



## REPORT

LEGISLATIVE REFERENCE BUREAU

[WWW.MILWAUKEE.GOV/LRB](http://WWW.MILWAUKEE.GOV/LRB)

---

# 10. Department of Employee Relations, 2015

This page intentionally left blank.

## 10. Department of Employee Relations

**\$4,657,953**

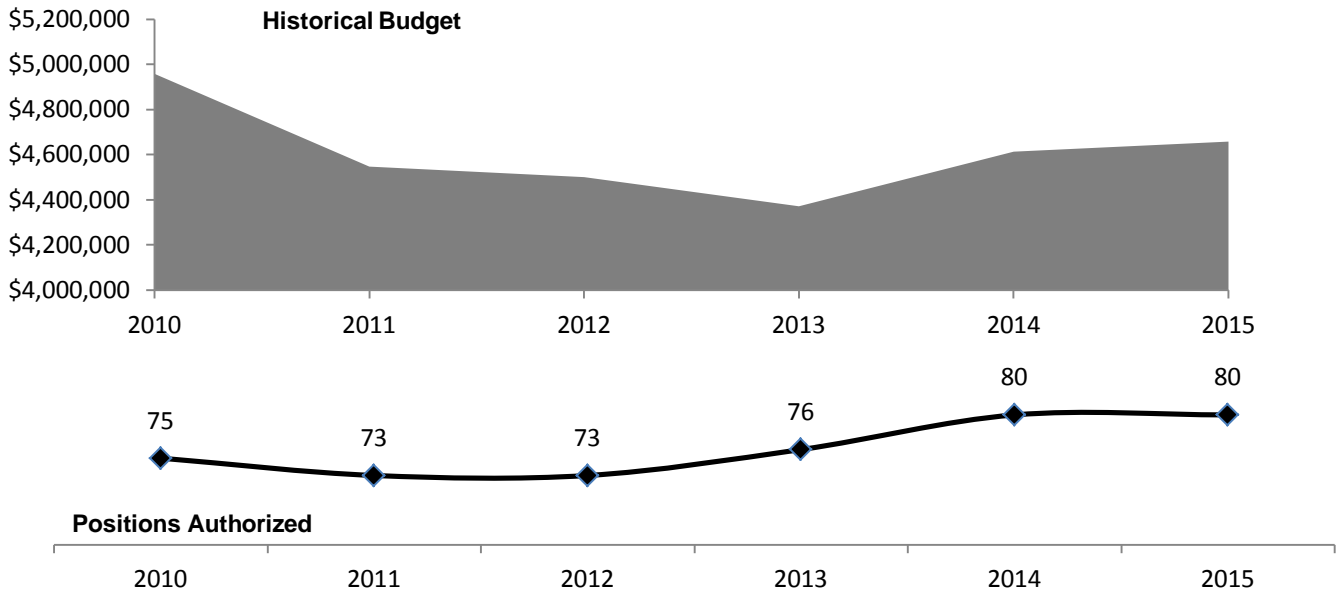
Proposed Department Budget

**\$44,623**

Nominal Change in Proposed Department Budget

**0.97%**

Percent Change in Proposed Department Budget

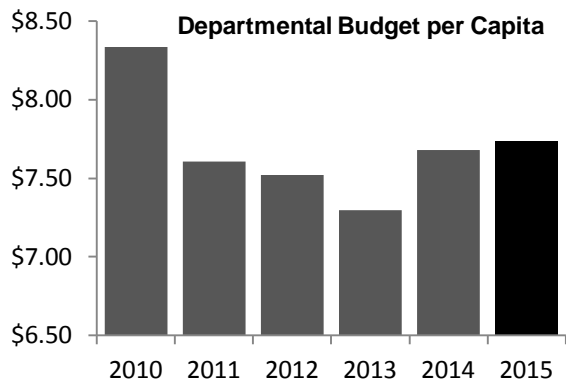
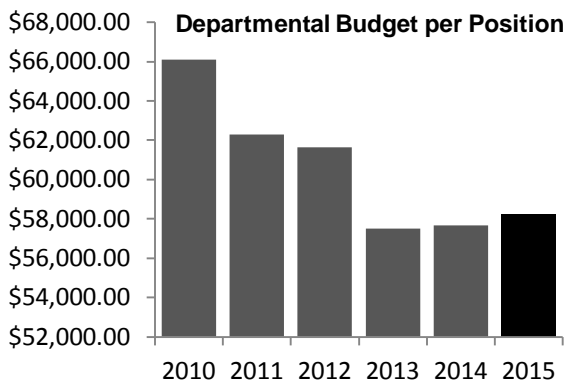


