



MEMORANDUM

To: Catherine Crosby, Town Manager
From: Mary Beth Manville, Human Resources Director
Date: September 20, 2021
Re: FY22 Merit Recommendations

Background

The merit and pay range adjustment recommendations that were included in the FY22 budget were submitted in late February, 2021, based on information made available to us at that time. A 2% pay range adjustment was recommended based on the Consumer Price Index (CPI) as of February 2021, and a 4% merit budget was based on what others in the market had shared that they were proposing.

In May 2021, I shared with the budget team that neighboring municipalities had reported out new proposals for both merit & pay range adjustments, and the merit averages were closer to 4.5%-5%, and some pay range adjustments were 3%-4.5%. Given that the FY22 budget process was so far along at that time, we chose to keep the 4% merit budget in place and monitor what other municipalities ended up doing, to determine if we needed to revisit the merit budget at a later date.

As of today, my understanding is that the merit & pay adjustments proposed in May 2021 did make it into the final budget, however I have reached out to each municipality to ask them to confirm, and have noted confirmations, below. As others come in, I will be sure to update our records and notify you of any significant changes.

Chart 1

Organization	Recommended Merit Pay	Pay Range Adjustment	Confirmed/Confirmed
<i>Apex</i>	<i>4% (current/approved) Increase to 5% (recommendation)</i>	2%	
Cary	4.5%	4.5%	Confirmed
Fuquay-Varina	3% Merit + 2% COLA	2%	Confirmed
Holly Springs	5%	1.4%	Confirmed
Morrisville	4.2%	2%	Confirmed
Wake Forest	4.5%	3%	

While maintaining a competitive pay-for-performance plan is significant, what’s of more concern at this time is the large spike in CPI that has occurred in our region since March 2021. As you will see in Chart 2, below, from February 2021 to the end of our fiscal year, CPI has increased 190%. This is concerning, not only because we use CPI to determine how much to adjust our starting pay for positions, but because we also use it as a baseline for merit increases to employees who are rated “successful” on their performance evaluations. However, because our budget for merit is currently at 4%, we aren’t even able to use a year-to-date average as our basis (see Chart 3).

Chart 2



Chart 3

	CPI
Fiscal Year CPI (July 1, 2020-June 30,2021)	5.80%
6-month average (Mar-Aug)	5.00%
YTD Average (Jan-Aug)	4.20%

Recommendation

Based on these unforeseen spikes in CPI, along with the increased merit budgets adopted by other municipalities in the area, I recommend making a budget amendment to increase our FY22 budget from 4% to 5%. This would allow us to build a merit matrix with a baseline close to the YTD average CPI of 4.2%, while still being able to recognize employees who have performed exceptionally well during this

past year in the midst of a national pandemic. If we were able to amend the merit budget to 5%, I would propose the merit matrix, below (Chart 4):

Chart 4

Performance Evaluation Rating	% Increase*
Consistently Excellent	5.5% – 6.5%
Highly Successful	4.5% – 5.25%
Successful	3.5% – 4.25%

**Percent would be calculated off the job rate of the employee’s position or the employee’s current salary, whichever is higher.*

**Any amount in excess of the salary range max would be paid in lump sum.*

These ranges should allow us to appropriately recognize employee performance while also getting us closer to CPI for the “successful” rating. It will also keep us competitive with our competition for talent, who offer 6% or more to their highest performers.

Cost Impact (based on May 2021 Projections)

Chart 5, below, shows the cost differential if we were to amend our merit budget to 5%. Chart 6 shows the total budget differences.

Chart 5

	General Fund	Electric	Water Sewer
	5% Increase	5% Increase	5% Increase
Salaries	\$182,342.91	\$ 26,345.32	\$ 33,287.00
W/C	\$ 4,943.76	\$ 726.28	\$ 865.11
FICA	\$ 13,342.77	\$ 1,892.63	\$ 2,493.32
Group Insurance	\$ 18.87	\$ 3.88	\$ 3.88
Group Retirement	\$ 20,844.18	\$ 2,963.85	\$ 3,744.79
401k	\$ 9,096.50	\$ 1,317.27	\$ 1,664.35
Total	\$230,588.98	\$ 33,249.23	\$ 42,058.45

Chart 6

Average Merit	4% (Current)	5% (Proposed)
Total Budget	\$952,725	\$1,258,622