MFP Committee #3 & #4
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M E M O R A N D U M

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TO: Management and Fiscal Policy Committee

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SUBJECT: **Review and Fiscal Analysis of the Executive's Proposed FY11 Furlough, FY11 Reduction-in-Force, and 2010 Retirement Incentive Program**

Salaries and benefits for active employees represent the largest component of the County Government's operating budget. As a result, any significant reduction in the County Government's expenditures must somehow reduce spending on employee pay and benefits. This is accomplished by either: funding a smaller workforce; and/or reducing the compensation of employees on the payroll.

The Executive's FY11 Operating Budget proposes to reduce the County Government's compensation costs by using both of these approaches. Specifically, the Executive proposes to:

- Abolish 452 County Government positions, 220 vacant and 232 filled; and
- Reduce compensation costs by requiring all County Government employees except for merit uniformed public safety employees to take 80 hours of furlough; the furlough would be prorated for part-time employees.

The Executive's FY11 budget proposes no pay increases for County Government employees -- no general wage adjustments (COLAs); no service increments (step increases), and no increases for longevity or performance. These decisions serve to contain the growth of compensation costs, but do not actually reduce them.

This memo contains OLO's review and fiscal analysis of the Executive's proposed furlough, reduction-in-force (RIF), and 2010 Retirement Incentive Program (RIP). Part I (© 1-10) addresses the Executive's furlough proposal; Part II (©11-35) addresses the RIF and the RIP.

OLO's review and fiscal analysis of the Executive's proposed FY11 furlough begins on © 1. In sum:

- The Executive proposes that all full-time County Government employees, except for merit, uniformed public safety employees, be furloughed for 80 hours. The furlough for affected part-time employees would be prorated. The Executive proposes that all 80 hours be rolling furlough hours, which means they are selected by each employee but subject to supervisor approval.

- The Executive estimates FY11 savings of $15 million from his proposed furlough. The savings comes from effectively reducing the salaries of affected employees by 3.8%. The cohort of County Government employees that the Executive proposes to furlough constitutes 70% of the County Government workforce, and approximately 20% of all employees across the tax supported agencies (County Government, MCPS, M-NCPPC, Montgomery College).

- Based on the reported experiences of other jurisdictions, the use of overtime and the loss of revenue (e.g., from closure of revenue-generating facilities) are the two factors that have the greatest potential of reducing savings from a furlough. The Executive has taken steps to reduce a loss of such savings as part of his Furlough Implementation Plan. Specifically, he prohibits the use of overtime to make up for furlough days; and the proposal to make all furlough hours rolling will not result in the closure of County facilities.

- **OLO's estimates of FY11 savings from a number of alternative furlough structures are summarized in a table at © 10. OLO prices four different ways to achieve the Executive's estimated savings of $15 million in FY11; and three additional ways to achieve a greater amount of savings.**

OLO's review and fiscal analysis of the Executive's proposed FY11 reduction-in-force and 2010 Retirement Incentive Program begin on © 11. In sum:

- The Executive's FY11 Recommended Operating Budget proposes to abolish 452 positions, 220 vacant and 232 filled. The abolishments affect 30 departments/offices and more than 100 different job classes.

- **Of the 232 filled positions proposed by the Executive for abolishment, 72% are MCGEO-represented positions and 28% are non-represented positions. The Executive does not propose abolishing any filled positions represented by the FOP or IAFF.**

- Three departments (Public Libraries, Recreation, Correction and Rehabilitation) account for 49% of the proposed 232 filled position abolishments. For a complete list of the proposed position abolishments (filled and vacant) by department, see © 15.

- **Employees in Grades 26 and below account for 88% of the (non-public safety) workforce and comprise 86% of the proposed filled position abolishments.** Employees in Grades 27 and above account for 12% of the (non-public safety) workforce and comprise 14% of the proposed filled position abolishments. For a summary table of the proposed filled position abolishments by grade range, see © 26.

- The Executive proposes using two primary strategies to minimize the number of involuntary employee layoffs: Discontinued Service Retirements and a Retirement Incentive Program; both strategies are ways to encourage more senior employees to voluntarily retire, which in turn reduces the number of less senior employees who are vulnerable to layoff.

- The 2010 Retirement Incentive Program (RIP) proposed by the Executive is targeted to employees who belong to the defined benefit pension plan (the Employee Retirement System) and who are in positions affected by the reduction-in-force. A full description of the proposed RIP begins on © 32.

- **OLO's fiscal analysis of the Retirement Incentive Program finds that this design will result in net savings to the County over the next ten years if positions vacated by the RIP remain unfilled for at least three years. The net savings to the County will be eroded if the positions are refilled earlier.**

PART I:
THE EXECUTIVE'S RECOMMENDED FY11 FURLOUGH FOR COUNTY EMPLOYEES

OLO's review and analysis of the County Executive's proposed FY11 furlough for County Government employees is organized into four sections:

A. **Introduction to Furloughs** defines a furlough and describes commonly-cited advantages and downsides to using furloughs as a budget savings strategy.

B. **Executive's Recommended FY11 Furlough** describes the regulations and procedures that govern the implementation of a furlough, and details the Executive's proposed Furlough Implementation Plan.

C. **Analysis of Executive's Estimated Furlough Savings and Methodology** describes the total estimated savings for FY11, reviews potential factors that could reduce furlough saving in FY11, and discusses potential future fiscal affects of the FY11 furlough. This section includes information about furlough savings in other jurisdictions.

D. **Estimated FY11 Savings from Alternative Furlough Structures** reviews a number of alternative furlough structures and their estimated savings.

A. Introduction

A furlough is the placement of an employee in a temporary non-duty, non-pay status to achieve budget savings. The Montgomery County Personnel Regulations (§30-1) define a furlough day as "a day when an employee is normally scheduled to work but does not work for the County or receive pay from the County for the day because of a furlough." An employee cannot use paid leave for the time period that s/he is on furlough.

The most commonly cited advantages to using furloughs as a budget savings strategy are:

- A furlough provides immediate and predictable savings;
- A furlough provides savings that can mitigate the need to layoff employees;
- A furlough is a temporary adjustment that does not require changes to the current size or structure of the workforce;
- Employees tend to prefer furloughs vs. compensation reductions that pay employees less for the same amount of work; and
- A furlough can be structured to provide some additional savings in general operating costs by closing facilities on certain days.

The commonly cited downsides to using furloughs as a budget savings strategy are:

- Furloughs do not deliver long-term savings from a structural change in the workforce;
- Furloughs can result in grievances and/or lawsuits from employee organizations;
- Furloughs can result in increased overtime expenses to maintain services or to "make up" the work missed during a furlough;
- Furloughs can result in higher leave balances accrued by employees who choose not to take additional days off during the year; and
- Furloughs typically result in some amount of less work being performed or reduced service delivery.

B. Executive's Recommended FY11 Furlough

The Executive's Recommended FY11 Operating Budget includes a proposed furlough of 80 hours for certain County Government employees. A March 31, 2010 memorandum from the Chief Administrative Officer (attached at © 36) contains details of the proposed Furlough Implementation Plan. The table below summarizes the structure of the Executive's proposal.

County Executive's Recommended FY11 Furlough Plan For County Government	
Voluntary or Mandatory	Mandatory
Amount of Furlough Time	10 days (80 hours), pro-rated for part-time employees
Fixed or Rolling Furlough Days	Rolling furlough days
Employee Exemptions	Merit system, uniformed public safety employees in the Department of Police, Montgomery County Fire and Rescue Service, Department of Correction and Rehabilitation, and the Office of the Sheriff
Scheduling Salary Loss	Salary loss divided evenly over paychecks of affected employees during FY11
Employee Benefits	No impact on retirement benefits, health insurance, or leave accrual
Projected FY11 Savings	$15 million

Other Agencies. The Executive's FY11 Recommended March 15th Budget did not recommend furloughs for employees in Montgomery County Public Schools (MCPS), Montgomery College, or the Maryland-National Capital Park and Planning Commission (M-NCPPC). However, in order to meet the agency budget recommendations contained in the Executive's budget, both M-NCPPC and Montgomery College are considering up to 10 days of employee furloughs as one of the ways to reduce their FY11 costs.

- M-NCPPC estimates that a single day of furlough savings is $215K, which means that 10 days of furloughs saves about $2.15 million;
- Montgomery College estimates a single day of furlough savings is $400K, which means that 10 days of furloughs saves about $4 million.

If these agencies do implement furloughs, it will be important to ensure that savings are not double counted when analyzing alternative furlough structures that impact all agencies.

The following pages provide an overview of the current regulatory structure for furloughs, and then describe the Executive's recommended furlough plan in greater detail.