**0.0%**  
Percent Change in Positions - 2014 to 2015 Proposed

**0**  
Nominal Change in Positions - 2014 to 2015 Proposed

**1**  
Vacant Positions

**41%**  
% Eligible for Retirement within 10 years



4

Number of Management Trainees in 2015.  
One funded with carryover from 2014.

894

Number of employees eligible to retire in 2014. Includes 177 Fire, 191 Police and 526 general employees.

37%

Decrease in Wellness Program participants' Hypertension (High Blood Pressure) since 2010. Tobacco use decreased 27%.

1,980

2013 Workers' Compensation claims, down 36% since 2005.

44%

Minorities as a percentage of all candidates referred for interviews. Women were 51% of all candidates.

3,131

Number of individuals referred to departments by DER for interviews.

183

Number of days to fill a vacant position from Finance & Personnel Committee approval of Request to Fill to hiring. Goal is 90 days.

\$12,476,141

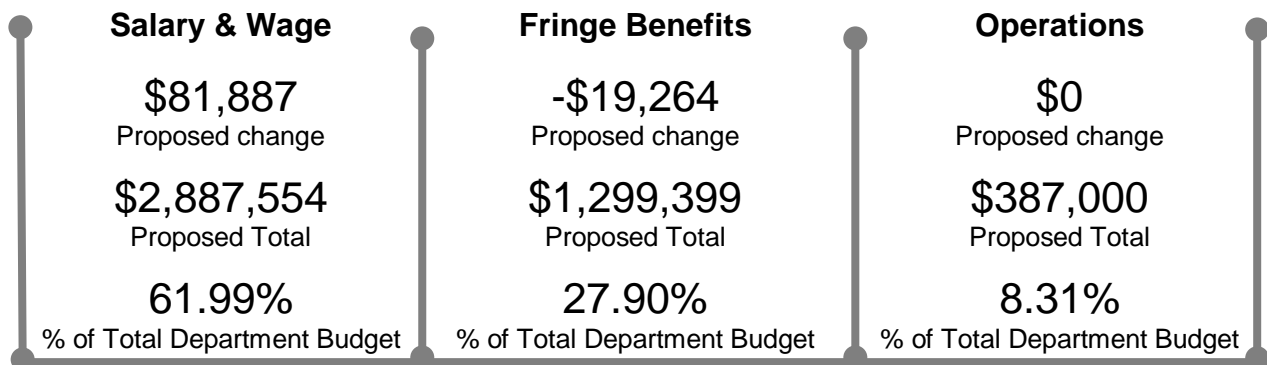
2013 Workers Compensation Expenditures. Down from \$14.5 million in 2010.

210

Number of employees and spouses or domestic partners who earned the \$150 Healthy Rewards incentive.

