ATTACHMENT 4

King County

# Voluntary Separation Program Pilot Report

*May 1, 2014*

**VOLUNTARY SEPARATION PROGRAM PILOT**
**COUNCIL REPORT**
**May 1, 2014**

## EXECUTIVE SUMMARY

On November 16, 2012, the King County Council adopted Ordinance 17457 authorizing the Executive Branch to pilot a Voluntary Separation Program in 2012 and 2013. Based on research from other jurisdictions and County-specific needs, the program was designed to incent retirement-eligible employees to voluntarily leave County employment. The desired result was to minimize the need for reductions in force (RIFs) and provide for cost savings and efficiencies.

Section 2 of the ordinance requires the King County Executive to report to the Council on the success of the Voluntary Separation Program, specifically:

A. The total number of retirement-eligible employees by agency who participated in the pilot program;

B. Whether the pilot program minimized reductions in force, resulted in efficiencies or resulted cost savings, or any combination thereof; and

C. A recommendation on whether the pilot program should be extended.

Below are high-level answers to each of the requirements above. More detailed analysis can be found in the full report that follows.

*A. Total Number of Retirement-Eligible Employees by Agency Who Participated*

In total, 133 retirement-eligible employees across nine agencies participated in the program in 2012 and 2013. Participation by agency is shown in the table below.

| Voluntary Separation Program Participation by Agency and Year | | | |
|---|---|---|---|
| **Agency** | **2012** | **2013** | **Total** |
| DAJD - Adult & Juvenile Detention | 4 | 0 | 4 |
| DES - Executive Services, Records and Licensing Services and Facilities Management | 3 | 0 | 3 |
| DJA - Judicial Administration | 0 | 7 | 7 |
| DNRP - Natural Resources & Parks | 13 | 29 | 42 |
| DOT - Transportation, Roads Services Division | 11 | 18 | 29 |
| DPER - Permitting & Environmental Review | 4 | 0 | 4 |
| DPH - Public Health | 16 | 20 | 36 |
| PAO - Prosecuting Attorneys | 0 | 7 | 7 |
| EXEC - Executive's Office | 1 | 0 | 1 |
| **Grand Total** | **52** | **81** | **133** |

Note: Program was only available for part of 2012 year

*B. Reductions in Force, Efficiencies, and Cost Savings*

In partnership with agencies and the Office of Performance Strategy and Budget (PSB), the Human Resources Division (HRD) did a comprehensive evaluation of the program. The following are some of the high-level findings:

- A total of twenty-seven reductions in force were avoided, ten in 2012 and seventeen in 2013, with an additional 53 positions remaining vacant to achieve on-going cost savings.
- By filling positions at either a lower range or a lower step, or by eliminating vacated positions, the County's conservative net savings estimate is $1,000,000.
- Additional savings or benefits were noted by agencies including: the ability to better align resources and work programs with agency priorities and initiatives, the opportunity to create critically needed positions, and increased productivity and flexibility.

*C. Recommendations*

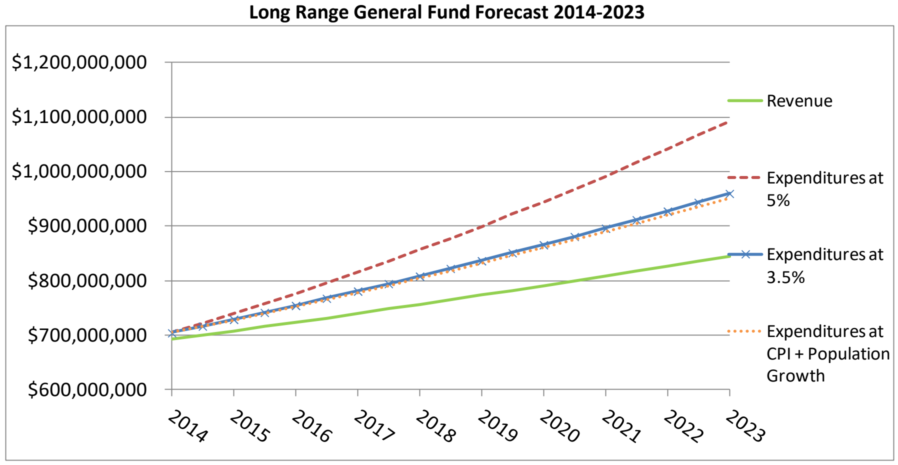
HRD recommends extending the pilot program through 2016. This additional time will not only provide for additional cost savings and flexibility for agencies, but will also allow HRD to further refine program criteria, requirements, and evaluation methodology.

