THE 2006 POLICEPAY INDEX

January 27, 2006

AUSTIN TAKES FIRST PLACE

Oklahoma City, Oklahoma – Austin, Texas leads the ***2006 POLICEPAY Index***, followed by North Las Vegas, Nevada, and Omaha, Nebraska. Both Austin and Omaha are at the top because of the low cost-of-living in their cities. If no adjustment is made for the cost-of-living, Sunnyvale, California is the leader with a large pack of other California cities following closely. On the unadjusted list, 20 of the top 25 cities are in California. Even 32 of the top 50 are in California. No California city is ranked lower than 92nd out of the 200 cities in the unadjusted index. When the cost-of-living is applied, there are only 6 California cities left in the top 25.

The cost-of-living factor is very problematic. Without the cost-of-living adjustments Austin and Omaha are not even in the top 25. Both Austin and Omaha have a cost-of-living below the national average. In the Los Angeles Basin a distance of only 30 miles can result in a large increase or decrease in the cost-of-living. A similar problem occurs in the San Francisco Bay area.

Without considering the cost-of-living, California is the highest paid state, followed by Nevada, New Jersey, and Michigan. The lowest paying states are the usual suspects, Louisiana, Mississippi, Alabama, Georgia, South Carolina, and North Carolina. Once the cost-of-living is applied, Texas is the leader.

Starting with this year's index, we are using a different methodology to value pension plans. Previously, we had used the rate that the city was currently contributing to the police pension plan. From the start, this gave distorted values for several cities. For example, some cities that were over-funded were contributing nothing, while others were substantially under-funded and were playing catch up. Simply using the current contribution rate could result in large variances for identical systems and payroll. This due to the difference in the current funding level.

To get away from this, we have developed a model that calculates the estimated value of a pension after 30 years of service. The result is a percentage of payroll that would have to be contributed each year to fund the plan. We then subtract any amount the employee is contributing. This leaves us with the value of the benefit for a career employee. A typical 75% pension at 30 years requires a contribution rate of about 20%. If the employee is contributing 7%, the net value to the employee is 13%. That should be the rate being contributed by the employer. However, if the plan is not 100% funded the employer will be contributing a higher amount. Just because the employer is behind on the funding does not mean that the catch up contributions are a benefit to current employees.

Prior to 2002, many pension plans were over funded and the employers were not making contributions. Following the 2000-2001 decline in the stock market, many of these same funds suddenly became under-funded. Contribution rates increased dramatically. One city was paying 48% of payroll to their pension plan. The recent rebound in the stock market has raised the funding levels and now such large contribution rates are no longer required. The bottom-line is that the actual contribution rate is not always an accurate indicator of the value of the pension benefits being earned by current employees. We wrote about this problem as far back as 2003.

Currently, the average hourly rate of total compensation per hour worked over a 30 year career is 5¼% higher than this time last year. Only 3¼% of the increase was in the form of a paycheck. The other 2% was indirect compensation, such as increased insurance contributions or additional paid time off. When compared to the Consumer Price Index for 2005, 3.4%, we see that direct pay increased slightly less, but that the total compensation increase was well above inflation. The Consumer Price Index was increasing at only 2½% as late as last June. We anticipate direct pay increasing by about 4% for 2006 and total compensation rising by 5% as health insurance inflation moderates. The entire POLICEPAY Index can be viewed at www.policepay.net

How The Index Is Computed

1	Base Pay	$36,000	This includes step increases.
2	Longevity Pay	48	Additional pay based on tenure.
3	Holiday Pay	250	Normally, this is the premium for working on a holiday.
4	Shift Pay	600	Each shift differential is given a weight of 33.33%.
5	Uniform Pay	950	If the city provides the uniforms, $600 is used.
6	Pension Cost	7,380	The value of the city's contribution to the pension.
7	Insurance	5,400	The amount the city pays toward the group insurance.
8	FICA	535	Medicare and/or Social Security paid by the city.
9	Other Pay		Pay that everyone receives without additional requirements.
10	Total Pay	$51,163	The sum of 1 through 9.
11	Normal Hours	2,080	The full time hours without leave.
12	Vacation Hours	120	Vacation leave allowance.
13	Sick Hours	96	Sick leave allowance. (Capped at 152 hours)
14	Holiday Hours	80	Paid time off for holidays.
15	Other Hours		Any other regular paid leave given to everyone.
16	Net Hours	1,784	Line 11 less the sum of lines 12 through 15.
17	Unadjusted Hourly Rate	$28.68	Line 10 divided by line 16. (This is used for the unadjusted index.)
18	ACCRA ® COLI ®	98.500%	The local cost-of-living ratio. 100% equals national average.
19	Adjusted Hourly Rate	$29.12	Line 17 divided by line 18. (This is used for the adjusted index.)

This computation is made for years 1 through 30 and then the 30 years are averaged. The individual rates for all of the cities are then converted into an index.

Education and specialty pay are not included in the index. This might be significant for some departments. Generally, not every employee receives these types of additional pay. To measure them would require a weight mechanism.

How To Read And Understand The Index

The *POLICEPAY Index* is presented in two ways - with and without an adjustment for the local cost-of-living. It is our belief that the version that includes the cost-of-living adjustment is the best and fairest presentation. Anyone who has traveled much knows that the cost for almost everything is much higher in San Francisco, Los Angeles, New York, and other metropolitan areas on the East and West coasts. Each of the two versions is presented in the same format.

The number to the left of the city's name indicates how it ranks in pay, with 1 being the highest paid and 200 being the lowest paid. The number in parentheses is how the city ranks in population as reported by the 2000 census - New York is number 1, Los Angeles is number 2, Chicago is number 3, and so on. The number to the right is the ***POLICEPAY Index*** score. A score of 100 is the exact average of all cities in the index. A city with a score of 120 is paid 20% more than the average city. A city with the score of 80 is paid 20% less than the average city.

Keep in mind that the index is much like pari-mutual betting. Each city is competing with the other 199 cities. We change the index once a year. This means that it is possible for a city that has had no change in pay or benefits to go up or down from the previous year, especially if there is a change in the cost-of-living numbers. Also, you may see that there are several cities with the same score. If there are ten cities with the same score, the highest and lowest of the ten are nine positions apart. Each one of the ten is only fractionally higher than the one below. Sometimes a pay increase of four or five percent can cause a city to jump as much as 20 positions in our ranking.

Remember that a wage survey, which is what the index is, only paints a broad picture. It is not an exact measurement. Although each of these cites meet one common criterion, they are among the 200 largest, they are not all comparable cities. The best use of this index is to select ten or fifteen comparable cities in the index and compare your city to those. In addition, there are non-monetary variables that cannot be measured, such as the quality of life in each city.

Good luck with your statistical efforts. The best advice we can offer is to be intellectually honest - both with yourself and with those you are trying to persuade.