



## **The City of Reynoldsburg: A Case Study in How Reforming Employee Compensation Can Prevent Higher Taxes, Layoffs, and Program Cuts**

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Like many communities struggling to balance their budgets in a sour economy, the city of Reynoldsburg is facing difficult choices: raise taxes, layoff city workers, and/or cut programs. Reynoldsburg voters are being asked to make one of those choices this November, where they will vote on a one percent income tax increase. This proposal would increase the personal income tax from the current rate of 1.5 percent to 2.5 percent (a 66 percent increase) and generate \$5.8 million in additional dollars. This new revenue would be used to fill in an estimated \$1.3 million deficit in a \$13 million budget in 2012.<sup>1</sup>

Although late in coming, Reynoldsburg City Council has taken steps to address the city's fiscal situation through the creation of the Ad Hoc Council Committee to Review Budgetary Issues Facing the City of Reynoldsburg. The committee has put forth several proposals that would begin to address Reynoldsburg's structural deficit issues. Most of these recommendations, however, are being proposed as reforms to be done after the tax increases is approved—if at all. These proposals include adjustments to employee pension pickups, health care premiums, and compensation, as well as increasing taxes.

With unemployment stubbornly high, raising taxes will do nothing to improve Reynoldsburg's competitiveness, especially as other Greater Columbus suburban cities keep tax rates at 2 percent or below. Working families will see more dollars taken out of their pockets, making it that much more difficult to just get by. Raising taxes also will encourage employers to consider locations outside of Reynoldsburg that have a more hospitable tax environment. The potential exodus of employers and individuals will only weaken Reynoldsburg's long-term fiscal health.

As is typically the case, residents are being presented a false choice, a choice we refer to as the False Duopoly. With the False Duopoly, citizens are told that the only choices they have are to either raise taxes or incur massive layoffs/deep program cuts. Absent from the False Duopoly is a third option: realign government compensation packages.

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<sup>1</sup> ThisWeek Reynoldsburg, "Income Tax Headed for Nov. 8 Ballot" at <http://issuu.com/columbusdispatch/docs/rey0728> (accessed on September 27, 2011).

Many reporters fail to challenge government leaders when they present the False Duopoly.<sup>2</sup>

Because political leaders either don't have the courage to demand compensation package cuts or are too closely aligned with government unions, taxpayers are never presented with the third option. In July 2010, we conducted a survey of 1,800 registered voters in Ohio and presented them with the three choices. A clear plurality selected cutting compensation packages as their first or second choice (43 percent) over raising taxes (16 percent) or cutting programs (35 percent).<sup>3</sup> Given the worsening economy since July 2010, those supporting cutting compensation packages versus raising taxes have likely increased substantially.

By taking the prudent step of realigning compensation packages to fit within the generous revenues already provided by taxpayers, a balanced budget can be achieved without either higher taxes or layoffs/program cuts. This fiscal crisis, like the fiscal crises occurring in many local government entities in Ohio, was predictable given ever-increasing compensation packages and, therefore, was entirely self-inflicted by Reynoldsburg's city leaders. Why are taxpayers being asked to bear the burden of this bailout before meaningful reforms are made to compensation packages?

City workers should be asked to voluntarily accept the reforms detailed below. If city workers refused to accept the changes, then the political leaders of Reynoldsburg should declare exigent circumstances and implement these reforms immediately due to the fiscal crisis facing the city. Many of the proposals below are bold, but a fiscal crisis requires nothing less than bold action.<sup>4</sup>

### **1. Five Percent Pay Cut for All Employees (Projected Savings: \$479,057)**

The best opportunity for Reynoldsburg to generate cost savings is to reform employee compensation. In order to prevent large layoffs and programmatic cuts, employee compensation must be adjusted. While private sector wages have flat-lined in recent years, many city workers' wages continue to rise. With that in mind, a salary adjustment is likely warranted for Reynoldsburg city workers.