## I. Background

*Policy and Budget Context*

King County has and will continue to face a significant structural budget gap in the General Fund. Services such as roads, transit and permitting have also faced significant funding challenges in recent years.

**Structural Gap Between Projected Revenue and Expenditures**
**Long Range General Fund Forecast 2014-2023**




Source: Performance, Strategy & Budget; Q3 2013

Key mechanisms for the County in managing these shortfalls include capitalizing on vacancies and attrition, and creating efficiencies through Lean and process improvement work. The Voluntary Separation Program was intended as another mechanism to manage budget deficits and potential impending layoffs and/or service cuts.

*Early Retirement Incentive Programs in Other Jurisdictions*

Early retirement incentive programs have been used by other public jurisdictions in Washington State and across the country as a creative alternative to other expenditure reduction methods such as layoffs, pay freezes, furloughs, and program cuts. In most cases, the reason for offering the incentive was cost savings which, in turn, minimized RIFs and avoided the need to cut programs.

Because retirement-eligible employees were often at the top pay rate, money was saved when the positions were refilled at a lower rate.

A number of jurisdictions currently offering early retirement incentive programs were reviewed as part of the design of King County's program, including:

- Washington State
- Kitsap County
- Issaquah
- Kent, Bremerton
- Bainbridge Island
- New York State
- South Hampton County Virginia
- Kalamazoo Michigan
- Monterey California

*King County's Approach*

Because of the proven cost-cutting successes in other jurisdictions, King County opted to pilot a program and measure whether it too could achieve similar success. The County's Voluntary Separation Program was piloted in 2012 and 2013 to incent the voluntary separation of employees eligible to retire under a Washington state public retirement plan. Agencies run by elected officials were also allowed to participate upon the approval of the executive and the head of the agency.

Employees approved to participate were provided a one-time financial incentive of $15,000 to separate from employment by year end, although the employees were not required to actually begin drawing their state pension. The employees agreed not to return to County employment in a benefits-eligible position and not to apply for unemployment insurance. While other jurisdictions offered incentives ranging from $10,000 to over $30,000, $15,000 was offered by the County because that sum did not exceed its maximum monetary exposure for unemployment which would be paid to a laid off employee.

## II. How Did the Process Work?

The Voluntary Separation Program pilot was administered by HRD in collaboration with the Office of Labor Relations and participating agencies.

*Part I: Agency-level and Union Participation*

The following nine agencies requested and were approved for participation by the County Executive's Office of Performance Strategy and Budget:

- Department of Adult and Juvenile Detention - 2012
- Department of Executive Services, Records and Licensing Division and Facilities Maintenance Division - 2012
- Department of Judicial Administration - 2013

- Department of Natural Resources and Parks – 2012 and 2013
- Department of Permitting and Environmental Review - 2012
- Public Health - Seattle & King County – 2012 and 2013
- Department of Transportation, Roads Services Division – 2012 and 2013
- Office of the Executive, Office of Labor Relations - 2012
- Office of the Prosecuting Attorney – 2013

The Office of Labor Relations entered into a *Memorandum of Understanding* (Attachment 1) for the Voluntary Separation Program with labor organizations for fifteen bargaining units representing eligible County employees within the nine participating County agencies listed above. Non-represented employees in those agencies were also eligible to apply.

*Part II: Employee-Level Participation*

Once approved for participation, agencies and their employees followed the steps below to learn about, apply for, and ultimately participate in the program.

- **Step One**: Participating agencies communicated with their employees about the Voluntary Separation Program opportunity, provided them with information via the *Employee Frequently Asked Questions* document, and provided them application documents (Attachment 2).

- **Step Three**: Retirement-eligible employees voluntarily applied with their agencies to be considered for the Voluntary Separation Program via an *Employee Request to Participate in King County Voluntary Separation Pilot Program* form (Attachment 3).

- **Step Four**: Those employees who were approved to participate entered into *Voluntary Separation Agreement By and Between King County and Employee* for represented and non-represented employees with the County (Attachments 4 and 5).

