



**To: Honorable Mayor Jeff Schlink  
Members of the Board of Aldermen**

**From: Petree A. Eastman  
City Administrator**

**Subject: One-time Pay Adjustment**

**Date: December 8, 2011**

**Introduction**

One of the most significant findings I have made since my arrival as City Administrator is the low morale of employees, despite their dedication and love for Crestwood. Part of the morale issue is from the failure of the City to have a funded pay plan and classification system. It is a fact that the salary levels of City employees are not keeping up with inflation. Salaries have been frozen since 2009. Yet, because of the increasing costs in the basic necessities of life (utilities, food, gasoline), City employees have actually realized pay reductions over time. The impact of the regular inflation is exacerbated by the double-digit increases in an employee's share of the medical insurance costs. (A summary of the cost of medical insurance premiums to employees since 2009 is attached hereto as **Exhibit A**).

According to our records the following pay adjustments have occurred since 2005 and the concomitant Consumer Price Index for the US and in St. Louis (attached hereto as **Exhibit B**):

<b>Fiscal Year</b>	<b>Pay Adjustments</b>	<b>US CPI (all items)</b>	<b>St Louis CPI (all items) (first half)</b>	<b>St Louis CPI (all items) (second half)</b>
FY11	Zero	Not yet available.	3.3% (due to 21.3 % rise in energy costs and food 2.5%)	Not yet available
FY10	Zero	1.5%	2.3%	2.5%
FY09	\$1000 pay increase going forward	2.7%	-.5%	1.8%
FY08	2%	.1%	3.2%	2.5%
FY07	1% plus \$450	4.1%	Not available	Not available
FY06	Zero	2.5%	Not available	Not available
FY05	Zero	3.4%	Not available	Not available.

As can be gleaned from the chart above, employee salaries have not kept up with the consumer price index<sup>1</sup>, in the US or in St. Louis to the extent it could be calculated. For purposes of this analysis, I will only discuss the impact of inflation since 2009 when salaries were frozen. In an inflationary time, failure to provide even modest cost of living increases is tantamount to pay cuts through an employee's reduced purchasing power. Using the American Institute for Economic Research Cost-Of-Living Calculator (a description of which is attached hereto as **Exhibit C**), employees lost approximately 4.7% in real dollars since 2009, not including the significant increases in the employees' share of medical insurance costs. A spread sheet demonstrating the level of what must be earned to have constant purchasing power since 2009 is attached as **Exhibit D**. For example, an employee that earned \$52,792.80 in 2009, would need to earn \$55,311.02 in 2011 to be able to purchase the same goods and services.

Because low morale relating to pay can adversely affect our service to the citizens of Crestwood, I do believe that reasonable pay is essential to provide the highest quality services to our residents. This is not an "us-versus-them" proposition. Human nature dictates that citizens are not as likely to get superior service from employees who are struggling financially or suffer from low morale. More importantly, it is in the City's best interest to retain excellent employees. Failure to minimally keep up with inflation can and has cost the City. Very recently, the City lost two valuable employees who cite better pay in peer jurisdictions as the rationale for them leaving Crestwood. As the economy recovers and more local government jobs become available, we are likely to see continued loss.

While it is true that all employees should be grateful for employment, this should not be used as justification for taking advantage of them. Simply replacing employees who have low morale due to their continued pay cuts is too simplistic of a view. Taken that scenario out to its logical conclusion proves such an argument is invalid. The amount of time and expense incurred by the City to advertise, select, train and get a new employee fully functioning, as well as the loss of important institutional knowledge of the former employee is significant. Simply hiring a new and presumably more "grateful" employee is not cost effective.

Good management (for both public and private entities) dictates that employers respect employees, set high expectations and to provide for their well-being including reasonable pay, quality benefits and the encouragement of personal and professional growth. In my professional view, keeping salaries in line with inflation, *at a minimum*, is necessary to ensuring the retention of excellent employees and in turn the provision of excellent service.

### **Pay Adjustment**

In FY 11, the City has realized substantial savings from various positions that were unfilled for some or all of the fiscal year. The savings is **\$161,982.95**. In an attempt to make up the difference between existing employee salaries and salaries that hold employees' purchasing power constant, I recommend utilizing the savings from unfilled positions in FY 11 to provide a one-time pay adjustment of \$1500 per full-time employee and \$1000 per each permanent part time employee who is currently employed as of December 6, 2011.<sup>2</sup> This will cost

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<sup>1</sup> The consumer price index (CPI) is the best measure of increases in the cost of goods and services over time.

