



MEMORANDUM

November 17, 2015

TO: Tim Firestine, Chief Administrative Officer

FROM: Chris Cihlar, Director, Office of Legislative Oversight 

SUBJECT: Response to CAO Comments on OLO Memorandum Report 2016-1, *Comparative Data on High-Level Manager Salaries*

Thank you for your interest in and response to OLO Memorandum Report 2016-1: Comparative Data on High-Level Manager Salaries. OLO agrees that reviewing salary data requires complex analysis, which is why we did an exhaustive review both within and outside the region using a specific and consistent methodology. While your response addresses a number of important issues, there are several corrections and clarifications that need to be made. Below I have highlighted several of your comments and provided a response.

- **CAO Comment #1:** "OLO Memorandum Report 2016-1 ... infers that Montgomery County overcompensates its most skilled and experienced employees..."

OLO Clarification. The OLO report does not imply that Montgomery County overcompensates or undercompensates its high-level management employees. It merely compares County manager salaries with those in other jurisdictions. Readers may make their own inferences on that point based on the data presented, but nowhere in the report does OLO make a judgment on whether salaries are too high, too low, or just right.

- **CAO Comment #2:** Salary data is not from the same year for each jurisdiction, and Montgomery County data include the most recent raises received after the start of the new fiscal year in July of 2015.

OLO Clarification. OLO used the most accurate and recently-available actual salary data for all jurisdictions reviewed, and OLO did not assume each jurisdiction provided annual pay increases unless that was included in the data. OLO used 2015 salary data for the Federal Government and for all the regional jurisdictions (including Montgomery County) where OLO compared average manager salaries.

Office of Legislative Oversight

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Using prior-year data for Montgomery County would not accurately report County salaries because seven director positions and associated salaries changed during the year (Correction and Rehabilitation, Housing and Community Affairs, Fire and Rescue Service, Transportation, Human Resources, Environmental Protection) and one new director position (Procurement) was appointed. Because the salaries of some new directors are less than the former directors', using the most up-to-date data reduces, rather than increases, the director compensation among departments where there was a change. Even if the methodology excluded the most recent raises, Montgomery County would still have the 3rd highest average salary for director positions among the jurisdictions reviewed.

Also note that OLO did not include in its analysis \$154,855 in lump-sum bonuses (equal to 3.5% of salary) that Montgomery County Executive Branch directors received in 2014. Further, even if the average director salaries for all California jurisdictions with 2013 data were increased by 6.1%, as suggested in your response, only one of the nine jurisdictions (City/County of San Francisco) would move ahead of Montgomery County's actual 2015 average – and that occurs only if the methodology continues to exclude lump-sum bonuses from the analysis.

- **CAO Comment #3:** "The report's exclusive focus on base pay ignores all other elements of total compensation, particularly retirement benefits."

OLO Clarification. OLO's assignment from the County Council was to review high-level manager salaries, not to review total compensation packages. Even so, the OLO report does not "ignore all other elements" of total compensation. OLO directly addressed this issue on page 2 of the report:

This report covers data on annual base-salaries only; it does not include data on the value of benefits (e.g., retirement, group insurance) or other wages (e.g., overtime, bonuses) that make up an employee's total compensation package.... As noted above, the benefits that make up an employee's total compensation may impact whether a jurisdiction offers comparatively higher or lower salaries. For example, some jurisdictions (like Montgomery County for all non-public safety hires since October 1994) offer newly-hired managers defined contribution or cash balance retirement plans while other jurisdictions offer more costly defined benefit pension plans.

For Fairfax County, OLO used salary data provided by the Director of the Fairfax County Department of Human Resources on August 11, 2015. If that data overreported the Fairfax County Executive's salary by \$8,000, it would change the average director salary in Fairfax County by 0.1% - and it would change it in a downward direction. You are correct when you note that we do not include deferred compensation in the Fairfax Executive's salary. Similarly, we did not include any lump-sum bonuses (not added to base) that Montgomery County Directors have received in recent years.

- **CAO Comment #4:** "The methodology for how the comparison jurisdictions were selected is not discussed, and some of the counties listed are not comparable in terms of population size, full-time equivalents and budgets."

OLO Clarification. OLO described the methodology used to select comparison jurisdictions on page 2 of OLO Report 2016-1, within the section titled "Overview of Data and Methodology", which states:

Comparison Jurisdictions. OLO included all the Maryland counties immediately surrounding Montgomery; Baltimore City and Baltimore County; Washington, DC; and Northern Virginia jurisdictions that had either salary data or salary schedule information available. Outside the region, OLO focused on jurisdictions located within Bureau of Labor Statistics Metropolitan Statistical Areas that (like the DC region) are considered to have a high cost of living. Unlike the regional jurisdictions, OLO only included local governments outside the region in the final report if actual salary data was available.

- **CAO Comment #5:** “[N]one of the jurisdictions within the National Capital Region detailed on pages 10-12 have a larger population than Montgomery County.”