1. Furlough Regulations and Procedures

Montgomery County Personnel Regulations (Section 30, *Reduction-In-Force and Furlough*) include procedures and polices for implementing a furlough. The Executive has indicated plans to submit amended regulations to the Council for approval in conjunction with his proposed FY11 furlough, to include a provision that allows a furlough to be taken in increments of less than a full 8-hour work day. <u>As of this writing, the amended regulations have not been received by the Council.</u>

The current regulations state that, to implement a furlough, the Chief Administrative Officer (CAO) must develop a furlough plan that identifies the employees who will be furloughed, the number of furlough days, and the timeframe within which the furlough days must occur. The Personnel Regulations (§30-2b) establish the following furlough guidelines:

- Employees are not allowed to work on their fixed or alternate furlough days, except in an emergency as determined by the CAO, and are not allowed to make up the hours lost from a furlough day by working additional hours at another time.
- The County must ensure that furlough days do not adversely impact an employee's accrual of annual and sick leave; life insurance; retirement benefits; and seniority.
- An employee's base salary must not be reduced by the salary loss resulting from a furlough day for the purpose of calculating service increments, salary upon promotion or demotion, or other salary amounts based on base salary.

Labor agreements and furloughs. The current agreement with MCGEO, Local 1994, which expires June 30, 2010, contains no mention of furloughs. However, the CAO reports in his Furlough Implementation Plan memorandum that the Executive plans to negotiate with MCGEO on the procedures for implementing the FY11 furlough.

The current agreement with FOP, Lodge 35, which also expires June 30, 2010, contains the following provisions on furloughs (Article 50, Section C):

- Lost furlough pay must not be made up by the same or other employees in overtime hours or compensatory hours;
- The salary reduction from furloughs must be spread evenly over the pay periods remaining in the fiscal year during which the furlough day(s) occur(s);
- The County must grant eight hours of compensatory time to each bargaining unit member for each eight hour furlough day required;
- Any salary reduction resulting from a furlough shall not reduce the amount of the pension payable upon retirement of any unit member or on other payments or benefits (such as service increments, awards, salary upon promotion or demotion, etc.);
- The salary reduction shall be restored and all compensatory leave balances shall be appropriately adjusted if an appropriate third party determines that the County did not relieve the members of the bargaining unit from duty due to lack of funds or work; and
- All furlough provisions shall be administered equitably within the unit.

The current agreement with IAFF, Local 1664, which expires June 30, 2011, references furloughs in two sections. Section 48.6, Effects of Certain Actions, subsection B, states that "Any furlough of a Job Sharing employee shall be prorated according to the employee's position equivalency." Section 49.1, Limitation on Accrual of Compensatory Time, states that "Unused compensatory time granted to implement a furlough shall be added to the member's compensatory leave balance at the end of the furlough period and treated as above."

2. Details of the Executive's Recommended Furlough Plan

Amount of furlough time. The Executive has proposed that full-time employees be furloughed for 80 hours (10 days) in FY11. The furlough extends to all partially or fully grant funded positions, as well as non-tax supported positions. The amount of furlough time for part-time employees is prorated based on budgeted annual working hours. For example, a part-time employee scheduled to work 1,040 hours per year (0.5 workyears) would have 40 hours (5 days) of furlough.

Fixed or rolling furlough days. The Executive does not plan to close County Government facilities to implement the furlough. All furloughs days will be "rolling," meaning that they are selected by the employee, but subject to supervisor approval. The CAO's Furlough Implementation Plan memorandum states that employees will be responsible for taking the appropriate number of furlough hours in FY11, and supervisors will be responsible for monitoring furlough use and scheduling employees so that they will be able to take their required number of furlough hours. The Executive plans to submit amended Personnel Regulations that will allow a furlough to be taken in increments of less than one full work day.

Employee Exemptions. The Executive's proposed furlough exempts merit, uniformed public safety employees within the Department of Police, Montgomery County Fire and Rescue Services, Department of Correction and Rehabilitation, and Office of the Sheriff. **Under the County Executive's proposal, 70% of the County Government workforce is subject to the furloughs and 30% of the workforce is exempt.**

The specific occupational classifications and number of positions exempted are shown on the next page.

Department	Exempt Classifications
Department of Police	• Police Captain (21 positions) • Police Lieutenant (33 positions) • Police Sergeant (136 positions) • Master Police Officer (65 positions) • Police Officer I-III (895 positions) • Police Office Candidate (30.1 workyears)
Fire and Rescue Services	• Fire/Rescue Battalion Chief (24 positions) • Fire/Rescue Captain (141 positions) • Fire/Rescue Lieutenant (108 positions) • Master Firefighter/Rescuer (222 positions) • Firefighter/Rescuer II-III (642 positions)
Department of Correction and Rehabilitation	• Correctional Unit Commander Captain (3 positions) • Correctional Shift Commander Lieutenant (20 positions) • Correctional Supervisor Sergeant (44 positions) • Correctional Officer I-III (236 positions)
Office of the Sheriff	• Sheriff (1 position)* • Deputy Sheriff Captain (4 positions) • Deputy Sheriff Lieutenant (11 positions) • Deputy Sheriff Sergeant (31 positions) • Deputy Sheriff I-III (96 positions)

*Since the Sheriff's salary is constitutionally guaranteed, he is technically exempt from the furlough. However, the Executive expects the Sheriff will voluntarily return pay in the amount equivalent to 10 furlough days.

OLO asked Executive staff to explain the rationale for exempting the specified uniformed public safety employees. Executive staff responded that:

> *Employees that are in the categories listed above are exempt from the furlough requirement because the County Executive wanted to do what was possible to prevent any compromise of public safety. The avoidance of additional overtime charges to backfill for furlough employees was also a factor.*

Scheduling salary loss. The Executive's proposed furlough plan spreads the salary loss for employees over the entire fiscal year, regardless of when furlough days are actually taken. As a result, employees' gross wages in their biweekly paychecks will be reduced by 3.8% for each of the 26 pay periods.

Employee benefits. Consistent with the Personnel Regulations, the Executive's proposed furlough will not adversely impact any employee's retirement benefits, health insurance, life insurance, or leave accrual. For a furloughed employee, this means that the gross wages in their biweekly paycheck will decrease by 3.8%, but their biweekly deductions for retirement, health insurance, and life insurance will not change.

On April 13th, at the Executive's request, the Council introduced Expedited Bill 18-10 to amend the definition of regular earnings in the retirement laws to include imputed income not received due to a furlough. The Bill would ensure that a furlough does not reduce the employer and the employee contributions to the retirement plan or any pension benefit.

Overtime. In accordance with the Personnel Regulations, the CAO's Furlough Implementation Plan memorandum states that employees will not be able to count furlough hours toward their overtime compensation threshold. Additionally, the Plan states that employees are not allowed to incur overtime to backfill staff who are out on furlough.

Anticipated service impact. In the Executive's FY11 Recommended Operating Budget, the furlough savings for each department was categorized as a "no service impact" reduction. Executive Branch staff has since noted that the "no service impact" classification was an oversight; the CAO's Furlough Implementation Plan memorandum states that the furloughs may result in a reduction in services in some areas of operation. Departments are responsible for identifying and informing the CAO of any operational or service level issues that may occur and how the department plans to deal with those issues.

C. Analysis of Executive's Estimated Furlough Savings and Methodology

The County Executive's FY11 Recommended Budget included a total of $15,013,200 in FY11 personnel savings from his recommended furlough plan. The projected furloughs savings from each County Government department/office are attached at © 39. The $15 million total includes $12.2 million in tax supported savings and $2.8 million in non-tax supported savings.

The County Executive's furlough savings methodology conforms to the Personnel Regulations by excluding retirement and group insurance from the savings calculation. Additionally, the County Executive's assumed furlough savings are calculated on FY11 recommended personnel costs for each department.

The CAO's Furlough Implementation Plan memorandum (issued on March 31, 2010 and attached at © 38) clarified that non-merit, uniformed public safety staff are included in the furlough. These positions were excluded from the initial furlough savings calculation. As a result, OLO estimates that the Executive's proposed furlough plan will achieve approximately $147,000 more in cost savings than initially anticipated.

Employee exemptions and impact on savings. As noted on page © 4, the Executive's proposal exempts 30% of the County Government workforce from the 10 days of furlough. **According to data provided by the Office of Management and Budget, if the exempt employees were required to take the same amount of furlough time the County would achieve an additional $8,587,404 in furlough savings.**

1. Factors that Could Reduce Furlough Savings in FY11

Last year, OLO reviewed the furlough structures and anticipated savings in different state and local governments, as well as public school systems. As part of this analysis, OLO sought information on the actual furlough savings achieved in some of those jurisdictions.[1]

A brief update on the savings experiences Prince George's County, the State of Maryland, Anne Arundel Public Schools, and the State of California is provided on the next page. In general, OLO found that:

- Many jurisdictions captured all or most of their estimated furlough savings, although most jurisdictions' savings analysis only accounts for personnel costs.
- Increased use of overtime was a factor that affected savings in some jurisdictions, while others report being able to avoid this issue due to their particular furlough structure.
- A study of the State of California furloughs found that, apart from direct personnel cost savings, the furloughs are impacting sales and income tax revenue.

