



Compensation Plan Workshop



FY 2024-25

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Understanding Government Compensation: A Merit System Perspective

Brief History of the Merit System in Local Government



Late 19th Century Origins:

- Due to Calls for Reform

Progressive Era Reforms:

- Professionalize Government and Eliminate Patronage
- Move to Merit Based Hiring Practices

Federal Initiatives:

- Pendleton Civil Service Reform Act of 1883

• Expansion and Evolution:

- Incorporation of New Factors

• Contemporary Challenges and Adaptations:

- Budget constraints
- Changing Workforce Demographics
- Need for Greater Flexibility
- Adoption of Modern Recruitment Strategies

Why Do We Have Compensation Plans?



Attracting and Retaining Talent



Ensuring Fairness and Equity

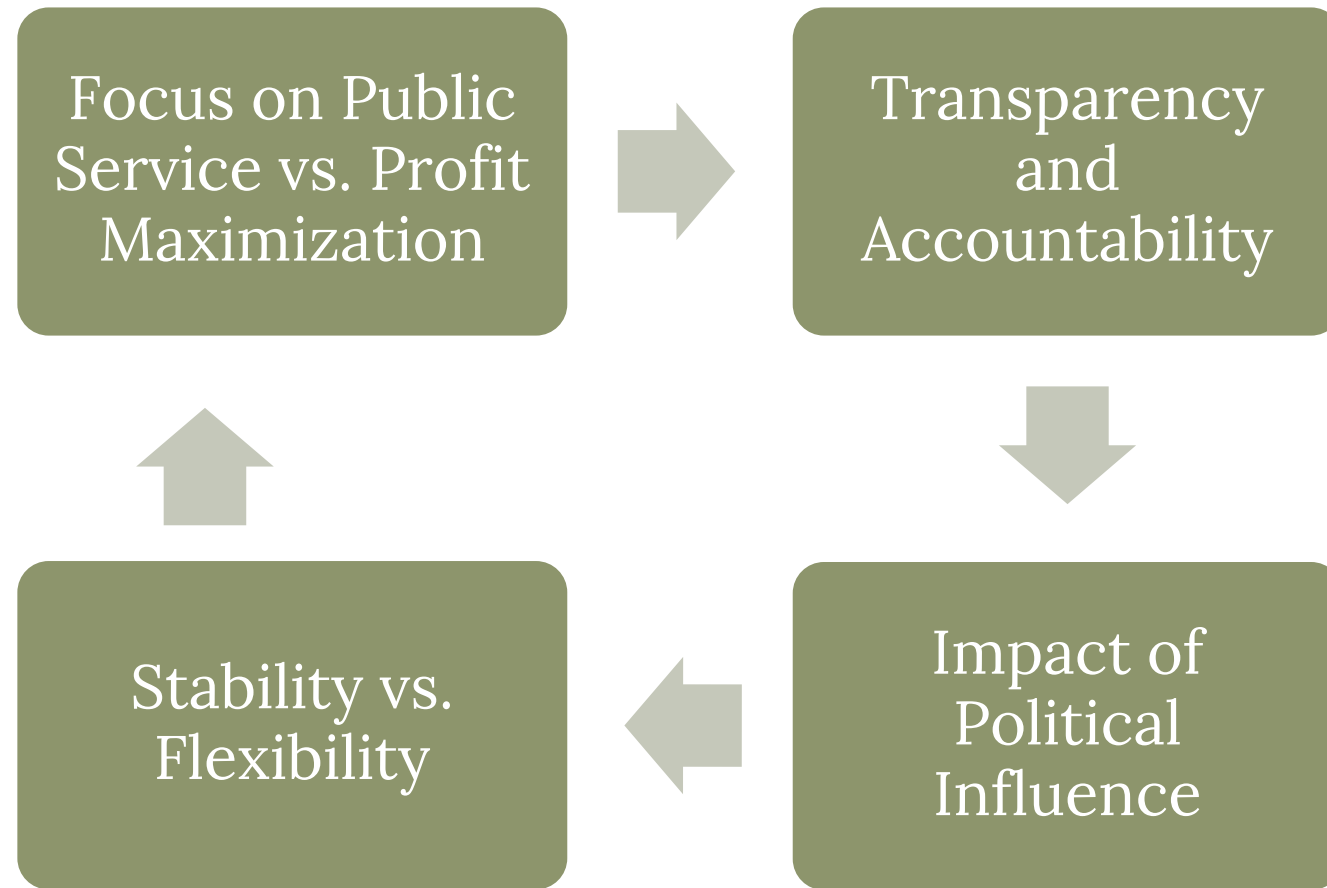


Motivating Employees



Ensuring Fiscal Responsibility

Differences Between Government and Private Sector Compensation Plans



Texas Perspective: Bonuses in Government Compensation



- **Legal Context**
 - Texas law restricts the use of bonuses for government employees
 - This is to ensure fairness and prevent favoritism
 - Instead of bonuses, government agencies in Texas may offer non-monetary forms of recognition, such as awards and commendations
- **Restrictions in Texas**
 - Merit Pay Increases Only
 - Budgetary Constraints
 - Public Disclosures
 - Legal Compliance

Addressing Compensation in High Inflation Periods



Challenges Faced

High inflation can erode the purchasing power of employee salaries

Balancing Budget Constraints

