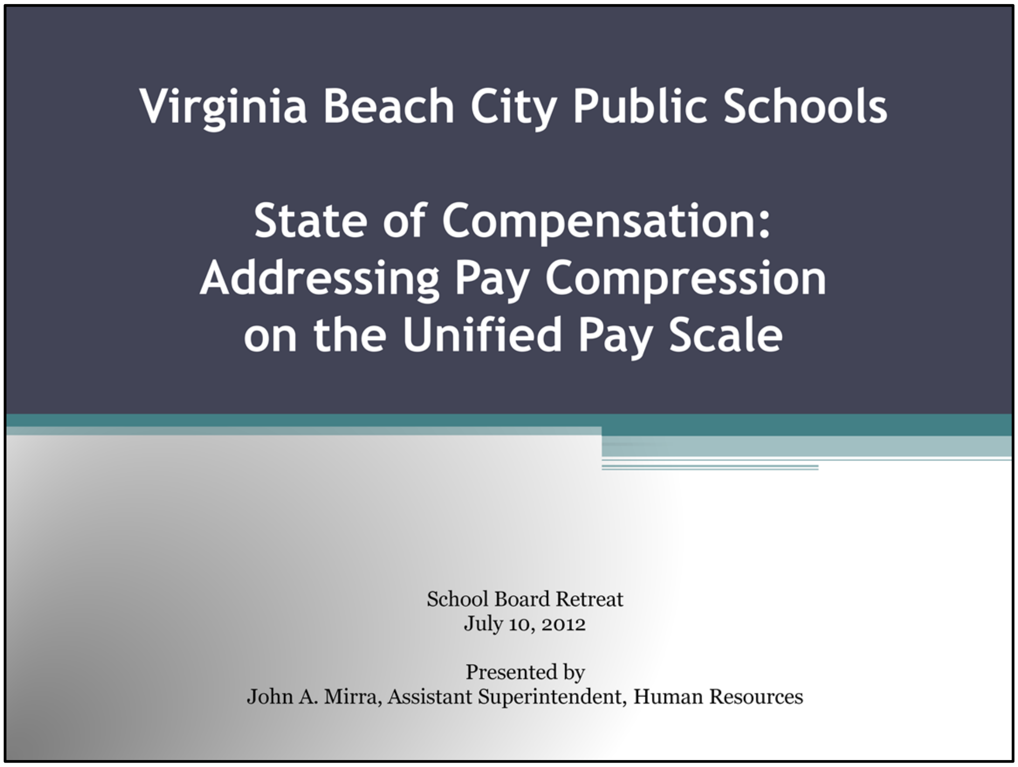


Over the past few years, we have been discussing the state of compensation in Virginia Beach City Public Schools.

- In 2005 and 2006, we paid an external consultant to review our overall compensation programs. As a result, we provided pay increases, moved positions to higher grades, increased our part-time hourly rates, condensed the two teacher scales into one scale, etc.
- We have continued to review positions to determine if they are competitive in the market;
- Adjusted our scales when permitted; and
- Of course, provided across-the-board increases, whenever funds were available.

However, the one issue that we have not been able to address is the compression of salaries that continues to exist among some, and I use the term "some" carefully, of our employees on the unified pay scale. Today's presentation is not intended to discuss the instructional pay scale or the need to continue providing salary increases. I am sure that all of you are aware of that need.

Rather, today's presentation will offer some insight on some possible solutions/considerations to **Address Compression** for employees on the Unified Pay Scale.

Overview

- Defining Pay Compression: A Refresher
- Adjustments to Scales for 2009-2013
- VRS Changes
- Impact of VRS and Benefit Changes on Compensation and Recruitment
- Next Steps to a Solution: Options to Addressing Compression

2

- This is not intended to be a long presentation so, over the next few minutes, I will refresh the Board on how salary compression is defined;
- Review adjustments and/or salary increases over the past five years, as it relates to the Unified Pay Scale;
- Review the changes to VRS and the impact of those changes, along with increased health insurance cost, on employee compensation; and finally
- Options to addressing compression.

Pay Compression Defined

- Compression occurs when there is little or only a small difference in **pay** between employees regardless of their skills or experience.