OLO Clarification. You are correct that “none of the jurisdictions within the National Capital Region detailed on **pages 10-12** (emphasis added) have a larger population than Montgomery County.” Please refer to **page 9** of the report, which details Fairfax County in the same manner as those jurisdiction discussed on pages 10-12. As you know, Fairfax is the only jurisdiction in the National Capital Region that has a larger population than Montgomery County.

- **CAO Comment #6:** The report does not account for differences in organizational scale or structure, nor the scope of responsibilities or span of control of director and high-level managers. The comparison with Fairfax County is misleading because Fairfax has a higher number of director and executive management positions than Montgomery.

OLO Clarification. All local governments are structured differently in terms of number and type of departments and offices and, as a result, each has a different number of department/office directors. Accordingly, the OLO report calculates and reports data in multiple ways to create two different sets of “apples to apples” comparisons: 1) by calculating the average of all director, executive management, and manager series salaries; and 2) by creating tables that compare salaries for specific director positions.

- **CAO Comment #7.** “Looking at the report’s comparison to Federal Government compensation, there appears to be a significant error. The report equates ... the County’s MLS series with the Federal GS-13, 14, and 15 grades. However, a memo by [the Council Administrator] dated April 28, 2013 ... regarding MLS salaries...” compares the M1 series to Federal SES, M2 to GS-15, and M3 to GS-14.

OLO Clarification. The comment that OLO’s comparison is a “significant error” is, at best, an overstatement and directly contrasts with the standard used each year by the Montgomery County Office of Human Resources (OHR) when comparing County and Federal positions. As you are aware and is specifically noted on page 8, OHR’s *Personnel Management Review* (relevant page attached at ©1) reports that the Federal GS-13, 14, and 15 grades are comparable to the MLS series in the County. If the Executive Branch’s position on comparable federal positions has changed from the historic standard, it was not reflected in the April 2015 *Personnel Management Review*.

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While we agree there are different methodological approaches one could take when examining the question of salaries, we do not believe any of these other approaches would result in significant changes in how Montgomery County compares with other jurisdictions. Your response also raises important points about why Montgomery County directors are offered the compensation that they are. While it certainly may be true that the County needs to compete with surrounding jurisdictions to attract the highest qualified individuals and that high salaries improve retention rates, these questions were beyond the scope of this report.

Finally, I appreciate your request to receive advance copies of future OLO memorandum reports. As you know, per a similar request made in 2013, we lengthened the time given to the Executive to respond to full OLO reports from two to three weeks. I am happy to work with you to develop an agreed upon process for review of memorandum reports that recognizes both this request from the Executive and OLO's need to meet its deadlines.

cc: Councilmembers
Fariba Kassiri, Assistant Chief Administrative Officer
Bonnie Kirkland, Assistant Chief Administrative Officer
Shawn Stokes, Director, Office of Human Resources

Attachment



OFFICE OF THE COUNTY EXECUTIVE

Isiah Leggett
County Executive

Timothy L. Firestine
Chief Administrative Officer

MEMORANDUM

November 16, 2015

TO: Chris Cihlar, Director, Office of Legislative Oversight

FROM: Timothy L. Firestine, Chief Administrative Officer *Timothy L. Firestine*

SUBJECT: OLO Memorandum Report 2016-1: Comparative Data on High-Level Manager Salaries

This is in response to OLO Memorandum Report 2016-1 on High-Level Manager Salaries, which infers that Montgomery County overcompensates its most skilled and experienced employees that oversee and are responsible for the day-to-day operations of our multi-billion dollar budget, and our 10,000-person workforce serving the more than 1 million residents of the County: the Department Directors and Executive-Level Managers plus managers that compose our Management Leadership Service.

However, as the County Executive pointed out in his initial response to the report on November 3, 2015, the study oversimplifies a complex analysis, calling into question conclusions that may be drawn. A review of the report reveals inaccurate data, numerous questionable assumptions, flawed methodology, and fleeting mentions of important contextual factors that warrant attention and consideration but get none. Below is a list of the most apparent features of the report that make it an unreliable basis for what could have been an important and productive discussion.

- The report uses Montgomery County salary data from September 2, 2015, just one month after FY16 cost of living increases and raises went into effect, which would exaggerate differences between the County and the comparison group, especially considering that the report is comparing our current pay levels to salary data from 2013 for seven of the comparison jurisdictions, and two are showing 2014 data. Salaries elsewhere are very likely to have increased since 2013. Assuming a 3% annual pay increase, this inflates Montgomery County's 2015 salaries by 6.1%. This misalignment of effective dates materially changes the County's variance from the average and in some instances, our ranking as well.

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- The report's exclusive focus on base pay ignores all other elements of total compensation, particularly retirement benefits. The County offers a defined-contribution pension plan rather than a more costly defined-benefit plan that is common elsewhere in the region. In addition, unlike some other jurisdictions, the County does not provide vehicles for directors or other managers. Cost sharing on employer provided health insurance is also ignored.

