

Report on the Implementation of Classified Salary Increases for the Durham Public Schools

Prepared for the Durham Public Schools Board of Education
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Executive Summary

This memorandum presents a summary of the evidence uncovered thus far regarding the timeline and implementation of the classified salary schedule changes. Our review of the matter is ongoing. In addition, the Board has hired an independent comptroller to complete an in-depth review of the District's finances. These are some highlights of our findings:

- The classified salary study was undertaken due to the Board's desire to increase pay for classified employees. The Board approved moving forward with new pay schedules in October 2023 based on incomplete and inaccurate information about the total cost of the new schedules.
- The Finance Officer was informed in February 2023 that if employees were placed on the new salary grades developed by the HIL consultants using their existing "steps," which were based on total years of work experience, the total salary schedule change would cost more than \$20 million from all funding sources to implement. The Finance Officer proceeded to build the District's budget request using much lower cost estimates that were calculated by crediting employees with years of experience based on years of state employment rather than total years of work experience.
- The administration made a decision to place employees on the new salary schedules without making any changes to employees' existing "steps" based on total years' experience, rather than shifting to counting just state longevity. The Human Resources and Finance departments did not communicate effectively about the potential costs of this decision, and the Finance Officer did not change his budget estimates to reflect this decision. The ramifications of this decision were not discussed with or explained to the Board of Education.
- The Superintendent was notified by the Finance Officer on November 8 that the implementation of the classified salary increases was going to cost several million dollars more than budgeted or approved by the Board.
- The Superintendent first informed the full Board of the problem on January 11.

Definition of terms

It is important to define the terms that will be used in this report, as different uses of these terms has contributed to confusion about the implications of the salary study.

“Salary Schedule” – A schedule of salary grades for categories of employees. Each grade is divided into “steps” with employees gaining a step each year.

“Step” – The placement of an employee within the salary grade for their position. An employee’s step increases by one each year of employment with DPS.

Licensed employees are placed on a step based on years of relevant work experience as verified by NC DPI. Teachers automatically receive one year of experience for each year of teaching in a public school system in North Carolina. Teachers can also receive one year of experience for each year of teaching in a private school, out of state, or post-secondary teaching, by submitting documentation of this experience to DPI. Teachers can also apply for experience credit for non-teaching work experience that is directly related to their area of licensure and work assignment. Certain categories of non-teaching work experience may be eligible for 1:1 experience credit or 1:2 experience credit (see State Board of Education Policy LICN-006).

There is no statewide definition or system for calculating years of experience for non-licensed employees (also referred to as classified employees). Historically when a classified employee was hired by the Durham Public Schools, they were placed on a step based on years of relevant work experience for any employer (state or private sector), which was to be verified using an experience verification form. The school system did not have a written policy on what type of experience was considered relevant.

“Longevity” – Years of work experience within any North Carolina public school system or state agency (defined in the State Human Resources Manual). A longevity number is maintained for each employee because some categories of jobs become eligible for additional supplementary longevity payments after ten years of service.

Timeline of Events

Fall 2022

In response to the Board’s desire to increase pay for classified employees, the Superintendent engaged the HIL Consultants in October 2022 to complete a classified salary study. The HIL Consultants’ proposed cost to perform the salary study was \$78,500 plus expenses. The HIL

Consultants reviewed existing salary schedules and interviewed dozens of employees in November and December of 2022, and used this information to develop new proposed classified salary grades.

January-March 2023

The results of this study were presented at a Board work session on January 12, 2023. According to the Board's minutes, the administration shared "the salary study work will begin in February 2023 and a report submitted to the board in April 2023."

During the work session, two HIL Consultants representatives made a presentation to the Board and provided a 39-page written report. The written report presented by HIL contained multiple different statements regarding how employees' years of experience could be counted for placement within the new salary grades. The Recommendations section (p. 21) recommended DPS "place employees on the correct levels based on years of experience . . . We recommend employees be converted to the proposed schedule at the current longevity years with Durham Public Schools . . . when employees are promoted, the employee should be placed at the actual years of experience verified by Durham Public Schools . . . We also recommend Durham Public Schools give private sector experience credit based on actual years of verified service for comparable job duties."

During the verbal presentation, the HIL Consultants did note that "our criteria is state years of experience," but there was also discussion of giving credit for "verified" private sector experience.

The consultants provided an estimated cost of \$10,800,000 to implement the new salary schedules but referred to this as a "rough" number "just based on our first perusal." The HIL Consultants calculated this estimate using then-current payroll data, and they calculated where employees would be placed on the schedule based on their state longevity, rather than their current step on the old DPS schedule, which used total years of work experience. In their report, the consultants noted that one recurring complaint in their employee interviews was that longtime DPS employees felt undervalued compared to new hires. A new hire who had worked elsewhere for 15 years, perhaps in a different type of job, could be placed on the same salary step as someone who had worked for DPS for 15 years. The report stated "Staff said they want veteran employees to earn amounts equal to or higher than new staff members who are hired."