- Current examples include:
  - Insufficient pay differences between a supervisor and subordinate
  - Insufficient pay differences between new hires and experienced staff in the same position

3

So how is compression defined?
Compression can result when there is little or no differences in pay between employees, regardless of their knowledge, skills or experience.
Some examples include:

- Insufficient pay differences between a supervisor and subordinate;
- Insufficient pay differences between new hires and experienced staff in the same position.

  - School Plant - Craftsman I continuing to be hired at minimum salary regardless of their years of experience
  - School Plant - Salary for supervisory personnel includes several subordinate employees whose salary exceeds his/her salary. Some of the compression was caused by reclassifying positions without providing additional income to the incumbents and later, providing a 5% increase for reclassified employees.

In the past few years, we have tried to limit the effect of compression by reviewing the salaries of incumbents with similar years of experience in the job and skill, prior to offering a salary to a new hire.

As a side note, compression can also occur when the market out-paces positions that have not been adjusted or if they were adjusted, no compensation was provided to the incumbents….resulting sometimes, in new hires being recruited in at a higher pay.

Unified Pay Scale
Increases/Scale Adjustments: 2009-2013

Description	08/09	09/10	10/11	11/12	12/13	5 year Total
Across-the-Board Increase	3.5%	0%	0%	0.5%	2%	6%
VRS Off-Set Increase	n/a	n/a	n/a	n/a	1%	1%
Scale Adjustment - Entry	3%	0%	0%	0%	2%	5%
Scale Adjustment - Top	2%	0%	0%	0.5%	1.5%	4%

4

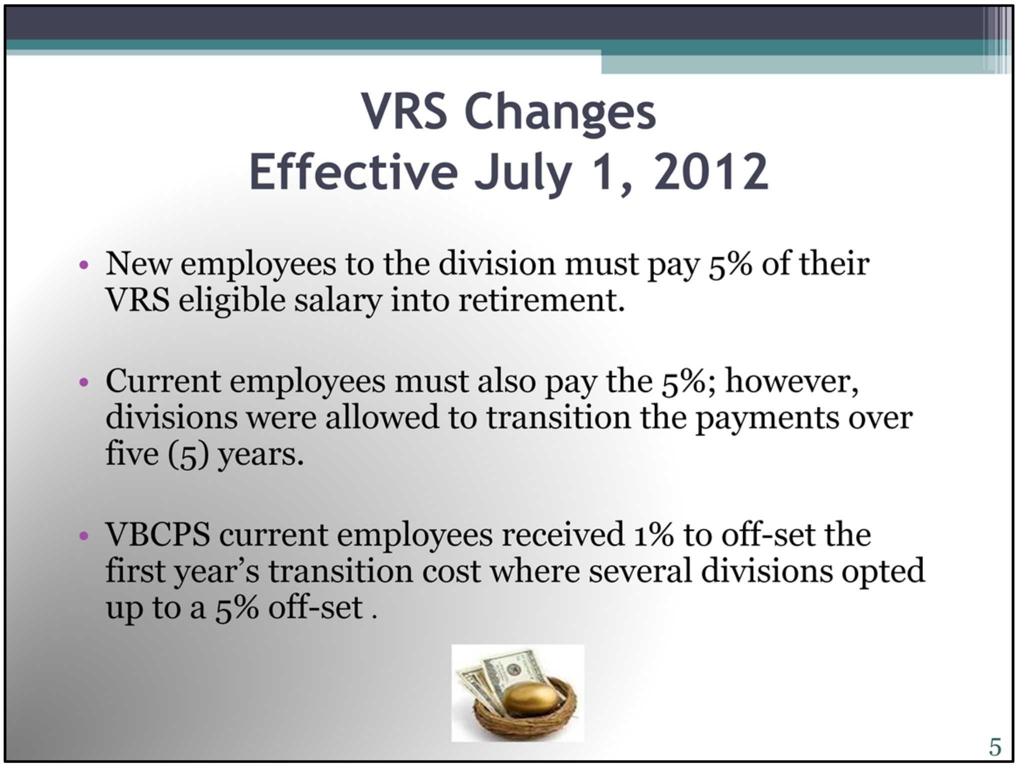
The slide before you provides a historical record of the increases and scale adjustments for employees on the unified pay scale. With employees receiving little or no pay increases for the past three years, our ability to bring in new hires at a competitive salary has diminished over time.
In looking at the slide, during the years where we provided a raise, we also adjusted the scale at the top and entry levels. While it has helped the jobs on the scales to remain somewhat competitive, it has not allowed employees to progress on the scale.

