

SDCTA analysis finds 16 local cities offer employees 33 different Specialty Pays that add to pension costs

Sixteen cities in San Diego County offer their employees a total of **33 different “specialty pays”** in addition to base pay.¹ These add-ons include things like uniform allowance, notary, confined space and bilingual pay, and are factored into the calculation of an employee’s pension payments.

During a 12-year period, between Fiscal Year 2000 and FY 2011, the 16 cities, each of which belong to the California Public Employees Retirement System (CalPERS), spent a total of **\$90 million on specialty pays**, according to a new report by the **San Diego County Taxpayers Association (SDCTA)**. The specialty pays offered by cities analyzed in this report include something called a “tree crew premium,” which is special compensation given to city employees who care for trees. Put another way, these employees receive extra pay simply for doing the job they were hired to perform.

The purpose of SDCTA’s analysis is to track each city’s specialty pay costs and to suggest steps to help cities control these expenses. SDCTA also analyzed the data because of the impact specialty pays can have in boosting employee pensions.

During the period studied, the **City of Chula Vista** spent the most on specialty pays – approximately **\$20.6 million** – or an average of **\$1.7 million annually**. Conversely, the **City of Santee** spent the least on specialty pays during the study period – approximately **\$212,000**, or an annual average of only **\$18,000**. Compared to the City of Chula Vista, which offers 14 different specialty pays, the City of Santee offers just 1: uniform allowance for public safety employees. Since each city provides different levels of service, some cities offer more specialty pays than others.

The City of Escondido offers employees 18 separate specialty pays, the most add-ons of any city in this analysis.

In order to fairly compare costs between cities, SDCTA has analyzed specialty pay on a per household basis. SDCTA found National City taxpayers shoulder the largest burden, with each household paying \$46 annually. Santee and Imperial Beach have the lowest costs per household, with households paying \$1.55 apiece.

In total, annual specialty pay expenditures for all cities in this analysis **increased by 60 percent** between 2000 and 2011 when adjusted for inflation. Combined, the most costly specialty pays were:

1. \$49.0 million on holiday pay (55 percent of total specialty pay expenditures)
2. \$11.9 million on uniform allowance (13 percent)
3. \$9.1 million on bilingual pay (10 percent)
4. \$7.9 million on shift differential (9 percent)
5. \$2.9 million on educational incentive (3percent)

Background

The role of specialty pays has been scrutinized in recent years by SDCTA and other taxpayer watchdog groups because it can lead to “pension spiking.” This means employees may acquire additional skills in the years leading up to retirement in order to increase their salaries, and thus their pensions. The recent implementation of the California Public Employees’ Pension Reform Act of 2013 (PEPRA) put forward a new interpretation of “pensionable compensation” for employees entering CalPERS on or after January 1, 2013. However, CalPERS recently issued a letter outlining their interpretation of pensionable compensation as allowed under the new law. Within their letter, CalPERS states a number of additional premium pays, such as various educational pays and bilingual pay, can still be included in an employee’s salary when calculating pensions. This interpretation could potentially eliminate future savings for cities that would have been generated if pensionable compensation was limited to base pay alone, and not any other specialty or premium pays.

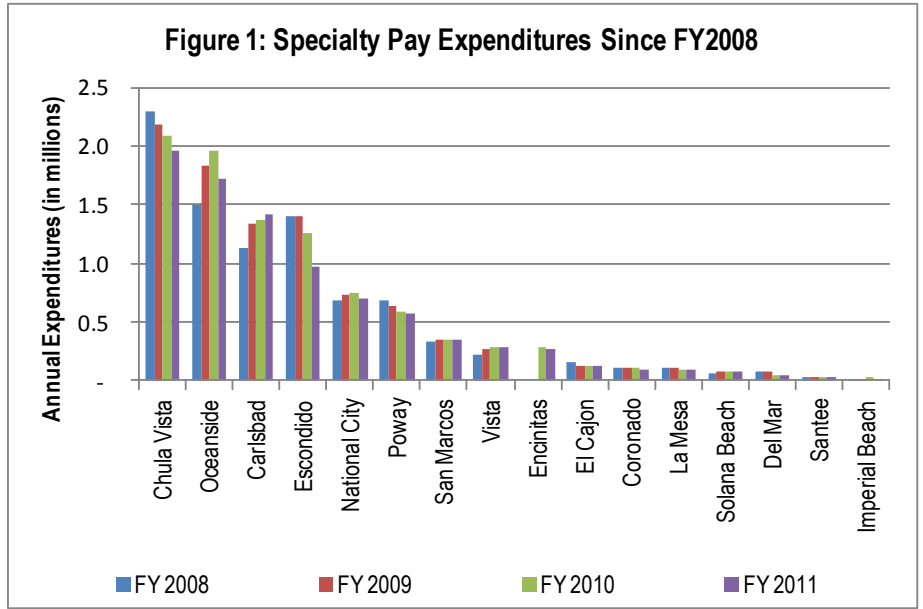
¹ The analysis does not include the City of San Diego as they have their own pension system. The City of Lemon Grove was unable to provide costs on an annual basis.