Based on the reported experiences of other jurisdictions, the use of overtime and the loss of revenue are the two factors that have the greatest potential of reducing the County's savings from furlough. However, as noted below, the Executive has already taken steps as part of his Furlough Implementation Plan to prevent (or at least reduce the likelihood) of their occurrence.

Overtime Costs. Overtime experiences in other jurisdictions show different outcomes; some report implementing furloughs without documented losses to additional overtime while others report a decrease in savings from additional use of overtime. The Executive's furlough savings methodology does not include any adjustment for overtime losses since the furlough plan prohibits the use of furlough time to reach the overtime threshold, and prohibits employees from incurring overtime to backfill staff who are out on furlough.

Loss of Revenue. The furlough experience in California indicates that a reduction in service delivery, particularly from furloughs of employees in revenue-generating departments, can result in the loss of revenues. The Executive's proposed furlough plan does anticipate that some service reduction will occur, but states that each department director will be responsible for implementing the furloughs in a way that is cost neutral and has minimal service impact. Additionally, the Executive's decision to use rolling instead of fixed furlough days will help mitigate potential lost revenue from facility closures.

Banked Leave Time. In addition, OLO notes that the Executive's furlough plan does not include any adjustments for banked leave time. Particularly with rolling furlough days, employees may use the furlough days in lieu of annual leave. As employees make this trade, they are essentially "banking" annual leave to use in future years. While this is not likely to impact savings in FY11, the cash value of that leave increases over time as employees earn more, resulting in a larger future financial liability for the County.

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[1] OLO Memorandum Report 2009-9, *A Research Brief on Furloughs and Buyouts* and Addendum to Report 2009-9, *Public Sector Furloughs: Additional Information* are available online at www.montgomerycountymd.gov/olo

If the Executive's furlough plan was amended to include furloughs of FOP members, the amount of banked leave time would increase substantially. As noted on page © 3, the current labor agreement with the FOP states that members receive an additional eight hours of compensatory time for each furlough day taken. As a result, any FOP member given 80 hours of furlough time would receive an additional 80 hours of compensatory time, most of which would likely be taken in future fiscal years.

FURLOUGH SAVINGS EXPERIENCES IN OTHER JURISDICTIONS

Prince George's County. Prince George's County implemented 80 hours of furlough for County Government employees in both FY09 and FY10, with estimated personnel costs savings of $20 million in FY09 and $18 million in FY10. County staff report actual savings of $16 million in both years, and cite two factors that led to the lower than estimated savings. First, estimated furlough savings were based on average salaries instead of actual salaries. Second, turnover, reduction-in-force terminations in FY10, and certain exemptions based on funding source led to smaller savings. Public Safety employees were not exempt from the Prince George's furloughs. In order to accommodate public safety and other 24/7 employees without having to utilize overtime hours, the County designated vacation and some sick days as furlough days for those employees.

State of Maryland. The State implemented a progressive furlough in FY10 that required a minimum of three and a maximum of ten furlough days based on an employee's salary level. State of Maryland staff report that the State achieved its estimated savings target of $34 million for FY10. Staff also report that use of overtime was not a factor because the furlough plan exempted employees in 24/7 service positions. However, the exempted 24/7 employees were given a "temporary salary reduction" of either three or five days pay based on salary level.

Anne Arundel Public Schools (AAPS). AAPS implemented a furlough in FY10 that required between two to five furlough days depending on position, with teachers required to take three days and bus drivers and bus aides exempt. The school system originally estimated $7.7 million in savings from the furlough days. The School Board reduced the savings by $2.5 million in November 2009 when it decided to pay employees for one furlough they had already taken. AAPS reports that it was able to give back the furlough day due to greater than anticipated savings from lapse and a hiring freeze on non-teaching positions. As a result, overall savings were approximately $5 million.

State of California. In FY10, the State of California requires state employees to take three rolling furlough days per month. The State anticipated saving approximately $2.2 billion in compensation costs. In October 2009, researchers at the University of California at Berkeley Center for Labor Policy and Education released a study examining the cumulative costs and savings from the furloughs. While the study found that the furloughs led to $2.01 billion in personnel costs savings, it also found that much of the savings will be offset by reduced revenue and increased costs to the State general fund in future years. Specifically, savings would be reduced by: (1) an estimated $60 million decrease in income tax collected from the furloughed employees; and (2) an estimated $363 million decrease in general tax collection due to the furloughs of employees responsible for collecting and auditing tax returns. The report further finds that the loss of income to state employees will have negative ripple effect on the state's economy as a whole.

D. Estimated FY11 Savings from Alternative Furlough Structures

The Executive's proposed furlough for FY11 includes 70% of the County Government workforce, and 19% of the total workforce for all County-funded agencies.[2] In this section, OLO review the estimated FY11 savings from alternative furlough structures, including those that:

- Expand the number of employees subject to the furlough within County Government;
- Expand the number of employees subject to the furlough across all County-funded agencies; and
- Create a progressive structure where higher earning employees take a greater amount of furlough days than lower earning employees.

The table on the next page details the alternative furlough structure and the estimated savings associated with each. Furlough structures #1-4 show different alternatives that would achieve approximately $15 million in savings, the amount of furlough savings included in the Executive's Recommended Budget. Furlough structures #5 and 6 show alternatives that would achieve savings greater than $15 million.

[2] As noted on page © 2, M-NCPPC and Montgomery College are also considering implementation of furloughs to meet the Executive's recommended reduction to their respective budgets.

Estimated FY11 Savings from Alternative Furlough Structures

	Employee Exemptions	Numbers of Days	% Wage Reduction*	Projected FY11 Savings
Executive's Recommended Furlough Structure				
County Government Employees with Executive's Public Safety Exemptions	Merit, uniformed public safety employees	10 days (80 hours)	3.8%	$15,013,200
Alternative Furlough Structures to Achieve ~$15 Million in Savings				
#1: All County Government Employees	None	6.5 days (52 hours)	2.5%	$15,435,784
#2: All County Government Employees - Progressive Structure	None	Salary <$50K : 3 days (24 hours)	1.2%	$15,087,281
		Salary $50-100K: 6 days (48 hours)	2.3%	
		Salary >$100K: 10 days (80 hours)	3.8%	
# 3: County Government Employees - Progressive Structure (with Executive's Public Safety Exemptions)	Merit, uniformed public safety employees	Salary <$50K: 6 days (48 hours)	2.3%	$15,140,196
		Salary $50-100K: 9 days (72 hours)	3.5%	
		Salary >$100K: 16 days (128 hours)	6.2%	
#4: All County Government, MCPS, M-NCPPC, and Montgomery College Employees	None	1.5 days (12 hours)	0.6%	$14,869,376
Alternative Furlough Structures to Achieve >$15 Million in Savings				
#5: All County Government Employees	None	10 days (80 hours)	3.8%	$23,747,360
#6: All County Government, MCPS, M-NCPPC, and Montgomery College Employees	None	5 days (40 hours)	1.9%	$49,564,585
		10 days (80 hours)	3.8%	$99,129,170

PART II: THE EXECUTIVE'S RECOMMENDED FY11 REDUCTION-IN-FORCE AND RETIREMENT INCENTIVE PROGRAM

OLO's review and analysis of the County Executive's proposed FY11 reduction-in-force and retirement incentive program for County Government employees is organized into four sections:

- **A. Introduction to Reductions-in-Force and Retirement Incentives** defines the term "reduction-in-force" and describes the advantages and disadvantages of retirement incentives.
- **B. Executive's Recommended FY11 Reduction-in-Force** provides data about the number of total and filled positions recommended for abolishment. This section also describes the distribution of position abolishments by bargaining unit and grade.
- **C. The RIF Process** describes the regulations and procedures that will govern the implementation of the reduction-in-force.
- **D. Executive's Recommended Actions to Minimize Layoffs** describes the Executive's plans to use Discontinued Service Retirements and a Retirement Incentive Program to minimize the number of layoffs. This section includes OLO's fiscal analysis of the proposed Retirement Incentive Program.

A. Introduction to Reductions-in-Force and Retirement Incentives

Both reductions-in-force and retirement incentives are tools employed by organizations to reduce workforce size.

1. Reduction-in-Force

A reduction-in-force (RIFs) is the downsizing of the workforce. The County's Personnel Regulations defines a reduction-in-force as:

> *The elimination of a position because of:*
>
> *(a) lack of funds;*
>
> *(b) change in an approved work program or plan;*
>
> *(c) administrative reorganization; or*
>
> *(d) technological change that affects staffing needs.*[1]

While the above definition could apply to either filled or vacant positions, typically, the term "RIF" refers to a personnel action that results in the abolishment of filled positions. A detailed description of the FY11 RIF recommended by the Executive begins on page © 13.

[1] Montgomery County Personnel Regulations § 1-62.