- **Step Five**: Agencies submitted the employee applications and agreements to HRD for a quality control review and HRD communicated final approval to pay the employees the incentive sum to Central Payroll Operations.

## III. Who Participated in the Program?

In 2012 and 2013, 184 employees applied for the pilot program through the process outlined above. Of those, 133 were approved for participation in the program. The most common reasons individuals were not approved for the program were that they had already announced a retirement date or that the agency determined that the cost of the payment exceeded the potential benefit.

| Voluntary Separation Program<br>Participation by Agency and Year | | | |
|---|---|---|---|
| **Agency** | **2012** | **2013** | **Total** |
| DAJD - Adult & Juvenile Detention | 4 | 0 | 4 |
| DES - Executive Services, Records and Licensing Services and Facilities Management | 3 | 0 | 3 |
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| **Grand Total** | **52** | **81** | **133** |

Note: Voluntary Separation Program was only available for part of 2012 year

Of the 133 employee who participated, 114 were represented by labor organizations and 19 were non-represented. The number of participants by agency is detailed in the table above.

Retirements have increased from 2010 through 2013, which may be due in part to the use of the Voluntary Separation Program. A breakdown by retirement category is provided in the table below.

| ALL Retirements by Category (Reason) for Years 2010 - 2013 | | | | | |
|---|---|---|---|---|---|
| | **2010** | **2011** | **2012** | **2013** | **Total** |
| Retirement w/Benefits (LEOFF1 plan only) | 9 | 1 | 1 | 0 | 11 |
| Disability-related Retirement | 8 | 8 | 7 | 1 | 24 |
| DRS Service Retirement | 278 | 249 | 285 | 279 | 1091 |
| Retirement in Lieu of Layoff | 2 | 1 | 7 | 0 | 10 |
| **Voluntary Separation Program** | **0** | **0** | **50** | **73** | **123** |
| **Grand Total** | **297** | **259** | **350** | **353** | **1259** |

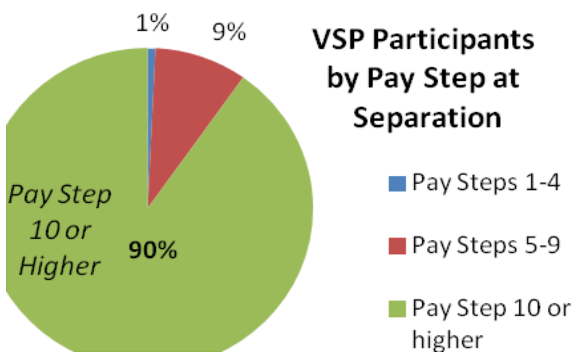
Note: Voluntary Separation Program counts are retirements only, and do not include employee separations (non-retiree).

The average age of retiring employees at the County between 2010 and 2013 was 64 years. The average age of Voluntary Separation Program pilot participants in 2012 and 2013 was also 64 years.

Between 2012 and 2013 the average years of service at retirement was 24. The average number of years of service for Voluntary Separation Program pilot participants was 25. The average annual salary was also comparable across Voluntary Separation Program pilot participants and all retirees, as is shown in the table below.

| Retirements by Average Age, Years of Service and Annual Salary<br>All Retirements vs. Voluntary Separation Program Participants | | | | | |
|---|---|---|---|---|---|
| **Average Age** | | **Average Years of Service** | | **Average Annual Salary** | |
| ALL Retirements | VSP Participants | ALL Retirements | VSP Participants | ALL Retirements | VSP Participants |
| 64 years | 64 years | 24 years | 25 years | $ 73,945 | $ 73,611 |

Ninety percent of Voluntary Separation Program pilot participants were at pay step 10 or higher[1] of their salary range, which means there was significant opportunity for agencies to fill the resulting vacancy by hiring the successor at a lower step, thereby creating on-going cost savings. The pay step breakdown is provided in the pie chart below.




| **Program Participation by Job Classification** | |
|---|---|
| **Job Classification** | **Count of Participants** |
| Project/Program Manager III | 6 |
| Fiscal Specialist III | 6 |
| Administrative Specialist III | 5 |
| Utility Worker II | 5 |
| Project/Program Manager IV | 5 |
| Truck Driver III | 5 |
| Administrative Specialist II | 5 |
| Registered Nurse - Jail | 4 |
| Corrections Officer | 4 |
| Transfer Station Operator | 4 |
| Truck Driver II | 4 |
| Other (Classifications) | 80 |

Employees occupying a wide variety of classifications across the County participated in the Voluntary Separation Program pilot. Highest count classifications are provided in the table on the right.