The presentation was placed on the agenda as a discussion item. No Board action was requested, and no vote was taken. The Communications Office put out a summary of the meeting that stated: "At its January 12 monthly work session, the Durham Board of Education heard a classified salary report on a study conducted on behalf of the district by HIL Consultants that includes \$10.8 million in recommendations that would alleviate inequities in pay. Adoption of the proposed recommendations would yield salary increases for approximately 2200 DPS

classified employees. These recommendations will be proposed by Superintendent Mubenga as part of the 2023-2024 budget process.”

At the same time, the Finance Officer had begun developing the District’s budget proposal for the upcoming year. On January 31, 2023, the Board of Education held a joint meeting with the Board of County Commissioners. The DPS Finance Officer made a presentation regarding budgetary needs for the upcoming year in which he forecast the following additional funding request to the County:

FY 2023-24 Budget – Initial Components

	Line Item Description	Cost
DPS Anticipated State Salary/ Benefit Increases	Certified Salary Increase (4.25% estimate for FY 2023-24)	\$1,570,398
	Classified Salary Increase (4.0% estimate for FY 2023-24)	\$1,525,530
	Retirement (24.5% to 25.75%)	\$740,549
	Health Insurance (\$7,397 to \$8,350)	\$1,072,125
	Subtotal	\$ 4,908,602
Classified Salary Study Increase	Additional funding needed to implement the proposed salary study	\$4,091,398
	Subtotal	\$4,091,398
Total Modified DPS Annual Operating Requirements		\$9,000,000
Charter School Requirements	Additional charter funds associated with requested DPS operating budget increase (based on 20% of total Durham County K-12 enrollment)	\$1,800,000
Grand Total		\$10,800,000

Notes:

- Initial enrollment projections and departmental budget requests will be presented in a February board update.
- Additional costs for the current salary study for Supervisors, Directors, etc. will be paid for out of current operating funds.

In late February 2023, the Finance Officer asked his contracted budget analyst to run numbers on the total cost of implementing the new salary schedules. She calculated the new salaries with all employees at the same “steps” based on total years of work experience, and emailed him an estimate of more than \$21 million. Approximately a week later, the Finance Officer had her redo the calculations using state longevity instead of DPS “steps” for placement on the new salary scales. She did this and returned an estimate of slightly over \$13 million from all funding sources, including approximately \$4 million from local funds. The Finance Officer indicated that he thought this was affordable and forwarded this estimate to the HIL Consultants

representative. We did not find evidence that these emails were forwarded to any other District officials.

In his subsequent email communications with the County Budget Director and his budget proposal, the Finance Officer relied upon the estimates calculated using state longevity to calculate steps, instead of total years of experience.

The Budget Proposal

The Superintendent's budget proposal was presented to the Board on March 23, 2023, and the presentation included the same chart he presented to the County on January 31, proposing an additional \$4,100,000 "to fund the classified salary study to bring DPS classified staff closer to market rate in the Durham area." In other words, the budget request continued to rely upon the cost estimates calculated using state longevity to determine step placement. The same presentation was presented in a public budget hearing on April 6, and then the Board approved this budget request at its May 4, 2023, work session.

Other than the budget presentations in the spring of 2023, the administration did not come back to any Board meeting with information about the classified salary study or plans for its implementation until October 12, 2023.

February-October 2023

In early February 2023, the HIL Consultants were engaged to perform an additional study for the salaries of classified administrators, who had not been included in the original salary study.

At some point in the spring of 2023, the decision was made by the DPS administration to implement the new salary schedules without making any changes to employees' existing "steps" based on total years' experience. This was reflected in mass communications and presentations created by the HR Department to employees about the new salary schedules. When staff in the Finance and HR Departments took steps to place employees on the new salary grades and update the payroll system, they maintained employees' then-current steps based on total years of experience.

However, the Finance Officer and Superintendent continued to communicate a cost estimate that was calculated using state longevity instead of total years of experience. There was a lack of collaboration and clear communication between Finance and Human Resources leadership throughout the year as the new salary schedules were developed and implemented.

October 12, 2023, Board Work Session

The administration placed the "classified compensation study" on the agenda for the October 12, 2023, Board meeting. The precis in the agenda stated "Administration will present the final compensation study results and the recommendations . . . The final report includes additional

recommendations for central office administration, and we will be seeking action in order to finalize the study.”

No written salary schedules or report were provided with the agenda item. In a verbal presentation, the administration shared that HIL had proposed new administrator salary schedules, but the administration decided not to seek approval of those schedules due to the projected cost. Instead, the administration proposed a flat 7% raise for classified administrators. According to the minutes, this “would cost approximately \$330,000 out of the local budget, which is doable versus following the proposed increases [from HIL] on that level.”