Government agencies must balance the need to increase compensation with budgetary constraints and fiscal responsibility

Strategies for Addressing High Inflation

Keep pace with inflation through Merit-Based Adjustments

Implementing cost-of-living adjustments (COLAs)

Exploring alternative compensation structures



Definition and Purpose

- COLA: Cost-of-Living Adjustment, designed to offset the effects of inflation on purchasing power
- Merit Pay: Performance-based pay increases tied to employee performance evaluations

How COLA is Calculated

- Typically based on the Consumer Price Index (CPI) or Employment Cost Index (ECI)

History of COLA in Government Compensation

- COLA has been a common feature of government compensation plans since the mid-20th century

Merit Pay: Rewarding Performance

- Merit pay rewards employees for their individual performance and contributions to the organization

COLA and ECI: Public vs. Private Sectors



Explanation of ECI (Employment Cost Index)

- ECI measures changes in the cost of labor for businesses and government.
- It includes wages, salaries, and benefits

Differences in ECI

- ECI tends to be higher in the private sector due to factors such as competition and profit incentives

Impact on COLA and Merit Pay Decisions

- Higher ECI in the private sector can influence compensation decisions in government, including COLA adjustments and merit pay increases

U.S. Bureau of Labor Statistics 2024

	Private Industry	State & Local	Civilian ₁	Texas ₂
Salaries and Wages	4.3%	5.0%	4.4%	4.4%
Benefit Costs	3.6%	4.5%	3.7%	
Compensation Costs	4.1%	4.8%	4.2%	4.3%