2. Retirement Incentives

A retirement incentive (also known as a "buyout") is any type of incentive offered by employers to encourage employees to voluntarily leave their job either through retirement or resignation. Incentives most often take the form of cash payments or adjustment of pension or other post-employment benefits.

Retirement incentives achieve savings by reducing compensation costs through attrition; retirements, in turn, can serve to minimize or even avoid layoffs.

- **Savings from position abolishments.** A buyout results in the greatest compensation cost savings when an employer abolishes vacated positions. Position abolishments reduce an employer's ongoing payroll obligations, while simultaneously creating an opportunity to reorganize the workforce to better meet current needs and resource levels.

- **Mitigating adverse effects of layoffs.** Retirement programs can help alleviate some of the negative consequences of layoffs. The voluntary nature of buyouts helps to mitigate the morale problems surrounding layoffs.

While buyouts can offer an immediate reduction in compensation costs, these programs also have the potential to create long-term liabilities that offset or exceed short-term savings.

- **Increases to long-term liabilities.** A retirement incentive that enhances a defined benefit pension or other post-retirement benefit (e.g., health insurance) exposes an employer to additional actuarial liabilities. For example, under a defined benefit retirement plan, an employee who retires early under a buyout that offered additional years of credited service draws a higher pension benefit for more years than s/he would have received otherwise.

- **Filling vacated positions.** Abolishing vacated positions provides the greatest cost savings from a retirement incentive program. Filling a vacated position negates much of a buyout's fiscal benefit. Replacement employees' salaries and benefits offset much of the cost savings derived from the departure of the previous employee. In addition, refilling positions requires the use of resources to recruit, hire, and train new employees.

- **Affect on normal attrition.** A retirement incentive may result in an employer offering payment to employees who already planned to leave in the near future. In such cases, the incentive created an added cost with little (or no) fiscal benefit to the employer. In addition, an organization that offers buyouts too frequently creates an expectation among employees of future incentives, thereby discouraging "normal" retirement or resignation.

The proposed 2010 County Government retirement incentive program (RIP) would provide cash, pension, and other post-retirement benefits (such as enhanced life and health insurance) to employees in the Employees Retirement System (ERS)[2] who elect to retire by June 1, 2010. A detailed description of the 2010 RIP recommended by the Executive begins on page © 32.

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[2] The ERS is the defined benefit retirement system for employees hired before October 1994.

B. Executive's Recommended FY11 Reduction-in-Force

On March 15, the Executive transmitted to the Council his recommended FY11 operating budget. The Executive recommends abolishing a total of 452 County Government positions. This section reviews the distribution of position abolishments:

1. By department and job class;
2. By bargaining unit; and
3. By grade.

1. Filled and Vacant Positions

Of the 452 positions identified for abolishment, 232 currently are filled. The remaining 220 positions are vacant. The employees in filled positions targeted for elimination are at risk of losing their jobs through the RIF. The actual number of employees that will lose their jobs will not be known until completion of the Discontinued Service Retirement and Retirement Incentive Program processes (see Section D, beginning on page © 31).

Table 1 (beginning on page © 15) shows the number of filled and vacant positions by department recommended for abolishment. As seen in Table 1, ten departments are recommended to lose 20 or more total (filled and vacant) positions:

Departments Recommended to Lose 20+ FILLED & VACANT Positions

- Public Libraries (78 positions)
- Permitting Services (41 positions)
- Health and Human Services (35 positions)
- Correction and Rehabilitation (34 positions)
- Police (38 positions)[3]
- Recreation (37 positions)
- Transportation (36 positions)
- Technology Services (26 positions)
- Fire and Rescue Services (24 positions)[3]
- General Services (20 positions)

[3] Note that this memorandum only addresses positions targeted for elimination by the Executive as part of the FY11 RIF. While the RIF will result in the elimination of positions in Police and Fire and Rescue Services, the Executive also recommends creation of new positions in both of these departments that will offset the affect of the RIF.

If approved by the Council, eight departments would lose 10 or more employees from filled positions:

Departments Recommended to Lose 10+ FILLED Positions

- Public Libraries (60 employees)
- Recreation (28 employees)
- Correction and Rehabilitation (25 employees)
- General Services (19 employees)
- Technology Services (17 employees)
- Permitting Services (16 employees)
- Regional Services Centers (10 employees)
- Transportation (10 employees)

The Council will evaluate the merits of specific position abolishments during its review of County Government department operating budgets.

Table1: Filled and Vacant Positions Recommended for Abolishment By Department

Department	Filled Positions	Vacant Positions	Total Positions
Board of Appeals	1	0	1
Commission for Women	3	0	3
Community Use of Public Facilities	1	0	1
Consumer Protection	3	0	3
Correction and Rehabilitation	25	9	34
County Attorney	1	0	1
County Council	0	6	6
County Executive	5	2	7
Economic Development	5	2	7
Environmental Protection	1	1	2
Ethics Commission	2	0	2
Finance	1	7	8
Fire and Rescue Services	0	24	24
General Services	19	1	20
Health and Human Services	8	27	35
Human Resources	3	2	5
Human Rights	2	1	3
Liquor Control	8	5	13
Management and Budget	0	1	1
NDA - Climate Change Implementation	0	1	1
Permitting Services	16	25	41
Police	3	36	38
Public Information	0	1	1
Public Libraries	60	18	78
Recreation	28	9	37
Regional Services Centers	10	4	14
Solid Waste Disposal	0	1	1
Technology Services	17	9	26
Transportation	10	26	36
Urban District - Silver Spring	0	1	1
Urban District - Wheaton	0	1	1
TOTALS	**232**	**220**	**452**

Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan.

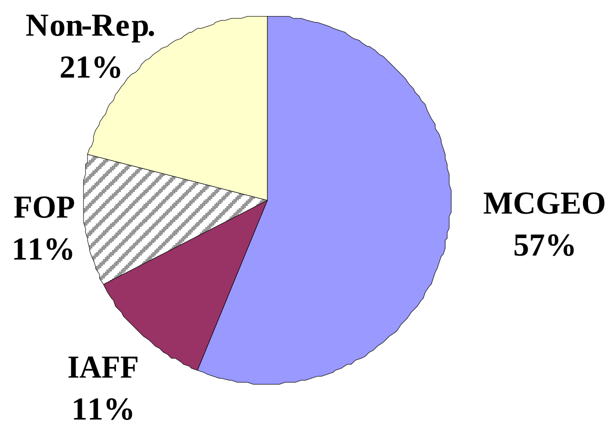
2. Distribution of Position Abolishments by Bargaining Unit

County Government employees are represented by three bargaining units. The Municipal & County Government Employees Organization (MCGEO) Local 1994 represents most general County Government worker. The Fraternal Order of Police (FOP) Montgomery County Lodge 35 represents uniformed police officers. The International Association of Fire Fighters (IAFF) Local 1664 represents uniformed firefighters. Elected and appointed officials, employees at or above Grade 27, Legislative Branch employees, employees of the Offices of the County Attorney, Management and Budget, and Human Resources and certain other employees are not represented by a bargaining unit.

Composition of Workforce: As shown in Exhibit 1, MCGEO represents about 57% of current County Government positions. The two uniform public safety bargaining units include another 22% of County Government positions. The remaining 21% of the workforce are non-represented positions.

Exhibit 1:
Composition of County Government Workforce Positions by Bargaining Unit
(as of 4/7/10)

Number of Positions	
MCGEO	5,580
IAFF	1,115
FOP	1,138
Non-Rep.	2,095
Total	9,928

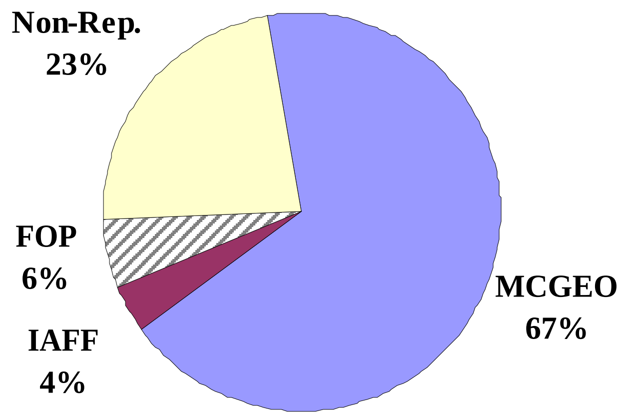


Source: OHR and OLO

Distribution of Position Abolishments: As mentioned above, the Executive recommends the abolishment of 452 positions for FY11. This total includes both filled and vacant positions. Exhibit 2 shows this distribution of position abolishments by bargaining unit.