## IV. What Outcomes Were Achieved?

In the Voluntary Separation Program evaluation, PSB and HRD identified six distinct outcome categories for positions held by employees who participated in the program:

1. The position was eliminated from the budget (thereby creating permanent, on-going cost savings).

[1] Some collective bargaining agreements and the King County Code provide for merit pay above step 10.

2. The position was repurposed and filled at a lower salary range (thereby creating permanent, on-going cost savings).

3. The position was filled in the same salary range, but at a lower step (thereby providing longer-term, limited cost savings).

4. The position was filled in the same salary range and at the same step, but the agency delayed filling the position thereby achieving one-time net cost savings.

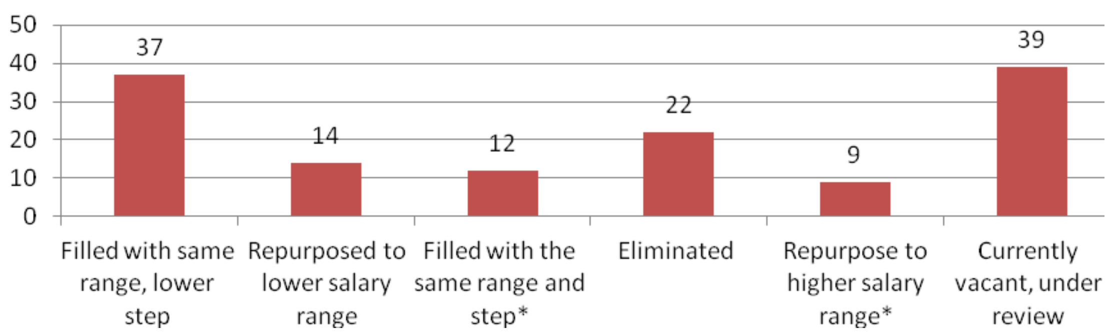
5. The position was repurposed and filled at a higher range, but the agency delayed filling the position thereby achieving one-time net cost savings.

6. The position is currently under-review and remains vacant (in these cases the agency is actively achieving salary savings, but the extent of on-going savings cannot yet be determined) – this is often the case for positions that were vacated in the second half of 2013.

Additionally, there were two other key criteria reported by participating agencies:

- A reduction in force was avoided.
- Salary savings were realized as a result of delaying filling the position (this was always the case for outcomes (4), (5) and (6) above and how the agency demonstrated cost savings).

**Outcomes for Positions Vacated by Voluntary Separation Program Participants**




*In cases where a position was filled at the same or a higher step or range, agencies noted that they achieved significant salary savings by holding the position vacant for a period of time. If repurposed to fulfill a different function, these positions may also have avoided future layoffs due to the need for a different skill set.

As is noted above, many of the positions vacated in the second half of 2013 have yet to be filled and agencies are actively achieving salary savings. For positions that are not under review, 78% were either filled at a lower level or eliminated from the budget.

Of the positions that are not under review, agencies identified fourteen that they held vacant to achieve salary savings. With the addition of the 39 positions that remain vacant, at least 53 have resulted in vacancy-related savings.

*Reductions in Force Avoided*

In total, 27 RIFs were avoided as a result of the Voluntary Separation Program.

2013 RIFs Avoided

| Agency | RIFS Avoided |
|---|---|
| DES - Executive Services | 3 |
| DAJD - Adult & Juvenile Detention | 4 |
| DOT - Transportation, Roads Services Division | 7 |
| DPER - Permitting & Environmental Review | 3 |
| **Total:** | **17** |

2012 RIFs Avoided

| Agency | RIFS Avoided |
|---|---|
| DJA - Judicial Administration | 1 |
| DOT - Transportation, Roads Services Division | 9 |
| **Total:** | **10** |

Future potential lay-offs may also have been avoided as a result of the ability to create a new position where the separating employee lacked the necessary skill set.

Avoided RIFs reduce unemployment insurance payouts, realize salary savings by incenting employees to retire earlier than anticipated, and provide the opportunity for less senior employees to maintain employment. This program reduced the number of RIFs necessary due to funding constraints.