Using Fairfax County as an example, I recently spoke to the Fairfax County Executive and confirmed that his salary was reported inaccurately in OLO's report (page 18) due to these methodological inconsistencies. Additionally, Fairfax County's \$18,000 contribution to his deferred compensation was not factored into OLO's analysis. And finally, I note that their high-level managers are eligible for their Deferred Retirement Option Program (DROP) while directors (except the Fire Chief) in Montgomery County are not.

- Because the report omits the demographic and economic context of the jurisdictions mentioned, we are unable to evaluate if - because we may rank above them in terms of the population size we serve, incomes and wages, housing costs, and other factors - it is appropriate for us to fall above the median for compensation. The methodology for how the comparison jurisdictions were selected is not discussed, and some of the counties listed are not comparable in terms of population size, full-time equivalents and budgets. For example, DuPage County, IL, is similar in population but that county's budget is only \$600 million and there are 2,225 FTEs. In addition, the median household income for the comparator group varies significantly. Eleven of the national comparison jurisdictions have smaller populations than Montgomery County, nine of them have larger populations of high-level managers (>27), and none of the jurisdictions within the National Capital Region detailed on pages 10-12 have a larger population than Montgomery County.
- The report does not account for differences in organizational scale or structure, nor the scope of responsibilities or span of control of directors and high-level managers. We are all aware that local governments across the country vary greatly, to the extent that even using the "apples to oranges" analogy would be an understatement. The report fails to detail any potential differences in functions across the jurisdictions it lists, and does not account for how such differences may affect compensation. For example, our Department of Health and Human Services with its single director might be structured elsewhere as at least five separate agencies (Children Youth and Family Services, Aging and Disabilities Services, Behavioral Health and Crisis Services, Public Health Services, and Special Needs Housing). In some areas of the country such as New York State, many services are delivered at the township or city level, not by the counties. Looking at Fairfax County specifically, the comparison on page 4 appears misleading. Fairfax's comparable group

has 39 people (compared to our 27), but even if one took the highest paid 27 as the report does, these 27 would not be responsible for the same body of work as our 27, as they are shored up by the other 12. Further, the comparison between Montgomery's and Fairfax's non-director, executive management positions shows us with 22 and Fairfax with nearly three times as many positions (58). On page 5, comparing this category of positions across the country, the average number of positions in the comparison jurisdictions is 90, again compared to our 22. And as mentioned above, the salary data for 5 of the 7 comparison jurisdictions is from 2013. The same theme continues with average MLS salaries on page 5: excluding the Federal employees, the two comparison jurisdictions have 525 and 957 people - compared to our 373 (and again the salary data is from 2013).

- Looking at the report's comparisons to Federal Government compensation, there appears to be a significant error. The report equates on page 8 the County's MLS series with the Federal GS-13, 14, and 15 grades. However, a memo by Steve Farber dated April 28, 2013 to the County Council regarding the MLS salary schedule states that the Federal SES category is comparable to M1s, GS-15 is comparable to M2s, and GS-14 is comparable to M3s. In all three of those cases, the average M1, M2, and M3 salary is below the average corresponding federal salary in the DC/MD/VA area.
- All of the factors noted in the report's introduction (but not revisited or investigated) are things that would undoubtedly demand higher salaries: a need to attract and retain highly qualified candidates, competition from surrounding jurisdictions (to which I would also add the Federal Government) and/or the private sector, internal pay equity among employees, cost of living within the region, and the type and amount of non-salary benefits provided. Interestingly, on November 11th, the Washington Post reported on Fairfax County's inability to attract and hire a new director for their library system. The preferred candidate's reason for turning down the offer: our region's high cost of living.

As the County Executive stated, we hire experienced managers and directors, and because we retain many of them we save on the high costs associated with turnover. Within the last year, Montgomery County was able to attract talented new directors from other prestigious governments: our OHR Director came from the District of Columbia, our DEP Director came from Federal EPA, and our DHCA Director came from the State of Maryland.

Montgomery County was among the first jurisdictions in the nation to publish all employee salary information on its open data portal. Few are as transparent as we are when it comes to the salaries of our employees. We are justifiably proud of the caliber of professional managers we attract and retain in Montgomery County.

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I know that as stewards of the public trust, the County Executive and Council work to ensure that the County's resources—and taxpayer dollars—are used effectively and efficiently. Therefore, in the spirit of collaboration between our two branches of government, I would appreciate receiving an advance copy of future draft OLO Memorandum Reports (as we do with other OLO reports) so that we have a chance to respond to any factual errors and address any flaws in methodology.

TLF:dg

cc: George Leventhal, Council President
Nancy Floreen, Council Vice President
Roger Berliner, Councilmember
Marc Elrich, Councilmember
Tom Hucker, Councilmember
Sidney Katz, Councilmember
Nancy Navarro, Councilmember
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