Exhibit 2: Executive Recommended Position Abolishments
FILLED & VACANT Positions by Bargaining Unit

Number of Positions	
MCGEO	306
IAFF	18
FOP	25
Non-Rep.	103
Total	452



Source: OHR, OMB and OLO

OLO compared the distribution of recommended position abolishments with the overall composition of the County Government workforce. This comparison shows that Executive's budget eliminates MCGEO and non-represented positions in greater proportion to their distribution with the overall workforce. The two uniformed public safety bargaining units face position eliminations in lesser proportion to their distribution in the workforce. Table 2 compares the composition of the workforce by bargaining unit with the distribution of position abolishments by bargaining unit.

Table 2: Comparison of the County Government Workforce Composition and the Distribution of Position Abolishments (FILLED & VACANT) by Bargaining Unit

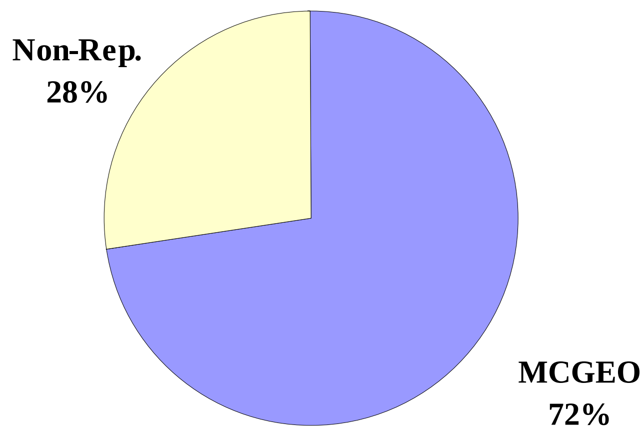
Bargaining Unit	Percent of Workforce (a)	Percent of Positions Recommended for Abolishment (b)	Ratio* (b) to (a)
MCGEO	57%	67%	1.18 to 1
FOP	11%	6%	0.55 to 1
IAFF	11%	4%	0.36 to 1
Non-Represented	21%	23%	1.10 to 1

*This ratio shows the degree of proportionality between each bargaining unit's share of position abolishments and that unit's representation in the workforce. A ratio greater than 1 to 1 indicates a higher than proportional share of abolishments; a ratio lower than 1 to 1 shows a lower than proportional share.
Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan.

Distribution of Filled Position Abolishments: The Executive recommends the abolishment of 232 filled positions for FY11. The employees filling these positions are in jeopardy of losing their jobs during the upcoming RIF. All filled positions recommended by the Executive for abolishment are occupied by MCGEO or non-represented employees. The Executive does not recommend abolishing any filled FOP or IAFF positions. Exhibit 3 shows this distribution of filled position abolishments by bargaining unit.

Exhibit 3: Executive Recommended Position Abolishments
FILLED Positions by Bargaining Unit

Number of Positions	
MCGEO	168
IAFF	0
FOP	0
Non-Rep.	64
Total	232



Source: OHR, OMB and OLO

Table 3 compares the composition of the workforce with the distribution of filled position abolishments by bargaining unit.

Table 3: Comparison of the County Government Workforce Composition and the Distribution of FILLED Position Abolishments by Bargaining Unit

Bargaining Unit	Percent of Workforce (a)	Percent of Filled Positions Recommended for Abolishment (b)	Ratio* (b) to (a)
MCGEO	57%	72%	1.26 to 1
FOP	11%	0%	--
IAFF	11%	0%	--
Non-Rep	21%	28%	1.33 to 1

* This ratio shows the degree of proportionality between each bargaining unit's share of position abolishments and that unit's representation in the workforce. A ratio greater than 1 to 1 indicates a higher than proportional share of abolishments; a ratio lower than 1 to 1 shows a lower than proportional share.
Source: OHR, OMB, and OLO

3. Position Abolishments by Job Class

As mentioned above, the Executive's recommended FY11 budget would eliminate a total of 232 filled and 220 vacant positions. This RIF will affect employees in more than 100 different job classes. Table 4 (on the next three pages) shows the number of filled and vacant positions in each job class affected by the recommended RIF. As seen in Table 4, eight job classes are recommended to lose 15 or more total (filled and vacant) positions:

Job Classes Recommended to Lose 15+ FILLED & VACANT Positions

- Bus Operator (30 employees)
- Principal Administrative Aide (28 employees)
- Office Services Coordinator (23 employees)
- Police Officer III (23 employees) [4]
- Manager III (19 employees)
- Senior Permitting Services Specialist (19 employees)
- Library Assistant I (16 employees)
- Permit Services Inspector III (15 employees)

Six job classes are recommended to lose ten or more employees in filled positions.

Job Classes Recommended to Lose 10+ FILLED Positions

- Principal Administrative Aide (19 employees)
- Manager III (16 employees)
- Library Assistant I (13 employees)
- Librarian II (12 employees)
- Office Services Coordinator (12 employees)
- Library Assistant II (10 employees)

[4] Note that this memorandum only addresses positions targeted for elimination by the Executive as part of the FY11 RIF. While the RIF will result in the elimination of 23 vacant Police Officer III positions, the Executive also recommends creation of new Police Officer positions (including two recruit classes) that will offset the affect of the RIF on this job class.

Table 4: Filled and Vacant Positions Recommended for Abolishment
By Job Class and Grade Range

Job Class	Grade	Filled Positions	Vacant Positions	Total Positions
Abandoned Vehicle Code Enforcement Specialist	16	0	1	1
Accountant/Auditor I	18	0	1	1
Accountant/Auditor II	23	2	0	2
Administrative Aide	12	0	1	1
Administrative Specialist I	18	0	1	1
Administrative Specialist II	21	2	3	5
Administrative Specialist III	23	1	1	2
Arborist	23	1	0	1
Assistant County Attorney III	32	1	0	1
Behavioral Health Associate Counselor	20	0	2	2
Building Services Inspector	12	7	0	7
Bus Operator	15	5	25	30
Carpenter I	17	5	0	5
Carpenter II	18	2	0	2
Client Assistance Specialist	20	1	0	1
Community Health Nurse II	23	2	2	4
Communications Equipment Technician II	20	1	1	2
Community Outreach Manager	28	0	1	1
Conservation Corps Assistant Crew Leader	S3	0	1	1
Conservation/Services Corps Crew Trainer	18	0	1	1
Correctional Officer I	C3	0	2	2
Correctional Officer III	C5	9	2	11
Correctional Supervisor	C6	1	0	1
Correctional Unit Commander	C2	1	0	1
Correction Records Tech	17	0	1	1
Correctional Specialist II	22	1	2	3
Correctional Specialist IV	25	1	0	1
Correctional Specialist V	26	1	0	1
Data Entry Operator	10	1	0	1
Environmental Health Specialist III	24	1	1	2
Executive Administrative Aide	17	1	2	3
Fire/Rescue Battalion Chief	B3	0	3	3
Fire/Rescue Lieutenant	B1	0	1	1
Firefighter/Rescuer III	F3	0	14	14
Fiscal Assistant	16	3	0	3

Table 4: Filled and Vacant Positions Recommended for Abolishment
By Job Class and Grade Range (continued)

Job Class	Grade	Filled Positions	Vacant Positions	Total Positions
Highway Inspector II	22	1	0	1
Human Resource Specialist III	25	2	1	3
Income Assistance Program Specialist II	20	0	1	1
Information Technology Project Manager	40	0	1	1
Information Technology Specialist I	20	1	1	2
Information Technology Specialist III	26	3	0	3
Information Technology Technician I	14	2	1	3
Investigator III	25	2	1	3
Laboratory Assistant	14	0	1	1
Legislative Analyst II	26	0	1	1
Legislative Senior Aide I	18	0	2	2
Librarian I	21	6	4	10
Librarian II	24	12	0	12
Library Aide	8	4	1	5
Library Assistant I	13	13	3	16
Library Assistant II	16	10	1	11
Library Associate II	21	4	1	5
Library Assistant Supervisor	20	1	1	2
Library Desk Assistant	12	0	2	2
Library Technician	13	0	1	1
Liquor Store Assistant Manager	18	0	2	2
Liquor Store Clerk I	12	0	3	3
Liquor Store Manager	21	1	0	1
Mail Clerk	11	1	0	1
Manager II	M2	2	1	3
Manager III	M3	16	3	19
Master Firefighter/Rescuer	F4	0	3	3
Master Police Officer	P5	0	1	1
Medical Doctor III - Physician	H3	1	0	1
Management and Budget Specialist III	25	1	0	1
Occupational Therapist	23	0	1	1
Office Clerk	5	1	0	1
Office Services Coordinator	16	12	11	23
Permit Services Inspector III	23	7	8	15
Permit Technician III	19	2	2	4
Planning Specialist II	21	0	1	1

Table 4: Filled and Vacant Positions Recommended for Abolishment
By Job Class and Grade Range (continued)