Since 2008, many Reynoldsburg city workers have seen a double digit increase in total compensation. The median total compensation package has grown nearly 11.5 percent over the past three years. Driving this growth has been a nearly 6 percent median

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<sup>2</sup> For example, see the two stories available at the following links: The Columbus Dispatch, "Delaware Schools Face \$5 Million In Cuts If Levy Fails," at <http://www.dispatch.com/content/stories/local/2011/09/28/delaware-faces-5m-in-cuts-if-levy-falls.html> (accessed October 3, 2011); ThisWeek, "Leaders: Cuts Certain If School Levy Fails," at <http://www.thisweeknews.com/content/stories/dublin/news/2011/09/28/leaders-cuts-certain-if-school-levy-fails.html> (accessed October 3, 2011).

<sup>3</sup> The Buckeye Institute for Public Policy Solutions, "Ohio Statewide Budget Survey Topline Results" at <http://buckeyeinstitute.org/issues/job-creation> (accessed October 3, 2011).

<sup>4</sup> To its credit, many of these proposals were included in the budgetary review committee's report. The problem, however, is there is no guarantee that the proposals will be implemented if the tax hike is approved, as the urgency of a deficit will cease to exist.

increase in employee salary and a 19 percent median growth in employee benefits. This type of growth is simply unsustainable and far out of step with the growth of private sector pay and benefits. Taxpayers should not be forced to continuously fund public employee benefit growth while their own benefits stagnate. Therefore, a five percent realignment reduction is a reasonable response to this large spike in compensation.

For many city employees, a five percent pay would leave them with an annual salary higher than their 2008 level. For instance, an average Reynoldsburg police officer earning \$70,096 annually in 2011 would still bring in \$66,591 after a five percent reduction. This amount is still well above his salary of \$64,958 in 2008.

## **2. Reduce Health Savings Account Contributions by 50 Percent (Projected Savings: \$241,000)**

Consistent with the budgetary review committee's findings, reducing Reynoldsburg's HSA contribution by 50 percent for every employee is a source of significant savings. The average HSA contribution by private sector employers is \$838 for single coverage and \$1,522 for family coverage.<sup>5</sup> In Reynoldsburg, the taxpayer contribution is \$2,000 for individuals and \$4,000 for a family plan. Lowering the taxpayer contribution rate by 50 percent would make the level of benefits its employees receive more consistent with the private sector.

## **3. Discontinue Employee Pension "Pick-up" (Projected Savings: \$224,439)**

As the budgetary review committee stated in its report, the practice of taxpayers paying both the taxpayer contribution and the employee's pension contribution (known as a "pension pick-up") is unsustainable. Currently, police officers receive a 50 percent pick-up toward their personal retirement contribution of 10 percent of their yearly salary (taxpayers therefore pay 83 percent of each officers' yearly required pension payment—24.5 percent of the 29.5 percent total required contribution) while dispatchers receive a 100 percent pick-up of their pension contributions of 10 percent of their salary (taxpayers are paying 100 percent of the yearly required pension payment—24 percent of the 24 percent total required contribution).

This practice is dramatically out of step with the level of benefits that many other Reynoldsburg government employees receive, as well as those of private-sector citizens who pay the necessary taxes. Currently, any Reynoldsburg government employee who is not a law-enforcement official receives no pension pick-up. Additionally, the average private sector worker only receives a 6.2 percent Social Security contribution from her employer and an average 4.0 percent 401(k) contribution. This 10.2 percent contribution is significantly smaller than the 14 percent taxpayer contribution that dispatchers receive as well as the 19.5 percent

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<sup>5</sup> Kaiser Family Foundation, "Employ Health Benefits – 2011 Summary of Findings" at <http://ehbs.kff.org/> (accessed October 3, 2011).

taxpayer contribution for police officers. The practice of taxpayers also picking up the worker's share of his retirement must end.

#### **4. Increasing Health Insurance Employee Premiums to 23 Percent (Projected Savings: \$194,690)**

Consistent with the committee's recommendations, increasing the share that Reynoldsburg's city workers contribute to their health insurance premiums would create cost savings while bringing employee compensation in line with that of private sector citizens. Currently, city employees contribute a maximum of \$115 per month for a family plan and \$50 per month for an individual plan. These rates increase every year until a 12 percent rate ceiling is reached. Currently, these contribution levels do not even reach the 12 percent ceiling – they are closer to 9.9 percent.

