAs identified in Table 14.4.

Table 14.4. Changes in Special Purpose Accounts by Account.

Account	2012 Actual	2013 Adopted Budget	% Chng.	2014 Proposed Budget	% Chng.
Alternative Transportation for City Employees	\$115,030	\$125,000	8.7%	\$115,000	8.0%
Employee Healthcare Benefits Account	\$102,008,402	\$118,700,000	16.4%	\$110,200,000	-7.2%
Employee Training Fund	\$19,993	\$20,000	0.04%	\$20,000	0%
Flexible Spending Account	\$78,193	\$90,000	15.1%	\$115,000	27.8%
Long Term Disability Insurance	\$827,046	\$810,000	-2.1%	\$640,000	-21.0%
Tuition Reimbursement Fund	\$761,336	\$735,000	-3.5%	\$725,000	-1.4%
Unemployment Compensation Fund	\$869,847	\$1,100,000	26.5%	\$950,000	-13.6%
Workers' Compensation	\$14,575,235	\$14,400,000	-1.2%	\$15,000,000	4.2%
Total	\$119,255,082	\$135,980,000	14.0%	\$127,765,000	-6.0%

1. Alternative Transportation for City Employees, \$115,000.

This account is used to subsidize the cost for employees to use Milwaukee County Transit buses. The \$10,000 decrease is based on past utilization.

2. Employee Healthcare Benefits, \$110,200,000.

The special purpose account for employee healthcare benefits decreases \$8.5 million or -7.2%. Expenditures for this SPA are expected to be in the \$115-\$116 million range for 2014. Carryover funds are anticipated from 2013 to 2014 and will be used to supplement the proposed budget and cover projected expenditure levels.

3. Employee Training Fund, \$20,000.

This fund remains at \$20,000 and is used for training programs which have City-wide applications such as management training.

4. Flexible Spending Account, \$115,000.

This account, which is used to fund the program that allows employees to set aside health expenses pre-tax, is increased by \$25,000 in expectation of higher participation. Currently, only 24% of City employees are enrolled in the medical portion of this benefit. The department plans to attempt to increase participation in 2014.

5. Long Term Disability Insurance, \$640,000.

This account, which is used to fund the employer’s share of a long-term disability insurance benefit for employees, is decreased by \$170,000. In 2013 the contract for this benefit was put out to bid which resulted in a savings to the City for 2014 versus 2013.

6. Tuition Reimbursement Fund, \$725,000.

This account, which is used to fund an employee benefit for certain employees which provides them a reimbursement for expenses for professional development, is decreased by \$10,000 based on program experience.

7. Unemployment Compensation Fund, \$950,000.

This account, which is used to fund the employer’s portion of unemployment compensation payments to City employees who are laid off or otherwise separated from employment, is decreased by \$150,000 to reflect experience. In addition, the City no longer has to pay a \$149,000 special assessment fee imposed by the federal government to pay interest on borrowed funds for the national account.

8. Workers’ Compensation, \$15,000,000.

This account, which is used to fund the employer’s portion of claims made for injuries incurred while on the job, is increased \$600,000, based on anticipated claim expenditures for 2014.

VI. REVENUES.

The 2014 Proposed Budget estimates that \$520,900 will be generated in revenues by the department, a \$59,500 (12.9%) increase from the 2013 Budget estimate.

Table 14.5. Changes in Revenue by Category.

Revenue Account	2012 Actual	2013 Adopted Budget (est.)	% Change	2014 Proposed Budget (est.)	% Change
Insurance Recovery – Workers’ Compensation	\$363,678	\$279,400	-23.2%	\$351,900	25.9%
Services to Water Works	\$160,816	\$182,000	13.2%	\$169,000	-7.1%

1. Insurance Recovery – Workers’ Compensation.

This account captures third-party reimbursements of workers’ compensation claims paid by the city. The amount of these recoveries is random and the estimate is based on an average of the 5 prior years for which revenues were received.

2. Services to Water Works.

This account consists of an annual fee assessed the end of each year to the Water Works based on actual O&M expenditures.

VII. CAPITAL PROJECTS.

None.

VIII. ISSUES TO CONSIDER.

1. Wisconsin Act 10 has resulted in profound changes to the role of the Department of Employee Relations with the absence of many of the certified bargaining units. There is a need for the department to be more proactive and interactive with individual employees. Means of increased communication with employees needs to be explored.

2. As a result of Act 10, dissolution of many collective bargaining units and the City’s changes to Chapter 350 regarding employee benefits, there have been challenges to department staffing functions and operations. These challenges need to be evaluated and solutions developed.

3. The City’s austerity measures including multiple-year salary freezes and furloughs challenge retention of professional staffing. Plans for future salary adjustments need to be developed for implementation once austerity measures subside.

4. Over half of the City’s workforce will be eligible for regular service retirement over the next 10 years. The department needs to provide leadership to City departments and agencies in the area of succession planning.

5. Studies are beginning to question the effectiveness of wellness programs at lowering healthcare costs and decreasing healthcare use. It has been suggested that money spent on these programs are better spent creating workplace cultures that foster wellness. The City’s program should be reevaluated with these issues in mind.

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