As we discussed on the previous slide, we have tried to minimize the effects of compression by ensuring that new hires are not compensated at levels higher than incumbents on the same grade/position with the same years of experience and skills. The key word is new hires. Not only have we been turned down by prospective new hires going to another division offering more money, we have also experience administrators going back to the classroom and increasing their salary as well as leaving the division.

- EXAMPLES: ES AP going back to the classroom actually made $2,000 more money working 10 months; or principal applying for a job with VBCPS wanted to come and work for us; however, Norfolk offered $8,000 more.

Not being able to address the compression situation for our current employees continues to hamper our recruitment/retention efforts.

Number of Administrators at the top of the scale: 4 (2 Technology, 1 Business Services, 1 CIO
Number of classified/professional at the top of the scale: 111
Total number at top of scale: 115

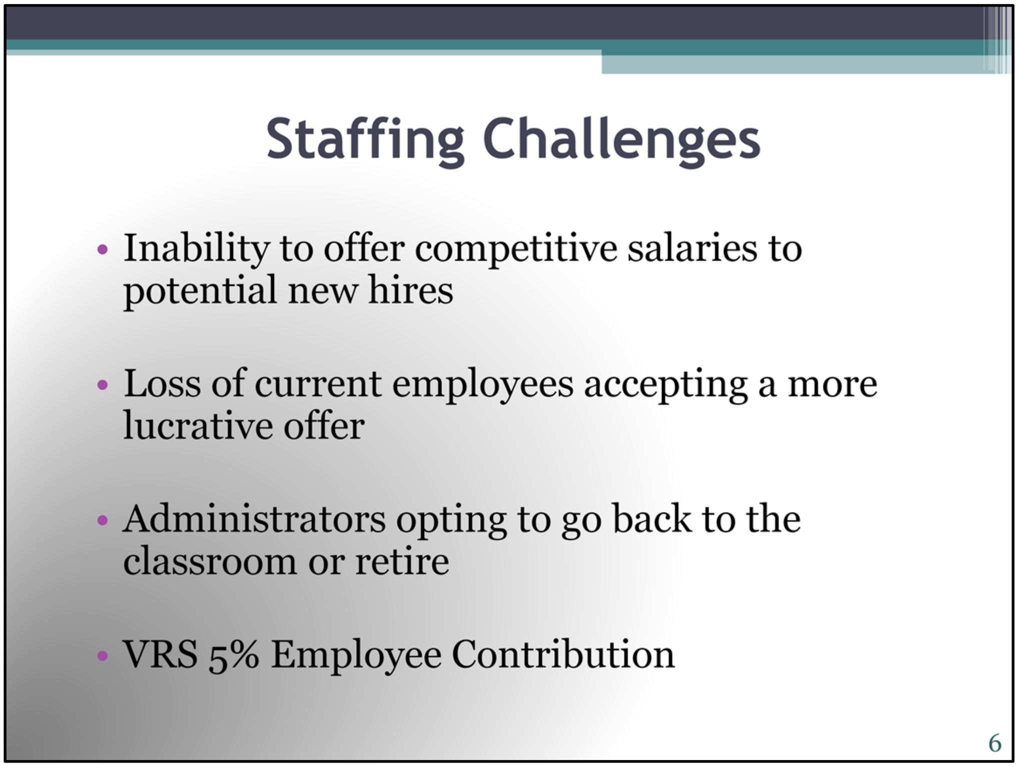


I know that many of you already know about the changes and this is simply a refresher for you; however, lets review the changes and how this impacts the pay that employees will be taking home this school year.

- VRS is now requiring all employees to pick up the 5% employee share of VRS, effective July 1, 2012.
- New employees will be required to pay the full 5% of their VRS eligible salary into retirement without the transition amount. This applies even if an employee is in a VRS covered position in another locality and decides to come and work in Virginia Beach. This even applies to city employees moving to VBCPS.
- Current employees are required to contribute the 5%; however, school divisions could opt to transition in the amount over 5 years and provide a salary increase to off-set the % required of current employees.
- VBCPs opted to provide a 1% off-set while some divisions opted to transition up to 5%.