Specialty Pays by City

In total, annual specialty pay expenditures for all cities in this analysis increased by 60 percent between FY 2000 and FY 2011 when adjusted for inflation.

The most significant growth in specialty pay costs occurred in the City of Chula Vista, where the annual specialty pay expenses increased from approximately \$800,000 in FY 2000 to \$2 million in FY 2011. In total, Chula Vista spent more than \$20 million on these pays. During this time, the City of Chula Vista's workforce grew from 1,211 full-time equivalents (FTEs) in FY 2000 to its peak of 1,675 FTEs in FY 2006. Table 2 displays the 11-year specialty pay expenditure totals as well as a corresponding annual average for all cities in this analysis.

The cities that paid the most toward specialty pays are the most populated cities in San Diego County. Cities with a higher number of employees will spend more on specialty pays than cities with smaller workforces because they simply have more employees.



Many cities have attempted to lower operating costs, and thus the costs of specialty pays, by reducing the size of their workforces. For example, during the 11 years analyzed, the number of FTEs decreased by 28 percent in Chula Vista and 8 percent in Escondido. Given recent changes to the pension calculation for employees entering CalPERS on or after January 1, 2013, it remains to be seen if specialty pay expenditures will continue to decrease in the coming years. Figure 1 displays specialty pay costs during the last four fiscal years.

Although the Cities of Chula Vista and Escondido spent increasingly less on add-on pay due to workforce reductions, other municipalities spent more. For example, the City of Carlsbad experienced incremental annual increases in its specialty pay expenditures, spending 24 percent more in FY 2011 than in FY 2008. The increase in the payments made to employees for educational incentive pay was a significant contributing factor to this spike. The City of Vista and the City of Oceanside also saw increases. In each case, rising holiday pay expenses was the driver behind the increases.

Specialty Pays Per Household

It can be difficult to draw comparisons between cities when reporting specialty pay expenditures as totals because each city is responsible for different service levels and has differing number of employees. For this reason, utilizing the average per household is helpful because we can gain an understanding of how much each household is contributing toward specialty pays via their tax dollars – similar to a household budget.

Table 2: Total Specialty Pay Expenditures by City

City Name	Overall Total	Annual Average
Chula Vista	\$20,630,392	\$1,719,199
Oceanside	\$16,759,601	\$1,396,633
Escondido	\$15,215,612	\$1,267,968
Carlsbad	\$13,542,702	\$1,128,558
National City	\$7,161,910	\$629,641
Poway	\$6,898,078	\$574,840
Vista	\$1,061,223	\$353,741
Encinitas	\$276,606	\$276,606
San Marcos	\$3,112,904	\$259,409
El Cajon	\$1,692,643	\$141,054
La Mesa	\$428,622	\$107,155
Coronado	\$934,774	\$77,898
Solana Beach	\$735,774	\$61,314
Del Mar	\$490,188	\$49,019
Imperial Beach	\$128,332	\$18,333
Santee	\$212,275	\$17,690

Comparing the specialty pay expenditures per household, SDCTA found that although the City of Chula Vista spent the most on specialty pays during the period analyzed, the average household paid about \$20 less per year than the average household in National City. It’s important to note that among the 16 cities analyzed Chula Vista has the most residents and households.

In Poway, the average household paid about \$33 annually to cover specialty pays for city employees. Despite offering only two add-ons (holiday pay and shift differential), Poway spent almost \$7 million on specialty pays during the study period. From these costs, approximately \$6.7 million comes from holiday pay alone. To compare, despite having three times fewer households than the City Escondido, Poway spent just as much on holiday pay over the past four fiscal years (approximately \$2.7 million).

positions that require consistent staffing. The amount an employee receives in holiday pay depends on the job classification, and in most cases, the amount paid is more than the salary for the position. Holiday pay payments tend to be higher than other specialty pays because they are calculated in accordance with an employee’s base pay versus a pre-determined stipend amount. Out of the 16 municipalities studied, 11 report holiday pay as special compensation.

Uniform Allowance

The purpose of the uniform allowance is to cover the cost of maintenance and replacements. City employees, however, are able to report uniform allowances to CalPERS as special compensation so that it is included in pension calculations.