Job Class	Grade	Filled Positions	Vacant Positions	Total Positions
Planning Specialist III	23	1	0	1
Police Officer III	P4	0	23	23
Police Sergeant	A1	0	1	1
Police Services Assistant	16	0	1	1
Principal Administrative Aide	13	19	9	28
Printing Technician III	16	1	0	1
Program Manager I	23	4	0	4
Program Specialist I	18	4	2	6
Program Specialist II	21	2	6	8
Psychological Nurse Clinical Specialist	25	0	1	1
Public Administration Intern	16	1	7	8
Public Services Worker II	9	0	1	1
Recreation Coordinator	18	9	2	11
Recreation Specialist	21	6	5	11
Resource Conservationist	23	1	0	1
Senior Engineer	27	3	0	3
Senior Executive Administrative Aide	18	1	1	2
Social Worker III	24	0	2	2
Social Worker IV	25	0	1	1
Senior Business Development Specialist	27	1	2	3
Senior Financial Specialist	25	1	0	1
Senior Information Technology Specialist	28	5	5	10
Senior Librarian	25	2	1	3
Senior Management and Budget Specialist	27	0	1	1
Senior Permitting Services Specialist	26	5	14	19
Senior Supply Technician	17	2	0	2
Supervisory Therapist	25	1	0	1
Supply Technician I	10	1	0	1
Supply Technician III	13	1	0	1
Telecommunications Technician	18	1	0	1
Therapist II	24	0	6	6
Transportation Emergency Response Patrol Tech II	15	2	0	2
Warehouse Assistant Supervisor	20	1	0	1
Work Force Leader II	18	1	0	1
Work Force Leader III	19	1	0	1
TOTALS		**232**	**220**	**432**

Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan.

4. Distribution of Job Abolishments by Salary Grade

The County Government classifies all merit system positions by a salary grade. Most non-public safety employees are classified by a numeric grade (ranging from Grade 5 to Grade 40).[5] Employees in higher grades earn higher salaries than employees in lower grades.

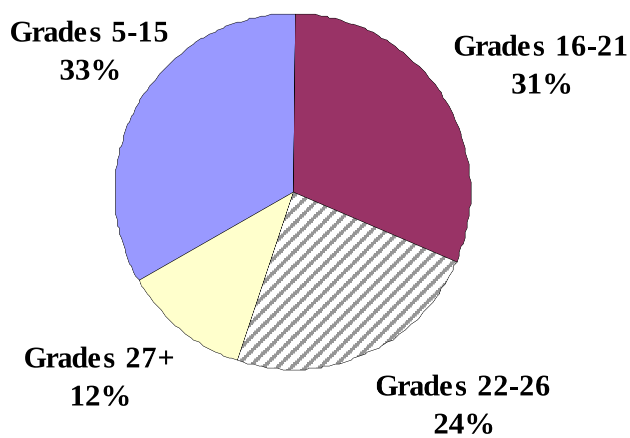
Composition of Workforce: OHR provided OLO with a distribution of the County Government workforce by salary grade. OLO sorted the workforce into four grade ranges: Grades 5–15; Grades 16-21; Grades 22–26; and Grades 27 and above.[6]

Represented public safety employees are classified in separate salary grade schedules. Since the Executive recommended no filled FOP and IAFF for abolishment, OLO excluded employees of these two bargaining units from this analysis. The Executive recommended abolishment of some filled MCGEO-represented correctional officer positions. OLO performed a separate review of correctional officer job abolishments (see page © 27).

Exhibit 4 shows the distribution of County Government positions (excluding represented public safety) by grade range. One-third of this workforce is classified in Grades 5 through 15. Positions in Grades 16 through 21 comprise almost another one-third of the workforce. Almost one-quarter of positions are in Grades 22 through 26. Finally, positions in Grades 27 and higher make up about 12 percent of the workforce.

Exhibit 4: Composition of County Government Workforce By Grade (excluding represented public safety positions) (as of 4/7/10)

Number of Positions	
Grades 5-15	2,411
Grades 16-21	2,234
Grades 22-26	1,699
Grades 27+	843
Total	7,187



Source: OHR and OLO

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[5] Some employees (appointed officials, Management Leadership Service employees, medical doctors) are classified by an alphabetic/numeric grade. For example, Management Leadership Service employees are classified into grades M3, M2, and M1.

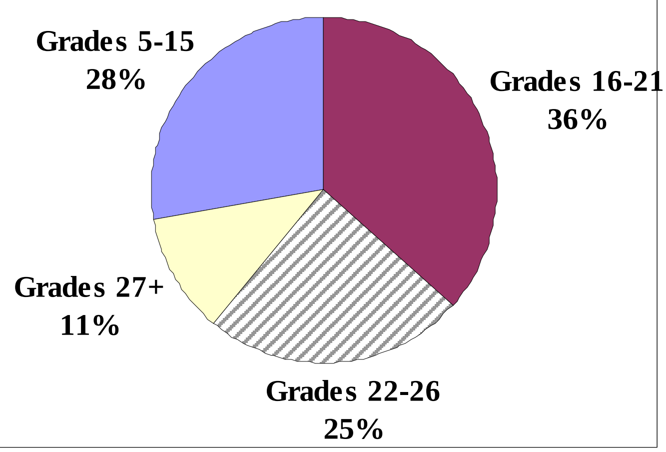
[6] Appointed officials, members of the Management Leadership Service, medical doctors, and some other management positions are not classified by numeric grade. For this exercise, OLO included these positions in the "Grade 27 and above" category.

Distribution of Position Abolishments: Excluding represented public safety positions, the Executive recommended the abolishment of 390 (both filled and vacant) positions. A comparison of the distribution of recommended position abolishments with the composition of the County Government workforce (excluding represented public safety employees) shows that Executive's budget eliminates Grades 16 to 21 positions in greater proportion to their distribution with the overall workforce. Grades 22 to 26 positions as well as Grade 27 and above positions are recommended for abolishment in near proportion to their distribution in the workforce. The Executive recommends abolishment of Grades 5 to 15 positions in lesser proportion to their workforce distribution.

Exhibit 5 shows this distribution of position abolishments (filled and vacant) by grade.

Exhibit 5: Executive Recommended Position Abolishments
FILLED & VACANT Positions by Grade

Number of Positions	
Grades 5-15	108
Grades 16-21	143
Grades 22-26	96
Grades 27+	43
Total	390



Source: OHR and OLO

Table 5 compares the composition of the workforce with the distribution of filled position abolishments by grade range.

Table 5: County Government Workforce Composition (excluding represented public safety employees) and the Distribution of Position Abolishments (FILLED & VACANT) by Grade

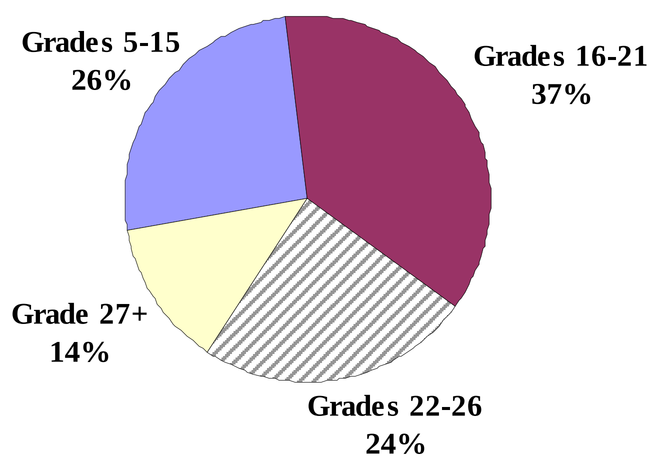
Grade Range	Percent of Workforce (a)	Percent of Position Abolishments (b)	Ratio* (b) to (a)
Grades 5 - 15	33%	28%	0.85 to 1
Grades 16 - 21	31%	36%	1.16 to 1
Grades 22 - 26	24%	25%	1.04 to 1
Grades 27 and above	12%	11%	0.92 to 1

*This ratio shows the degree of proportionality between each grade range's share of position abolishments and that grade range's representation in the workforce. A ratio greater than 1 to 1 indicates a higher than proportional share of abolishments; a ratio lower than 1 to 1 shows a lower than proportional share.
Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan and OLO.

Distribution of Filled Position Abolishments: The Executive recommends the abolishment of 221 filled positions for FY11 (excluding represented public safety positions). Exhibit 6 shows this distribution of filled position abolishments by grade range.

Exhibit 6 Executive Recommended Position Abolishments FILLED Positions by Grade

Number of Positions	
Grades 5-15	57
Grades 16-21	82
Grades 22-26	53
Grades 27+	29
Total	221



Source: OHR and OLO

A comparison of the distribution of filled position abolishments with the composition of the County Government workforce (excluding represented public safety employees) shows that Executive's budget eliminates Grades 16 to 21 as well as Grade 27 and above filled positions in greater proportion to their distribution with the overall workforce. Grades 22 to 26 filled positions are recommend for abolishment in near proportion to their distribution in the workforce. The Executive recommends abolishment of Grades 5 to 15 filled positions in lesser proportion to their workforce distribution.

Table 6 compares County Government workforce composition with the distribution of filled position abolishments by grade range.