<sup>2</sup> This does not include a pay adjustment for the City Administrator or for new hires in December. It also does not include a pay adjustment for current employees that have resigned but have not yet completed service to the City of Crestwood.

approximately **\$156,324.95** including the pay adjustment and attendant taxes that are paid by the City. The calculations for this proposal are attached hereto as **Exhibit E**. The remainder would be added to the reserves/fund balances.

While it would have been my preference to use the funds in FY 11 for a one-time pay adjustment, circumstances that have occurred since my arrival prevent a pay adjustment in FY 11. However, the funds saved from the unfilled positions will lapse over into our reserves/fund balance for FY 12 and can be utilized for this purpose in January without effect on the proposed FY 12 Budget.<sup>3</sup> I believe employees would warmly receive such an adjustment even after the holiday season.

The pay adjustment recommended here should be characterized as a cost of living adjustment rather than a salary increase for merit.<sup>4</sup> Because of the long term implications on the FY 12 and future budgets, the adjustment is not permanent, but will be paid in one lump sum. It should also be viewed as an acknowledgement and appreciation of our employees and the fine work they do in these difficult times. In my view it should also be viewed as a good faith gesture to employees that the City will adopt and fund a classification system and pay plan in the near future so that there is some certainty about attainment of better salaries in the future.

It should be noted that recommended bonus level (as shown in **Exhibit D**) would not quite cover the increases in cost of living realized by the majority of employees. In other words, even with a \$1500 pay adjustment (and \$1000 for permanent part time employees), employees would still be behind in dealing with the increases in cost of living since 2009, not including the increases in the employees' share of the medical insurance premiums. However, the pay adjustments go a long way in making employees whole.<sup>5</sup>

#### **Pay Adjustment versus Reserves.**

It is true that without the pay adjustment, the savings from the unfilled positions in FY 11 would add to the reserves/fund balances. And, it is true that the City should maintain at least three months or 25% of its Budget in reserves/fund balances for emergencies and that the City has not sufficiently set aside the proper amount of funds to meet this minimal standard. However, in my view this is not a zero sum game. When weighing adding \$156K to the reserves versus bringing employee salaries up to a standard that accounts for increases in the cost of living, in my view, the employees (and ultimately, the citizens) come first. It would be a tremendous morale boost to provide employees with a one-time pay adjustment until such time as a pay plan and classification system is put into place and adequately funded. Increased sales tax revenue (as seen in November and reported to you via email on December 12, 2011) and savings on the Whitecliff Bridge project can be added to our fund balances/reserves for the purpose of meeting the 25% goal.

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<sup>3</sup> Currently, the Proposed FY12 Budgets for the General Fund and the Park and Stormwater Fund (where employee salaries are located) had assumed that all funds budgeted in FY 11 for salaries would be paid in FY 11.

<sup>4</sup> As discussed *infra*, the City of Crestwood does not have an adequate classification system in place to distribute a pay adjustment based on merit.

<sup>5</sup> In consideration of this flat amount, I consulted with the Department Directors about whether such amount would cause issues amongst employees who may view their performance as better than a co-worker. Uniformly the Directors reported that all employees would be grateful for such a pay adjustment and few, if any, would complain about others receiving the same amount.

**Merit**

I am agreement that “bonuses” for meritorious performance are appropriate. However, to provide bonuses in a manner that are fair and predictable, two key components must be in place. First, all jobs must be placed into a classification system. Any particular job category should contain steps that demand increasingly improved performance and service. For advancement within steps, a set amount of compensation should be identified. This provides information to the employee of what is necessary to attain the next level of pay. The City is not currently operating under any classification/pay system.

Second, hand-in-hand with a classification system there must be a meaningful and rigorous performance review process. The City does have performance review forms. However, the forms are woefully out of date and do not provide the supervisor with evaluation criteria or definitions of when an employee is meeting the articulated criteria. The current forms are virtually worthless in terms of assuring consistency in application. Without these two critical components, distribution of bonuses based on performance at this time could be viewed as favoritism, or worse a sort of patronage system. This is precisely why auditors frown upon “bonuses” and why I do not recommend a pay adjustment based on merit at this time.

As we move into 2012, it is my intention to bring to the Board of Aldermen an analysis of our salaries and benefits to support a classification and pay plan. I will also address our performance review system to ensure that any future merit increases can be distributed with consistency and fairness. Until then, it is clear that the lack of cost of living increases is still a significant concern and should be addressed.

**Recommendation**

It is recommended that an ordinance be prepared by the City Attorney to transfer sufficient funds from reserves/fund balances in the FY 12 General and Park and Stormwater funds to provide a one-time lump sum pay adjustment of \$1500 per full-time employee, except for the City Administrator or new hires as of December 6, 2011, and \$1000 for permanent part-time employees as of December 6, 2011. If adopted, the adjustment would be added to employees' pay checks upon the next pay period after an ordinance is adopted and perfected.