\$119 million

2015 Proposed Healthcare Budget, an increase of \$1.9 million from 2014 Budget.



## II. INITIATIVES AND PROGRAMS.

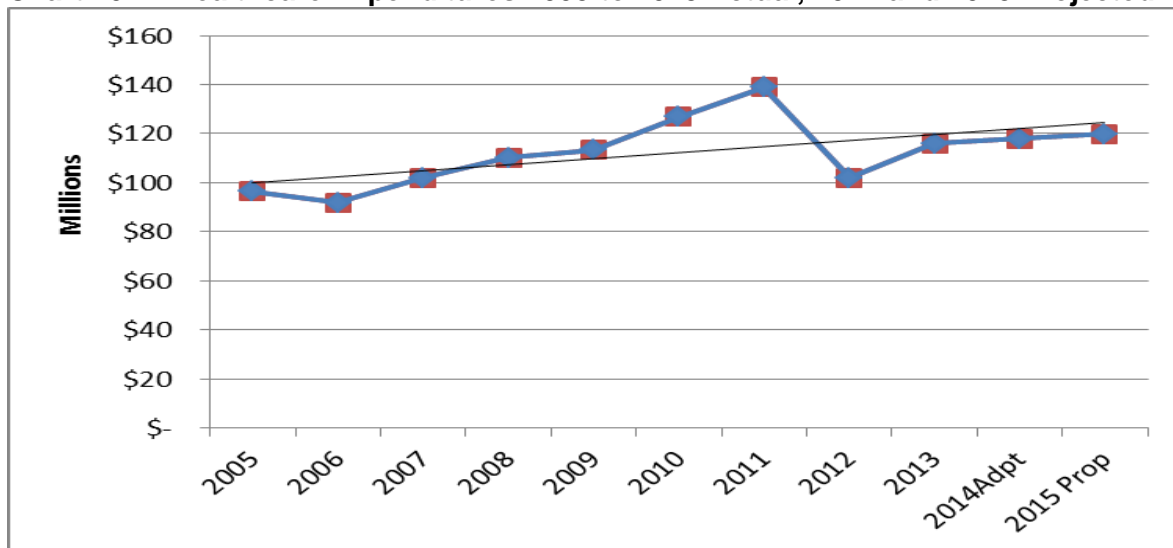
### 1. Healthcare Benefits.

As indicated in Chart 10.1, 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. Employees pay any increases in dental costs.

In 2012, the City successfully contained employee healthcare costs by (1) changing from vendor provided health insurance to self-funding, (2) requiring an employee premium contribution of 12% and (3) the implementation of higher deductibles. No additional benefit design changes were made in 2013 and 2014.

The 2015 Proposed Budget includes additional benefit plan design changes that increase deductibles, increase co-insurance for members using non-premium providers and switches from a tiered drug co-payment to a 20% co-insurance. These changes are intended to increase employee accountability for benefits utilization and control costs. Next year, out-of-pocket maximum costs increase to \$1,500 for employees with single coverage and \$3,000 for employees with family coverage.

**Chart 10.1. Healthcare Expenditures 2005 to 2013 Actual, 2014 and 2015 Projected.**



In 2013, healthcare expenditures totaled \$115.9 million, an increase of \$13.9 million or 13.6% from 2012. The department projects healthcare costs for 2014 to be about \$118.0 million, which will be partially funded from carryover funds in the account from 2013 to 2014. The 2014 Budget was nearly \$110 million.

The 2015 Proposed Budget includes \$119.8 million in the healthcare benefits special purpose accounts. Benefit design changes (higher deductibles and co-insurance) enabled the City to maintain employee premiums at current levels. Premium amounts for 2015 are nearly the same as 2012 premium levels and have remained relatively flat for four years.

## 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. 2014 is the 5<sup>th</sup> year of the program. Over 9,000 employees and spouses or domestic partners are eligible to participate in the 3-phase Wellness Program currently underway. In 2013, 7,446 people completed all 3 phases of the program. In each of the prior 3 years, about 7,800 people completed all 3 phases of the program. The City has averaged an 84% participation rate since the program began in 2010.

Of the people who participated in all 4 years' assessments, there was a dramatic drop in those with hypertension (high blood pressure) from 14% to 8.8% or 439 people. The average reduction in healthcare costs when blood pressure is controlled is 26% per the US Agency for Healthcare Research and Quality. Absenteeism also decreases 28% and the employee's health improves.

Tobacco use has declined from 19% to 12% -- a reduction of 421 people. Over the course of the first 4 years of the Wellness Program, Froedtert Workplace Health estimates that \$1.8 million was saved as a result and will continue to be saved in the future.

A continuing area of concern is the number and proportion of four-year participants who are diabetic and pre-diabetic. In 2013, 1,156 people were pre-diabetic compared with 780 in 2010. Diabetics increased from 213 to 284 over the same period. Weight management, particularly through moderate exercise and better food choices, will be emphasized in educational materials and coaching sessions provided to participants.