Table 6: County Government Workforce Composition (excluding represented public safety employees) and the Distribution of FILLED Position Abolishments by Grade

Grade Range	Percent of Workforce (a)	Percent of Filled Position Abolishments (b)	Ratio* (b) to (a)
Grades 5 - 15	33%	26%	0.79 to 1
Grades 16 - 21	31%	37%	1.19 to 1
Grades 22 - 26	24%	24%	1.00 to 1
Grades 27 and above	12%	14%	1.17 to 1

*This ratio shows the degree of proportionality between each grade range's share of position abolishments and that grade range's representation in the workforce. A ratio greater than 1 to 1 indicates a higher than proportional share of abolishments; a ratio lower than 1 to 1 shows a lower than proportional share.

Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan and OLO.

Correctional Officers: Correctional Officers in the County's Department of Correction and Rehabilitation are classified into six job classes. Correctional Officers I, II, and III as well as Correctional Supervisors are represented by MCGEO. Correctional Shift and Unit Commanders are not represented by a bargaining unit. Table 7 shows the distribution of Correctional Officers by grade.

Table 7: Composition of the Correctional Officer Workforce by Grade (as of 4/7/10)

Job Class	Bargaining Unit	Positions	% of Total
Correctional Officer I	MCGEO	9	3%
Correctional Officer II	MCGEO	71	23%
Correctional Officer III	MCGEO	160	52%
Correctional Supervisor	MCGEO	45	15%
Correctional Shift Commander	Non-Rep.	20	6%
Correctional Unit Commander	Non-Rep.	4	1%
TOTALS		**309**	**100%**

Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan and OLO.

For FY11, the Executive recommends the abolishment of 15 correctional office positions. Eleven of the 15 recommended abolishments currently are filled positions. Table 8 shows the distribution of recommended Correctional Officer position abolishments by grade.

Table 8: Executive Recommended Correctional Officer Position Abolishments by Grade

Job Class	Total Position Abolishments	% of Total	Filled Position Abolishments	% of Total
Correctional Officer I	2	13%	0	0%
Correctional Officer II	0	0%	0	0%
Correctional Officer III	11	73%	9	82%
Correctional Supervisor	1	7%	1	9%
Correctional Shift Commander	0	0%	0	0%
Correctional Unit Commander	1	7%	1	9%
TOTAL	**15**	**100%**	**11**	**100%**

Source: OHR and OMB 4/2/10 response to OLO questions on proposed FY11 furlough and RIP plan and OLO.

The data show that MCGEO represents 93% of Correctional Officers. Represented positions comprise 93% of all recommended position abolishments and 91% of recommended filled position abolishments.

C. The RIF Process

The County Government Personnel Regulations (Section 30) and Administrative Procedure 4-19 establish a process for implementing a reduction-in-force (RIF).

1. Employee Notification

Section 30 of the Personnel Regulations requires that the Director of the Office of Human Resources (OHR) send a notice of intent informing employees in job classes affected by the RIF that their employment may be terminated. The notice of intent must also notify affected employees that they are entitled to priority consideration for vacant positions (see below). OHR plans to send notices of intent to affected employees by April 15.

Final implementation of the RIF will take effect after the Council approves the FY11 County Government operating budget in late May. Following final Council action on the budget, OHR will send notification of termination to employees. The Personnel Regulations require OHR to give at least 30 calendar days written notice to an employee whose employment will be terminated.

2. Managing the RIF

If the number of vacant positions in the affected job class is fewer than the number of position abolishments, then all employees in affected job classes in the same department as the abolished position(s) will receive a notice of intent for the impending RIF. OHR will employ several strategies to minimize the number of current merit system employees subject to layoffs.

<u>DSR and RIP</u>: The Executive plans to offer Discontinued Service Retirements and Retirement Incentive Program benefits to encourage eligible employees in RIF affected job classes[7] to voluntarily leave their positions. A description of the Discontinued Service Retirements (DSR) and Retirement Incentive Program (RIP) begins on page © 31. If abolishment of filled positions remains necessary after completion of the DSR and RIP process, OHR will begin the alternative placement and termination process.

<u>Alternative Placement</u>: OHR has begun work to place employees subject to the RIF into vacant positions that are funded for FY11. OHR maintains a list of currently vacant positions and will attempt to identify qualified RIF affected employees for transfer into funded vacant positions. The transfer of employees into vacant positions reduces the need to resort to layoffs. Last year, OHR was extremely successful in this effort finding alternative placement for nearly all of the 234 filled positions affected by the FY10 RIF.

<u>Termination</u>: The County Government first will terminate probationary employees in affected job classes across all departments. Probationary employees are not part of the County's merit system. This action will vacate positions for merit system employees who are subject to the RIF.

If additional position abolishments remain necessary, then OHR will begin the job termination process. Seniority will be the primary basis for selecting which employees will be terminated.

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[7] Affected job classes include all job classes in the occupational series at or below the budget level.

For the purpose of the RIF, seniority means years of credited service with the County Government. Employees with the fewest years of credited service will be subject to termination. As detailed in Chapter 30 of the Personnel Regulations, a department director may also take into consideration employee performance and service needs in determining which employees will be terminated.

OHR plans to send final RIF notices to employees by the end of May. Termination of employment for these employees will take effect on July 2.

Priority Consideration: OHR has begun efforts to place affected employees in vacant positions. OHR will create a priority eligibility list consisting of RIF affected employees for vacant positions. Employees in a RIF affected class receive priority consideration for vacant positions at or below their current grade for which they meet the minimum qualifications. If more than one RIF affected employee applies for a vacant position, the hiring department may select the RIF affected employee deemed best qualified for the position. An employee has a right to priority placement for two years after termination or demotion.

Leave Without Pay Option: An employee who is subject to termination as a result of a RIF must be given an option to be placed on leave without pay for up to one year in lieu of termination.

3. Severance Payments

Chapter 33 of the County Code requires the County to provide a severance payment to certain County Government employees who lose their jobs through administrative action. As detailed in Executive Regulation 16-09, employees who are members of either the Retirement Savings Plan or the Guaranteed Retirement Income Plan[8] and have worked for the County for at least one year are eligible for a severance payment upon non-voluntary termination of employment.

Through the severance benefit, the County will pay the employee's salary for a specified amount of time after termination. The duration of post-employment salary payments is a function of the number of years the terminated employee had worked for the County Government.

Table 9: Weeks of Severance Pay by Years of Service

Years of Service	Weeks of Severance Pay
over 1 to 5	6
over 5 to 7	8
over 7 to 9	10
over 9	12

Source: OHR and OMB

[8] Merit system employees hired since October 1, 1994 participate in the Retirement Savings Plan or the Guaranteed Retirement Income Plan.

The County Code requires that the County pay severance benefits "from general assets of the County." The Code further stipulates that "assets of the Retirement Savings Plan or Guaranteed Retirement Income Plan may not be used to pay benefits under this plan." The Executive has not dedicated funds for severance payments. Departments will have to absorb the cost of severance payments for terminated employees.

The Executive has not yet calculated a cost estimate for FY11 severance payments. To provide the Council with an approximate cost of severance payments, OLO calculated the cost to the County for severance pay to employees with two years of credited service and with annual salaries of between $40,000 and $80,000. As indicated above, an employee with two years of service would be eligible for six weeks of severance pay. Table 10 shows the severance costs incurred by the County for terminating an employee with two years of service who earned a salary in this range.

Table 10: Per Employee Severance Cost to County
(Employee with Two Years of Service)

Annual Salary	**$40,000**	**$60,000**	**$80,000**
Six Weeks Salary	$4,600	$6,900	$9,200
Six Weeks FICA	$400	$500	$700
Severance Cost to County	**$5,000**	**$7,400**	**$9,900**

Source: OHR and OLO

Assuming that the County terminates 50 employees with between one and five years of service and with an average salary of $60,000, the total severance cost would be approximately $370,000. Termination of 75 employees with the same average salary and years of service would produce about $555,000 in severance costs.

D. Executive's Recommended Actions to Minimize Layoffs

The Executive plans to implement two strategies – use of Discontinued Service Retirements and a Retirement Incentive Program – to minimize the number of layoffs, that is, involuntary termination of employees. These strategies provide incentives to encourage more senior (as measured in years of service) employees to voluntarily retire so as to reduce the number of less senior employees who are vulnerable to layoff.

1. Discontinued Service Retirement

Section 33-45 of the County Code authorizes the County to offer Discontinued Service Retirement (DSR) to certain employees who are terminated as a result of an administrative action.

<u>DSR Eligibility</u>: A DSR is a benefit granted to members of the Employee Retirement System (ERS), the defined benefit pension for employees hired before October 1994. Specifically, a DSR eliminates the early retirement penalty for employees who have insufficient years of service to qualify for normal retirement.[9] As specified in the Code, only employees with at least ten years of continuous service are eligible for a DSR.[10]

To be eligible for a DSR, an employee must be an ERS member in a RIF affected job class. Members of the Retirement Savings Plan or the Guaranteed Retirement Income Plan as well as ERS members not affected by the RIF are not eligible for a DSR. A DSR is not an absolute right for eligible employees but rather is subject to the approval of the OHR Director.