You may be thinking: What does this have to do with compression? Well, in order to ensure that we have qualified experienced individuals, especially in key positions, we may be faced with having to bring in a person at a higher pay than the incumbent, further worsening the problem of compression.

Provide JAM : 2012-2013 Final Adopted budgets VRS Shift, Pay Increases, Local Government Contribution, and Capital Projects sent by Farrell



Before we move to the next section, I would like to summarize the staffing challenges that we face as a result of not addressing this issue.

- Inability to offer competitive salaries *(job offers have been refused because of salary)*
- Loss of employees accepting a more lucrative offer
- Administrator opting to go back to the classroom or retire (AP actually made $1,500 more money working 10 months. While this is an unusual situation, the prospect of this happening again is possible.)
- Finally, the impact of the 5% VRS employee contribution on current employees and potential new hires.

Let us not forget the cost we incurred to fix the compression problems on the teacher scale. It was approximately $14 million. As a result of no raises, we were once again faced with compression on the teacher scale for those with 0-2 years of experience. 11/12 we were able to provide a <u>little</u> differentiation between 0-2 and even more differentiation with the 3% raise for 12/11.

So what are some possible considerations to fix the problem of compression on the Unified Pay Scale?

Administration's Priority List Presented 11/1/2011	Cost Projections
1. Maintain 2011-2012 Salary Levels – 2.5%	10,273,000
2. Provide a General Salary Increase – 0.5%	1,527,000
3. *Address Unified Inequities	**6,400,000**
4. *Move Certain Positions to the Teacher Pay Scale *(Additional Cost)*	30,000
★ 5. Increase Sick Leave Payout for Retirees *(Additional Cost)*	450,000
★ 6. Revise Supplements	1,300,000
★ 7. Increase Allowances	3,000,000
★ 8. Move Certain Positions to One Grade & Provide Educational Allowances	850,000
Total Estimated Salary Costs	**23,830,000**
FICA and Benefits	4,585,903
Total Estimated Cost Inclusive of FICA and Benefits	**$28,415,903**

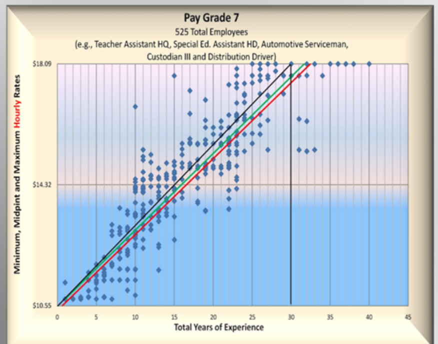
8

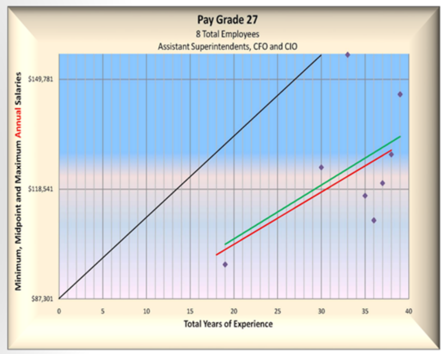
November of last year, administration provided a priority list for compensation. # 1 and # 2 requested a 2.5% increase to maintain employee's salary levels and a .5% general increase for a total of 3%.

- While we were able to provide a total of 3%, 1% of the amount went towards off-setting the 1st year's cost for VRS for the 12/13 school year.
- Items such as # 6 and 7, increasing the value of supplements and allowances, and revising how we compensate for extra-curricular activities,
- # 5, increasing the value of sick leave payout, and
- # 8, moving assistants to one grade, etc. are still outstanding.

We have not forgotten about these issues. However, the focus of this presentation is # 3…providing equity adjustments for identified employees on the Unified pay scale. During that presentation we provided an estimate of what we believed it would take to start addressing the inequities in our school division…approximately $6.4 million.