Introduced in 2014, the "Healthy Rewards" program provides a monetary incentive to encourage regular exercise and improved health. 211 participants earned the 100 points necessary to receive a \$150 Health Reimbursement Account. In 2015, the reward amount will be increased to \$250 per successful participant, and the program will cover a longer portion of the year, from August 1, 2014 through June 30, 2015.

The cost of the Wellness program for the first 4 years, through calendar year 2013, has been \$6.2 million. The 2014 projected cost is \$2.1 million, including the Healthy Rewards incentive program. In 2015, Wellness and Healthy Rewards programs are expected to cost \$3.2 million. While these amounts are large, the long-term improvement in employee and spouse/domestic partner health are expected to lower healthcare costs, absenteeism and injury rates while increasing employee productivity.

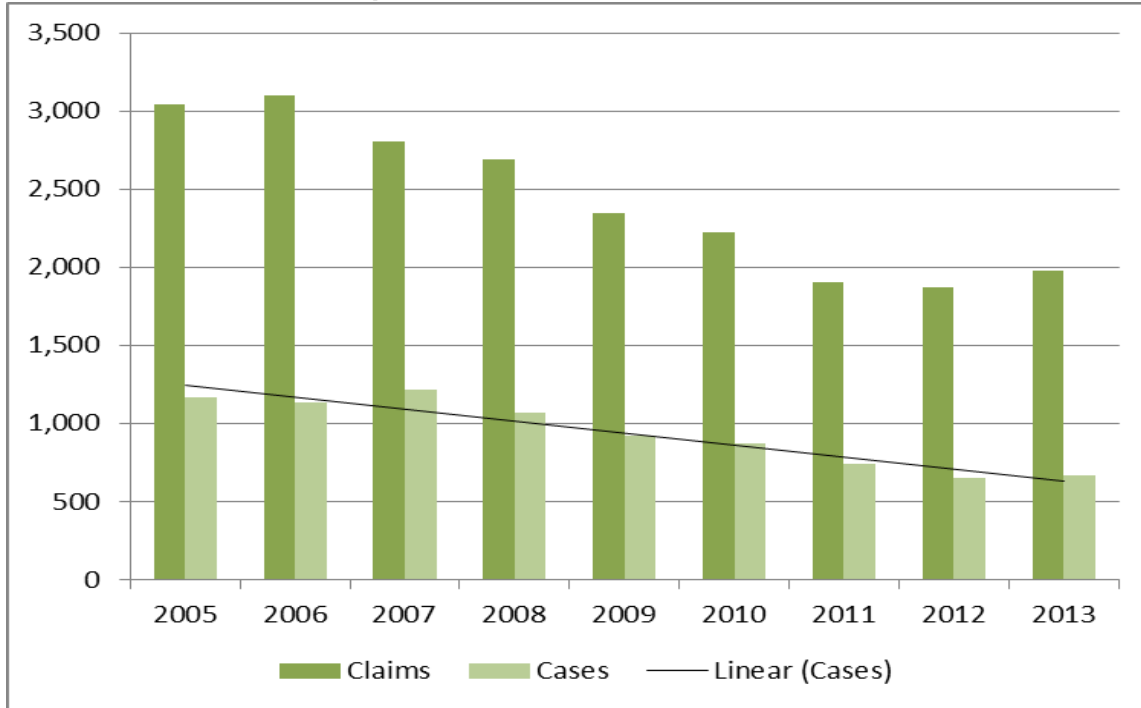
## 3. Workers' Compensation.

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 Department of Public Works, the Fire Department and Police Department was implemented.