<u>DSR Program Savings/Costs</u>: A DSR produces FY11 savings through the departure of senior employees who have higher personnel costs than more junior employees who would have been terminated in the absence of the DSR. The Executive has not estimated the salary savings that would be produced through the DSR process.

In the long-term, a DSR increases the County's future year obligation to fund the ERS Trust Fund and to pay for retiree health benefits. By encouraging employees to retire before their normal retirement date, DSRs increases the number of years that employees draw a pension and receive County-supported health benefits.

OLO requested that OHR provide information about the affect of DSRs on future year pension and retiree health insurance obligations. OHR responded that it will ask the County's actuary to calculate future year DSR cost data. This information was not available as of the writing of this memorandum.

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[9] Employees hired before July 1978 receive more generous DSR benefits including a 5% increase in the calculation of final earnings used to determine pension payments.
[10] For non-public safety positions, members of the ERS must have started County employment before October 1994. As such, all current non-public safety employees currently have more than ten years of service with the County.

2. Proposed Retirement Incentive Program

In March, the Executive transmitted to the Council proposed legislation to authorize a Retirement Incentive Program (RIP) for 2010. The Executive bargained the RIP with MCGEO Local 1994, the union for most represented non-public safety County Government employees.

Eligibility: As proposed by the Executive, County Government employees would be eligible for the RIP if they are:

a. Members of the Employees Retirement System (ERS, the defined benefit retirement system for employees hired before October 1994);
b. Within two years of normal retirement (as of June 1); and
c. In an occupational series affected by the reduction-in-force.

In contrast to the proposed 2009 RIP (that was not approved by the Council), the Executive's proposed 2010 RIP limits participation to employees in positions that are recommended for abolishment as part of the reduction-in-force.

Proposed RIP Benefits: As described in the proposed legislation to implement the RIP, employees who accept the retirement incentive would select one of the following four benefit options:

a. A $35,000 cash payment;[11]

b. A $30,000 cash payment with an enhanced post-employment life insurance benefit. (The retiree life insurance benefit reduces coverage from 100% to 25% during years six through ten after retirement. This option would hold life insurance coverage at 100% for tens years after retirement.);

c. A $28,000 cash payment with an enhanced post-employment health insurance benefit. (The County offers retiree continued health insurance coverage with the County paying either 70% or 80% of premium costs.[12] Under this option, the County would pay 90% of individual health insurance premium cost of ten years after retirement.); or

d. A one-time $35,000 contribution to the Guaranteed Retirement Income Plan (GRIP). (Under the GRIP, the County guarantees a 7.25% annual return on investments. RIP participants who select this option would be able to access this income at social security retirement age.)

In addition, the RIP would eliminate the early retirement penalty for program participants who were not yet eligible for normal retirement. The early retirement penalty is two percent for employees with credited service one year short of normal retirement and five percent for employees two years short of normal retirement.

[11] Under all options that include a cash payment, the participating employee may elect to receive the cash benefit as a single lump sum payment or in 12 monthly payments.

[12] A retiring employee may choose to pay 30% of health insurance premium costs for lifetime or 20% of premium costs for a number of years after retirement that equals the retiree's years of credited service with the County Government.

Estimated RIP Participation Rate and Costs: The Executive assumes that between 100 and 150 employees will voluntarily retire through the RIP. If between 100 and 150 employees accept a RIP payment of $35,000, the County will disburse between $3.5 million and $5.3 million in RIP cash payments. To fund RIP cash payments, the Executive plans to borrow from the ERS Trust Fund. Thus, while the General Fund will not be affected by RIP in FY11, the County will have to pay back the cost of the borrowed money from the General Fund beginning in FY12 and continuing through FY21.

The RIP increases long term liabilities for the County. By encouraging employees to retire earlier than planned and by forgiving early retirement penalties, the RIP increases future year General Fund pension and retiree health insurance obligations.

Assuming a participation rate of 150 employees, the County's actuary estimates that the RIP would cost the County a total of $8.9 million (or about $890,000 per year for ten years). In addition, the RIP would raise the County's future year retiree health insurance obligations.

OLO requested that OHR provide information about the affect of the RIP on future year retiree health insurance obligations. This information was not available as of the writing of this memorandum.

OLO asked the Executive Branch whether it has calculated the cost to the County of the enhanced post-employment life insurance and enhanced post-employment health insurance options. The Executive responded:

> *It is anticipated that only a handful of employees will elect an optional incentive of subsidized life or health insurance. The cost will be handled on a pay as you go basis from the self insurance fund and there is no actuarial analysis of the obligation. The life insurance vendor has agreed to keep the same premium structure in place though multiplied by a different in-force amount. It is estimated that the additional premium is less than the amount of incentive given up. The present value of the additional health premium is estimated to be less than the amount of incentive given up.*

OLO also asked the Executive about the future year County obligations to meet the guaranteed rate of return under the GRIP option. The Executive responded:

> *The GRIP accounting will be the same as is in place for current GRIP participants. There is no County cost if the plan meets its actuarial rate of return assumption. If the plan exceeds the assumed rate of return the County cost will be lower, and if the plan fails to meet the assumed rate of return the County cost will be higher.*

3. Process for Awarding DSRs and RIP

The Executive plans to award DSRs to employees before implementing the RIP. As specified in Chapter 30 of the Personnel Regulations, the County must offer DSRs in order of seniority (measured by years of service with the County Government). The number of DSRs granted within a job class and within a department may not exceed the number of filled positions abolished in the same job class within that department.

If the number of filled position abolishments within a job class exceeds the number of DSRs accepted, then the OHR will offer the RIP to eligible employees. OHR will limit the number of RIP awards in a job class to the number of filled positions in that job class targeted for abolishment. OHR plans to give priority to employees who had applied for the 2009 RIP (that was not approved by the Council). OHR will consider RIP applications for employees who had not applied last year based on seniority. To be eligible for the RIP, employees must submit an application to OHR by May 14.

Employees awarded either a DSR or a retirement incentive must agree to retire by June 1.

4. OLO Analysis of Proposed 2010 RIP Costs/Savings

Last year, OLO developed a cost model to evaluate in salary and benefit savings and future year retiree pension and health insurance obligations for the proposed 2009 RIP.[13] OLO found that the proposed 2009 RIP would have had a net ten-year cost to the County of between $17 million and $20 million.

The primary cause for the high estimated cost for the proposed 2009 RIP was that the program would have allowed employees in positions not slated for abolishment to accept the incentive. In other words, the County Government had planned to refill nearly all the positions vacated by the RIP. As a result, the County would have assumed the cash payment and post-employment costs of the RIP without garnering offsetting compensation savings from the elimination of positions.

The design of the Executive's proposed 2010 RIP avoids the major drawback of the proposed 2009 RIP. As noted above, participation in the 2010 RIP would be limited to employees in positions recommended for abolishment. In other words, all positions vacated by the 2010 RIP would not be refilled.

Using the 2010 cost data prepared by OHR and the County's actuary, OLO found that the Executive's proposed RIP would produce savings that exceed costs if the County keeps all vacated positions vacant for three years. However, the County would forfeit the potential savings generated by the RIP if it refills RIP-vacated positions during the next three years.

[13] A detailed description of the methodology and assumptions in the OLO model appear in OLO Report 2009-9, *A Research Brief on Furloughs and Buyouts.* The County's pension actuary reviewed the methodology and formulas in the OLO model and found them an accurate portrayal of the lifetime cost of the RIP.

If, for example, 150 RIP-vacated positions were refilled after two years, OLO estimates that the program would have a net cost to the County of about $5.6 million over the next ten years. However, keeping the same positions vacant for a third year shifts the net ten year cost to an $8.7 million savings for the County.

The Executive submitted a fiscal impact statement for Bill 9-10, the legislation to implement the proposed 2010 RIP. The Executive's fiscal impact statement estimates that the RIP would produce $26 million of savings over the next ten years. The major reason for the variance between OLO's and the Executive's estimates is the difference in the assumed duration of savings derived from lower compensation costs. The Executive's estimate counts these saving for a longer period than assumed by OLO.[14]

Executive staff have projected that few RIP participants will select the enhanced life insurance, enhanced health insurance, and GRIP options. Nonetheless, OLO notes that while these options may be cost neutral based on future year assumptions, each option appears to shift risk (of either higher or lower actualized costs) from the retiree to the County ratepayer.

In the absence of actuarial information regarding DSRs, OLO is unable to evaluate the long-term cost of this workforce reduction strategy.

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[14] The Executive's fiscal impact statement assumes compensation savings from RIP vacated positions for four years for normal retirement and 5.5 years for early retirement. The OLO estimate assumes these savings for three years for all employees.