## V. Did the County Save Money?

Overall, the County saved a net conservative estimate of $1,000,000 through the Voluntary Separation Program pilot. This is a conservative estimate because some savings, such as salary savings achieved by holding positions vacant, were not included in the total cost savings estimate.

*Assumptions for Determining Cost Savings*

HRD, in collaboration with PSB, developed the following assumptions in order to calculate estimated cost savings from the program:

- While many agencies included vacancy savings as a key benefit of the program, those savings are not included in the net total savings because the primary purpose of the pilot was to avoid RIFs and program cuts and reduce ongoing labor costs.
- If the position was filled, no benefits savings were included as the new incumbent would also require benefits. Marginal savings on benefits associated with filling a position at a lower rate were not included. If the position was eliminated, benefits savings were included.
- Additional compensation, such as premium pays, and longevity pay, were included in cost savings calculations. Costs savings were not factored solely on base salaries.

- Avoided costs from unemployment insurance were not included in cost savings calculations. However, if the 27 RIFs were not avoided and each employee applied for and received the maximum of $15,000 in unemployment insurance, the County avoided up to an additional $405,000 in costs.
- One-time cash outs of accrued vacation leave and 35% of accrued sick leave to employees retiring from employment were not charged against cost savings, because these liabilities would have to be paid at retirement regardless of when an employee chooses to separate from the County.

*Cost Savings*

In addition to the benefits of avoiding RIFs, like other jurisdictions, King County saved money when positions vacated by retiring employees who were at the top step of their pay range were filled at a lower step of their pay range or when their positions were reclassified and filled at a lower pay range. Based on information collected from agencies, the average 24 month salary savings for each position was approximately $22,800. These salary savings will total approximately $2.9M over a 24 month period, which exceeds the total incentive payout of $1.9M.[2] In most cases, the savings will continue past 24 months because the lower pay rate of the filled position will continue to be lower by the rate earned by the retiring incumbent for longer than two years. Real savings are likely even higher because of avoided costs of unemployment insurance and salary savings from holding positions vacant.

*Additional Benefits*

In addition to the significant cost savings, agencies noted a number of other benefits from the program. Some examples of benefits identified included:

- The opportunity to create better alignment between a new work program and agency priorities and initiatives;
- Productivity increases;
- The opportunity to create a critical position that had previously been missing;
- Potentially avoiding a future layoff of an employee without the necessary skill set; and,
- Flexibility to better match staffing to changing work demands and goals.

## VI. Recommendation

In light of the positive cost-benefit result, HRD recommends that the Voluntary Separation Program pilot based on the principles underlying the initial pilot program be extended through 2016. The extension will allow time to improve the process and further evaluate the program. It will also allow time to develop additional cost saving options and tools.

[2] The Voluntary Separation Program also generated savings from vacancies and avoided unemployment insurance payouts, although these one-time savings are not included in the above figure.

Assuming that 50 employees participate in the Voluntary Separation Program each year in 2014, 2015, and 2016, at an average of $22,800 in cost savings less the $16,200 incentive pay, the County could save upwards of $990,000. Additional savings may also be realized by avoiding unemployment insurance pay outs.

HRD used the information obtained from the Voluntary Separation Program pilot to draft a proposed ordinance. That ordinance is transmitted together with this report. The proposed ordinance includes the provisions set forth in Ordinance 17457 with the following recommended additions and revisions:

- Explicitly add the following criteria which the executive has used to approve agency participation in the Voluntary Separation Program:

    - The agency will experience budget shortfalls which will result in program cuts or RIFs; and
    - The agency will not fill the position or will fill the position at a lower wage rate which is expected to result in double the cost savings over the next twenty-four months.

- Increase the incentive payment to $16,200 because that sum is the current maximum monetary exposure for unemployment that the County would pay to a laid off employee (the 2012 and 2013 $15,000 incentive payment was based upon the same premise).

- Revise the incentive payment rate to prorate the $16,200 payment for part-time employees to reflect the County's monetary exposure for unemployment that would be paid to part-time employees.

- Revise the provision that participating employees will not seek reemployment with the County in any position, including any temporary position.

HRD will also continue to work with the Office of Labor Relations to continuously improve and create a more lean process.