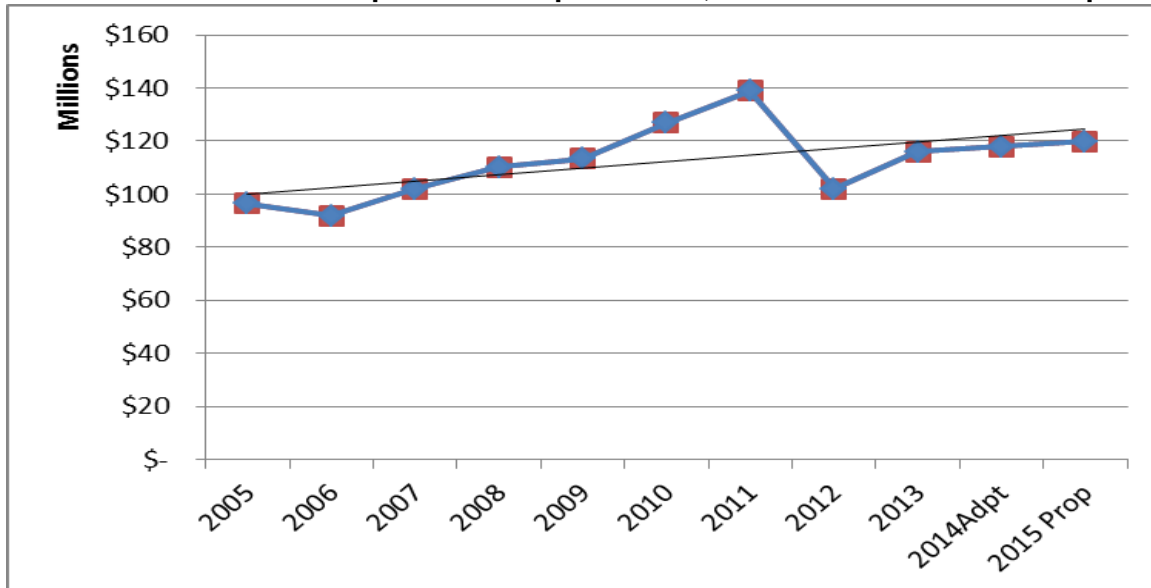
As can be seen in Chart 10.2, this program appears to have been successful in the reduction of the number of claims and recordable cases. There had already been decreases in claims beginning in 2007 and decreases in recordable cases beginning in 2008. Between 2008, prior to program implementation, and 2013, injury incidence rates have decreased 30.5% and injury

pay decreased from \$4.1 million to \$1.8 million or 56%.

**Chart 10.2. Workers' Compensation Claims and Recordable Cases, 2005 to 2013.**



**Chart 10.3. Workers' Compensation Expenditures, 2005 to 2014 and 2015 Proposed.**



Overall Workers' Compensation expenditures have declined more than \$1.2 million (-9.2%) from \$13.7 million to less than \$12.5 million since 2008. The departmental Safety Plans and individual worker Return to Work plans developed in collaboration with DER have substantially contributed to this reduction. As a result of these efforts, lost work days have declined from 24,817 in 2008 to 13,215 in 2013. That is a 46.8% reduction (or 11,602 days) in lost productivity.

As a result of these favorable trends, the 2015 Proposed Budget includes \$13 million for Workers' Compensation, a decrease of \$2 million from the 2014 Budget. The 2015 Proposed Budget assumes that funds carried over from 2014 to 2015 will supplement the 2015 appropriation.

#### **4. Pending Retirements and Succession Planning.**

Based on data produced by the Employees' Retirement System, it is estimated that 54% of current general City, 60% of fire and 53% of police employees will be eligible to retire in the next 10 years. In the past two years, several critical employees with long experience and great institutional knowledge have retired from the Office of the Comptroller. More employee turnover is expected in that department as well as other departments, particularly the Assessor's Office, Department of City Development, Election Commission, City Attorney and DER itself.

DER believes that a number of employees eligible to retire are delaying retirement, mostly due to the impact of the Great Recession. The number of retirements may increase in the coming years as the economy continues to improve and workers savings and investments recover.

This projected attrition underscores the need to retain institutional knowledge and institute succession planning. DER worked with the Comptroller's Office to develop a succession plan in 2013. That framework may also be applied to other departments. DER 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, in the Department of Public Works with Vehicle Service Technicians, in the Health Department with Environmental Health Specialists, and in the Assessor's Office with Property Assessors.

In 2014, DER continues to work with departments to identify additional opportunities for such competency-based models. Currently work is under way with the Infrastructure Services Division and the Operations Division- Forestry Section in the Department of Public Works. Implementation will be a continuing, multi-year project as assessing specific positions has proven quite laborious.



## 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. DER states that succession-planning efforts similar to the Comptroller's Office are not a City-wide initiative due to lack of resources.