Raising employee health insurance premiums to 23 percent would begin to establish a rate comparable with that of the private sector. According to our report, "The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private Sector Neighbors," the average private sector employee pays 23 percent of the health insurance premium.<sup>6</sup> Raising Reynoldsburg employees' rates to a minimum of 23 percent and scrapping the maximum monthly contribution limits would generate significant savings while establishing greater equality among its private and publicly employed citizens.

#### **5. End Health Insurance for City Council Members (Projected Savings: \$97,582)**

Dropping health insurance coverage for city council members is a prime area of cost savings – a view consistent with that of the budget review committee. By dropping health insurance coverage and HSA contributions for council members, savings of nearly \$100,000 can be achieved. Consistent with the committee's report, city council is a part-time position that should not require full benefits. Additionally, many council members already have access to outside health insurance through their full-time employment occupations, making city-provided insurance unnecessary.

#### **6. Two Percent Reduction in Non-Salary Spending (Projected Savings: \$79,911)**

As part of continued cost-savings measures, the city should decrease its non-salary spending levels by two percent, excluding the costs of fixed contract costs (Water, Waste Water, etc). Savings could be derived from reduced/delayed capital purchases, canceling professional association subscriptions, achieving greater efficiency in postage usage, renegotiating contracts, and from other measures as well. Cuts could be taken from as many or as few departments as necessary, as long as the total non-salary budget deduction reaches two percent. Asking for a two percent reduction is a modest request and fiscally prudent measure to ensure that Reynoldsburg's government lives within its means.

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<sup>6</sup>The Buckeye Institute for Public Policy Solutions, "The Grand Bargain is Dead: The Compensation of State Government Workers Far Exceeds Their Private Sector Neighbors," at <http://buckeyeinstitute.org/issues/public-sector-comp-and-pensions> (accessed October 3, 2011).

## 7. End Longevity Pay (Projected Savings: \$74,687)

Longevity pay based on length of tenure is a poor system for rewarding employee performance. Unlike the private sector, which rewards employees based on performance, longevity pay makes no distinction in recognizing employee excellence. Reynoldsburg’s budget savings committee highlighted longevity pay as an area of potential reform, and the savings from its elimination are significant.

## 8. Miscellaneous Spending Cuts (Projected Savings: \$47,800)

According to its report, City Council can find potential cost savings through a meticulous review of its line-item expenses. As the committee recommended, educational assistance to its employees should be reviewed. Any educational assistance spending for city employees must prove to generate greater returns than initial costs. Ending educational assistance would save the city \$5,800.

Additionally, the practice of city-paid uniform cleaning for city employees should be halted. Ensuring that workplace clothing and uniforms are kept in a suitable condition is a responsibility that nearly all private sector employees undertake on their own and at their own expense. By ending the process of the city purchasing and cleaning employee uniforms, \$17,000 in savings would be achieved.

Another alternative that Council should consider is a reduction or cancellation of the annual 4<sup>th</sup> of July fireworks display. Currently, Reynoldsburg spends \$25,000 on fireworks annually. Many communities facing similar budgetary constraints have moved to reduce the size of their fireworks show or fund them entirely via private donations.

### Projected Cost Savings By Line Item

Proposed Cut	Projected Savings
Five Percent Pay Cut for All Employees	\$479,057
Reduce HSA Contribution by 50 Percent	\$241,000
Discontinue Employee Pension “Pick-up”	\$224,439
Employees Pay 23 Percent of Health Premiums	\$194,690
End Health Insurance for City Council	\$97,582
Two Percent Reduction in Non-Salary Spending	\$79,911
End Longevity Pay	\$74,687
Miscellaneous Spending Cuts	\$47,800
<b>Total Savings:</b>	<b>\$1,439,166</b>

Critically, by taking the steps outlined above, Reynoldsburg can maintain its competitive tax rate and avoid laying off a single government worker or cutting any necessary programs or services currently offered. It should not have taken the fiscal crisis in Reynoldsburg for city leaders to discover that providing overly generous compensation packages is unsustainable and unfair to the taxpayers stuck with the bill.