Administration's Priority-Addressing Compression	Cost Projections
1. *Address Unified Inequities	6,600,000
Total Estimated Salary Costs	6,600,000
FICA and Benefits (25.61%)	$1,690,260
Total Estimated Cost Inclusive of FICA and Benefits	$8,290,260





9

However with increases, we have adjusted the number by 3% to provide an estimate of approximately $6.6 million or almost $8.3 including 25.61% for FICA and Benefits. As you can see, we have removed the information related to salary increases, supplements and allowances, etc. …not because <u>we don't believe it's important, but</u> to maintain the focus on addressing compression.

Also in the fall of 2011, we provided charts which illustrated the placement of employees on the scale and their salary path progression as they gain more years of experience. We showed that those on the lower grades are fairly in line with progressing for years of experience, while those at the higher levels are almost in an inverted position.

Notes Only:
Estimated percentage of funds allocated to:
- 44% to Administrators ($3.6 million)
- 38% to Classified employees (includes TA) ($3.2 million)
- 18% to Professional/Professional Instructional employees ($1.5 million)

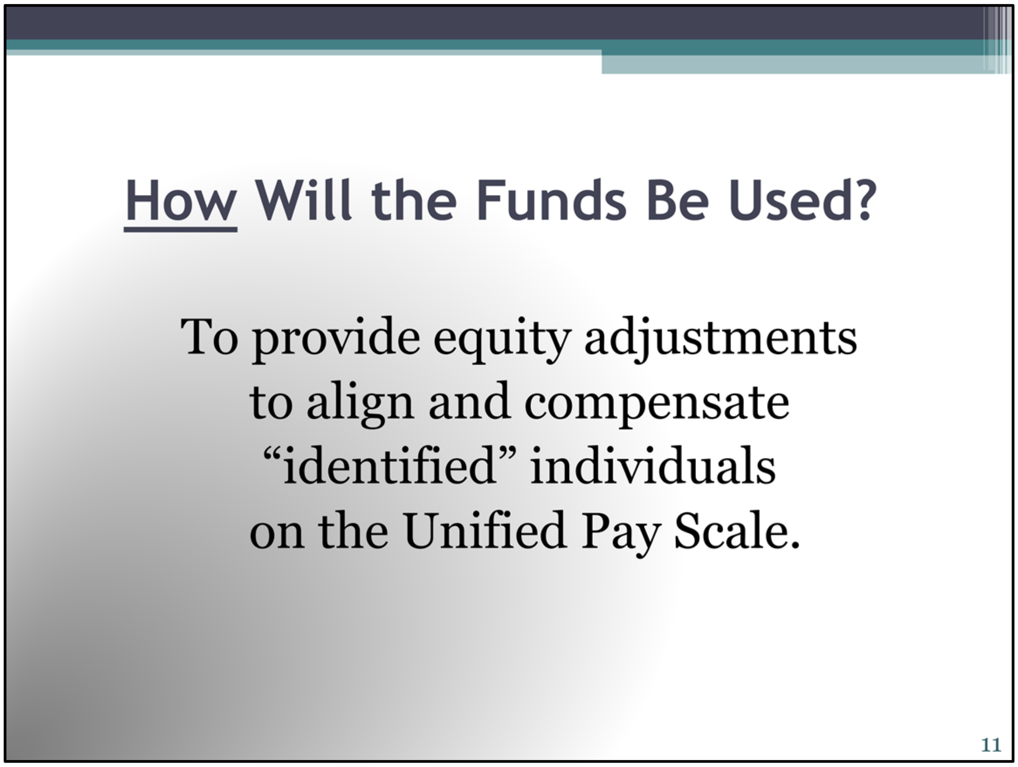
Why Address Compression Now?

- Provides equitable compensation based on experience and work performed
- Supports retention of current employees
- Supports recruitment of new employees
- Improves morale and working relationships

10

So, why should we address compression now?

- Provides equitable compensation based on experience and the level of work performed.
- Supports retention of the division’s current employees
- Supports recruitment of new employees when the need arises; and
- Helps to employee morale and working relationships.



During the MAG study, we identified where the inequities existed on the unified pay scale and through the years, we have continued to update this information.
So, how will the funds be used? One sentence……

WHAT ARE SOME FUNDING OPTIONS?

- Option 1 – Fully fund the requested amount to address inequities
- Option 2 – Provide a percent of funds annually to address equity adjustments across-the-board
- Option 3 – Provide funding to phase in equity adjustments over time, based on areas of highest need

12

Read options

NEXT STEPS?