DER will assist other departments at their request. Other tools to smooth transitions include provisional or Auxiliary Resource appointments overlapping the incumbent's tenure and cross-training current employees to cover contingencies.

**Retention:** With so many employees retiring, many in leadership positions, the issue of retention has increased in importance. DER's role in addressing retention issues includes assessing the appropriateness of the City's compensation and benefits package.

DER will be producing total compensation and benefit statements for general City employees so that employees may better understand the total value of their compensation and benefits. 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.

DER states 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. DER believes that more flexible pay administration practices need to be adopted so departments are able to address such inequities.

## 7. Recruiting and Applicant Tracking Management System (JobAps).

In 2014, DER implemented 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. This system will "go live" in October 2014.

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 vacancies.

**III. EXPENDITURES.****Table 10.1. Changes in Expenditure Amounts by Account.**

<b>Expenditure Account</b>	<b>2013 Actual</b>	<b>2014 Adopted Budget</b>	<b>% Chng.</b>	<b>2015 Proposed Budget</b>	<b>% Chng.</b>
Salaries and Wages	\$2,669,641	\$2,805,667	5.1%	\$2,887,554	2.9%
Fringe Benefits	\$1,251,259	\$1,318,663	5.4%	\$1,299,399	-1.5%
Operating Expenditures	\$375,927	\$387,000	2.9%	\$387,000	0.0%
Equipment Purchases	\$8,356	\$20,000	139.3%	\$2,000	-90.0%
Special Funds	\$66,119	\$82,000	24.0%	\$82,000	0.0%
<b>Total Operating Budget</b>	<b>\$4,371,302</b>	<b>\$4,613,330</b>	<b>5.5%</b>	<b>\$4,657,953</b>	<b>1.0%</b>

**1. Budget Summary.**

The total 2015 Proposed Budget is \$4,657,953, an increase of \$44,623 (1%) from the 2014 Adopted Budget amount of \$4,613,330. The increase is due primarily to increases in personnel costs.

**2. Personnel Costs.**

The 2013 1.5% raise for general City employees amounted to about \$42,000 for DER employees. The remaining \$39,000 is an increase in funding for the Management Trainee program. With anticipated carryover funds from 2014, 4 trainees will be able to participate in the program in 2015.

**3. Operating Expenditures.**

Operating Expenditures in the Proposed Budget continue at \$387,000.

**4. Equipment Purchases.**

Equipment purchases in the Proposed Budget are only \$2,000. ITMD will purchase computer hardware and software for DER as part of a continuing effort to centralize and systematize IT purchases City-wide.

## 5. Special Funds.

The 2015 Proposed Budget provides \$82,000 in special funds, the same as the 2014 Adopted Budget amount. These accounts cover safety glasses, drug testing and pre-placement exams.

## IV. PERSONNEL.

**Table 10.2. Changes in Full-Time Equivalent (FTE) and Authorized Positions.**

Position Category	2013 Actual	2014 Adopted Budget	Change	2015 Proposed Budget	Change
O&M FTEs	47.32	49.67	2.35	49.68	0.01
Non-O&M FTEs	2.82	5.71	2.89	5.66	-0.05
Total Authorized Positions	76	80	4	80	0

### 1. Personnel Changes.

The 80 positions authorized in the Proposed Budget are the same as the 2014 Adopted Budget.

### 2. Vacancies.

There is currently one anticipated vacancy in the department. One Claims Adjuster Specialist in the Workers' Compensation Section is retiring; the position will be vacant at the end of October or early November.

## V. SPECIAL PURPOSE ACCOUNTS (SPA).

SPAs are budgeted outside of departmental operating accounts. Control over SPAs is provided to departments by resolution. The 2015 Proposed Budget includes funding for the SPAs identified in Table 10.3.