Uniform allowance is reported as special compensation by 13 municipalities, making it the most common specialty pay in the county.²

Table 3: Expenditures Per Household (2010 Households)

Name of City	Expenditures Per Household
National City	\$45.64
Carlsbad	\$34.13
Poway	\$33.53
Oceanside	\$29.06
Chula Vista	\$26.00
Escondido	\$21.49
Del Mar	\$20.06
Coronado	\$13.87
Solana Beach	\$13.61
San Marcos	\$13.11
Encinitas	\$11.49
Vista	\$9.55
La Mesa	\$4.14
El Cajon	\$3.71
Santee	\$1.55
Imperial Beach	\$1.55

Table 4: Annual Payments for Uniform Allowance by City

City	Miscellaneous	Fire	Police	Marine
Carlsbad	\$0	\$415	\$645	\$0
Coronado	\$0	\$775	\$850	\$0
El Cajon	\$0	\$500	\$720	\$0
Encinitas	\$0	\$500	\$0	\$0
Escondido	\$650	\$700	\$700	\$0
Imperial Beach	\$0	\$600	\$0	\$0
La Mesa	\$550	\$600	\$700	\$0
National City	\$0	\$650	\$750	\$0
Oceanside*	\$450-\$700	\$700	\$700	\$0
San Marcos	\$221-\$392	\$600	\$0	\$0
Santee	\$0	\$600	\$0	\$0
Solana Beach	\$0	\$0	\$0	\$500

* Uniform allowance range for non-sworn police employees

Holiday Pay

The most costly specialty pay among all municipalities is holiday pay, which cost a total of \$49.0 million, or 55 percent of overall specialty pay expenditures.

Holiday pay is awarded to employees who are normally required to work on a holiday because they work in

Because uniform allowances are the most frequently offered specialty pay they frequently add to employee pension costs. While an \$850 uniform allowance alone has a relatively minor impact on an employee’s pension calculation, the combination of a uniform allowance plus holiday pay and additional add-ons leave pension plans open to numerous cases of pension spiking. Collectively,

² The City of Chula Vista reports its laundry costs as “uniform allowance”

these 12 cities spent about \$12 million on uniform allowances during the study period, or 14 percent of overall specialty pay costs.

Bilingual Pay

In most cases, if the need exists for an employee to perform work duties in a second language, that employee will receive a monthly payment on top of their base salary. Bilingual pay is paid to employees who pass a language proficiency exam. Cities should reassess their need for bilingual speakers on an annual basis to ensure cost-effectiveness.

Bilingual pay is the third highest specialty pay in this analysis, costing the 12 cities that offer it \$9.1 million, or 10 percent of specialty pay expenditures.

City	General	Fire	Police
Carlsbad	\$80	\$80	\$80
Chula Vista	\$100	\$200	\$200
Coronado	-	-	\$80
El Cajon	\$50	-	\$60
Encinitas	\$108	-	-
Escondido	\$50+\$25	\$200+\$75	\$200+\$75
Imperial Beach	\$50	\$50	\$0
La Mesa	\$50	\$50	\$0
National City	\$100	\$0	2%-3% monthly salary
San Marcos	\$75	\$75	\$0
Solana Beach	\$100	\$0	\$0
Vista	\$80	\$75	\$0

As Table 5 shows, monthly bilingual payments for miscellaneous employees range between \$50 and \$108. This amount is added on top of the employee’s base pay for pension calculation purposes. In some cases, public safety employees are eligible to receive much higher payments for bilingual pay. The City of Escondido provides the greatest amount of payments for bilingual pay to employees. Firefighters and police employees receive \$200 for bilingual speaking skills and \$75 for written skills every month.

Recommendations

The following steps should be considered in order to ensure that specialty pay costs remain manageable in the coming years:

Short-Term

Cities should reassess their needs for specialty pay on an annual basis and consider adjusting the number of pays awarded so that it more closely reflects needs.

Post all special compensation policies and guidelines on the city’s website. No cities reviewed in this report clearly posted special compensation policies on their websites. Information had to be obtained either from memorandums of understanding or Public Records Act requests. Taxpayers should be able to easily access this information.

Long-Term

Embed specialty pays within base pay. Instead of treating specialty pays as add-on pays to an employee’s base pay, which could lead to pension spiking, cities should included specialty pays within base pay. Doing so would reduce instances of pension spiking. Furthermore, the pay would then match the skills needed for the job. This also falls in line with SDCTA’s recommendation that pension payouts should be calculated on base pay alone, which can be achieved through negotiations with employee labor groups.

Please visit www.sdcta.org for the complete city-by-city analysis.

The San Diego County Taxpayers Association is a non-profit, non-partisan organization, dedicated to promoting accountable, cost-effective and efficient government and opposing unnecessary taxes and fees. Founded in 1945, SDCTA has spent the past six decades saving the region’s taxpayers billions of dollars, as well as generating information to help educate the public.