Civilian₁ – Includes Private Industry & State and Local Government

Texas₂ – is within the West South Central Region for BLS reporting of ECI

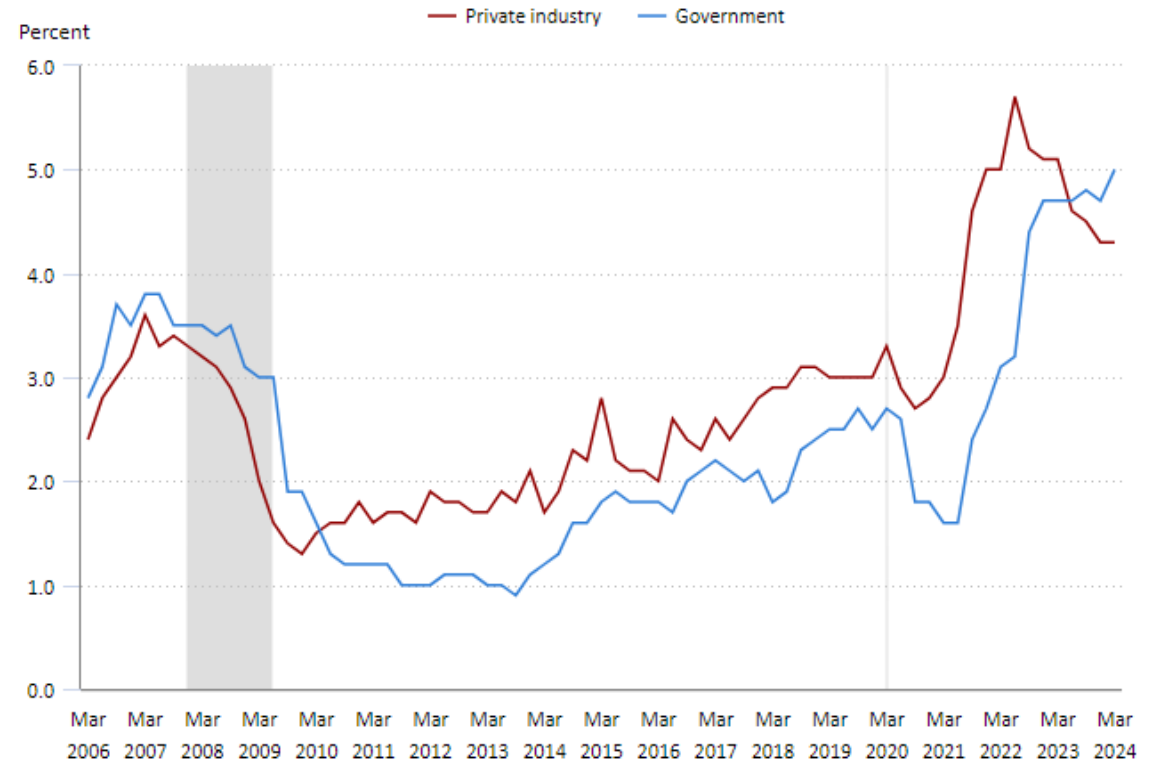
COLA and ECI: Public vs. Private Sectors



- State and Local Government Increases Higher than Private Industry
 - Economic Recovery from the Pandemic
 - Response to Labor Shortages
 - Increased Demand for Public Services
 - Legislative and Policy Changes
 - Inflationary Pressures

U.S. Bureau of Labor Statistics 2024

Wages and salaries in private industry and state and local government, 12-month percent change, not seasonally adjusted



Hover over chart to view data.

Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.

Source: U.S. Bureau of Labor Statistics.



Comparison to Peer Cities



Importance of Benchmarking

- Benchmarking helps government agencies compare their compensation practices with similar organizations
- The current compensation study has an adopted plan of competing in the Top 1/3 of the market in comparison to benchmark cities

Methods of Comparison

- Salary surveys, market analysis, and peer reviews

Considerations for Adjusting Compensation

- Adjusting salaries to remain competitive
- Offering additional benefits or incentives

Recap of Key Points



The merit system in local government has evolved to ensure fairness, equity, and professionalism.

Compensation plans are designed to attract talent, motivate employees, and ensure fiscal responsibility.

Government compensation differs from the private sector in focus, transparency, and stability.

Texas restricts bonuses for government employees to maintain fairness and equity.

COLA and merit pay are two key components of government compensation plans, with differences in calculation and purpose.

ECI influences compensation decisions in government, including COLA adjustments and merit pay increases.

Benchmarking against peer cities helps ensure competitive compensation practices.

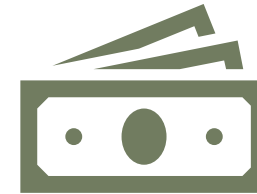
Overview: Current Compensation Study



Adopted in 2020



**Designated Market
Competitiveness at Top
Third of the Market**



New Pay Range Structure

Future Considerations



Proposed for Year 1:

- Adaptation to Changing Economic Conditions
- Re-Evaluation of the Current Compensation Study
- Implement Changes to Performance Evaluations

Proposed for Year 2:

- Performance Based Tiered System
- Conduct New Compensation Study
- Reduction of Current Pay Scale Ranges from 52%



Questions?