**Table 10.3. Changes in Special Purpose Accounts by Account.**

Account	2013 Actual	2014 Adopted Budget	% Chng.	2015 Proposed Budget	% Chng.
Alternative Transportation for City Employees	\$112,390	\$115,000	2.3%	\$115,000	0%
Employee Healthcare Benefits Account	\$115,935,241	\$109,986,685	-5.1%	\$119,800,000	8.9%
Employee Training Fund	\$19,654	\$20,000	1.8%	\$20,000	0%
Flexible Spending Account	\$78,863	\$115,000	49.6%	\$115,000	0%
Long Term Disability Insurance	\$804,844	\$640,000	-20.5%	\$640,000	0%
Tuition Reimbursement Fund	\$736,196	\$725,000	-1.5%	\$725,000	0%
Unemployment Compensation Fund	\$826,690	\$903,000	9.2%	\$550,000	-39.1%
Workers' Compensation	\$12,476,141	\$15,000,000	20.2%	\$13,000,000	-13.3%
Total	\$130,988,019	\$127,504,685	-2.7%	\$134,965,000	5.9%

### 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 Proposed Budget amount is based on past utilization.

### 2. Employee Healthcare Benefits, \$119,800,000.

The special purpose account for employee healthcare benefits increases \$9.8 million, or 8.9%, to \$119.8 million. 2013 expenditures were \$115.9 million and 2014 expenditures are expected to be approximately \$110 to \$115 million.

**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, remains at \$115,000. The benefit design changes for 2015 approved earlier this year include increases in deductibles, co-insurance and co-payments which are expected to increase participation and actual expenditures in the healthcare FSA.

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

This account remains the same in the 2015 Proposed Budget. It is used to fund the employer's share of a long-term disability insurance benefit for employees. The contract agreed to in 2013 has resulted in lower actual costs in 2014 year-to-date and is expected to be well within budget.

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

This account also remains the same in the 2015 Proposed Budget. It funds an employee benefit to reimburse for expenses incurred for professional development.

**7. Unemployment Compensation Fund, \$550,000.**

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 \$353,000 to reflect experience and anticipated expenditures. One substantial savings is that the City no longer has to pay a \$149,000 special assessment fee previously imposed by the federal government to pay interest on borrowed funds for the national account. Anticipated carryover funds from 2014 to 2015 will supplement the 2015 Proposed Budget appropriation.

**8. Workers' Compensation, \$13,000,000.**

This account, which is used to fund the employer's portion of claims made for injuries incurred while on the job, decreases \$2.0 million. This reduction is based on actual 2013 and 2014 expenditures and anticipated 2015 expenditures. In addition, anticipated carryover funds from 2014 to 2015 will supplement the 2015 Proposed Budget appropriation.

## VI. REVENUES.

The 2014 Proposed Budget estimates that \$509,000 will be generated in revenues by the department, an \$11,900 (2.3%) decrease from the 2014 Budget estimate.

**Table 10.4. Changes in Revenue by Category.**

Revenue Account	2013 Actual	2014 Adopted Budget (est.)	% Change	2015 Proposed Budget (est.)	% Change
Insurance Recovery – Workers’ Compensation	\$350,518	\$351,900	0.4%	\$351,900	-1.7%
Services to Water Works	\$159,155	\$169,000	6.2%	\$169,000	-3.6%

### 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. Determine the feasibility of continuing to develop a competency- and skill-based pay system given the slow, labor-intensive process thus far. Over a number of years only a handful of employee classifications have been evaluated, a framework developed and criteria established. While the “old” step system did not reward outstanding performance, implementing a competency- and skill-based pay system is taking a long time. In addition, there are significant fairness and favoritism issues with a competency- and skill-based pay system. The long delay and associated issues are having a considerable impact on employee morale. What is the plan for implementing this new system?

2. The establishment of a “bonus” system for exemplary achievements while maintaining the pay step system needs to be examined. This would reward top employees without the tremendous administrative burden of developing and implementing the competency- and skill-based pay system.

- 3.** Salary and wage stagnation over the past several years has resulted in pay compression between supervisors and workers. In addition, employees working in the same title and performing the same duties may be paid significantly different wages. This increasing problem needs to be addressed.
- 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.** Expenditures for the Wellness and Healthy Rewards programs are continuing to increase. How have these programs helped the City contain healthcare costs? Is more intensive collaboration needed for people with chronic diseases or other health challenges?

Prepared by: John Ledvina, Fiscal Planning Specialist  
Budget Hearing Date: October 9, 2014  
Last Updated: October 6, 2014