During the presentation, the Board was again told by the Finance Officer that implementation of the new classified salary schedules would cost “close to \$10 million from all funding sources.” During the meeting the administration repeatedly stated that the original HIL study had been approved by the Board in January, which was not accurate. Board members asked if they and the public could see the new salary schedules, and the administration agreed to bring them back to the next Board meeting. Board members repeatedly asked for clarification regarding what they were being asked to approve, and the Superintendent stated that the Board had previously approved the salary study with the exception of 68 administrators, and that he was only seeking approval of raises for those 68 persons at a cost of about \$330,000. However, ultimately the wording of the motion that was passed encompassed approval of the “HIL Group salary study recommendations with the exception of directors,” allocation of the amount of \$330,000 from local funds to be allocated to the increases for those Director and up positions, and authorization to the administration to assign outlier positions who did not neatly fit into one of the categories in the HIL study.

At the January and October 2023 meetings, the Board was never informed that implementing the new salary schedules using employees’ existing years of experience would nearly double the cost of the salary study. During each of these meetings, the costs discussed or the budget amount requested had referenced or relied upon the \$10.8 million estimate presented by HIL in January 2023.

October 26, 2023, Board Meeting

As requested, the administration placed “Classified Compensation Study- Update” on the agenda for the October 26 Board meeting. The precis stated “Administration will present the final salary schedules from the executed compensation study along with other updates.” It was marked as an information/discussion item only. The new salary schedules were provided with the public agenda. The classified employee salary schedules as presented did not specify which jobs would be paid at which grade, nor was there any discussion about how years of experience would be calculated to determine employees’ steps within each grade. No Board action was requested and none was taken.

Implementation of the New Salary Schedules

Following the October 12 work session, the Human Resources Department developed internal communications for employees stating explicitly that DPS had not adopted the HIL recommendation to shift to longevity, and instead DPS employees would keep their same “steps.” The Finance Officer assisted with some of these communications. The following is an excerpt from a presentation given by the Assistant Superintendent for HR and the Finance Officer to supervisors of classified employees on October 18:

Calculation of Years Experience

- The consultants recommended a realignment of the calculation of years experience
 - > State Experience
 - > Utilize formula calculating external experience (i.e. 1:2)
- DPS did not adopt this recommendation and will maintain a 1:1 application of verified state AND external experience
- DPS has the practice of formal verification of employment for prior experience
- Prior steps awarded for reasons other than years experience may be adjusted
- Prior years experience awarded will not require formal verification

Similar information was provided in a video presentation to all staff on October 30:

HIL Recommendations Not Implemented

- **1:1 state experience only**
 - > DPS will continue to award 1:1 experience for verified experience
- **Conversion to another pay grade system (i.e. letters)**
 - > You must look at the difference in pay and not the salary grade
 - > Reclassification does not figure in your prior salary grade
- **Compensation recommendations for Coordinators and above**
 - > Employees received a 7% increase



Letters were generated informing employees of their new salaries effective with the October 2023 payroll, using the new salary grades with the existing steps. Employees were also informed that they would receive a lump sum payment in November 2023 being the difference between their new monthly salaries and the monthly pay they had received from July-October 2023. The first checks with the new raises were paid at the end of October.

November 2023-January 2024

On November 8, 2023, the Finance Officer alerted the Superintendent to a significant potential budget problem. He reported that implementation of the classified salary increases could put the district \$12 million over budget for the year. Later that day the Finance Officer provided the Superintendent with a rough calculation of more than \$19 million for implementation of the classified salary schedules, rather than the roughly \$10 million he had quoted to the Board. The Finance Officer provided the Superintendent with a draft proposal to cover the increased cost from various revenue sources.

That same day, the Superintendent contacted the HIL Consultants and asked them to review the District's finances to determine if there was in fact a significant deficit due to the salary increases.

After the Superintendent was notified by the Finance Officer that the implementation of the new classified salaries would lead to a multi-million dollar budget shortfall, paychecks went out

at the end of November based on the new salary schedules with total years of experience, as did retroactive payments to make the new salaries effective July 1.

Between November 8 and January 4, the HIL Consultants reviewed financial data they received from the Finance Office and spoke with Finance Department and Human Resources officials. The Assistant Superintendent for HR confirmed in an email to the HIL Consultants on December 13 that DPS had made a choice not to implement the longevity-based system.

The Board held regular meetings on November 16 and December 14 and a meeting with the Board of County Commissioners on November 17.

On December 18, the Superintendent first notified two Board members, the Board Chair and Board member Beyer, who both happened to be in the central office for another meeting. He told them that there might be a significant problem with the budget and salary payments, but he did not have a firm number yet, and wanted more time to get help from the HIL Consultants. He told them he would bring the Board more details and multiple options for fixing the problem after the holidays.

December paychecks were sent out on or about December 20, still using the new salary schedules with total years of experience. In doing so, the District spent approximately \$3.6 million more than anticipated for the July-December classified payrolls.

On January 4, 2024, the Superintendent received a written report from the HIL Consultants confirming that the pay schedules had been implemented using DPS steps based on total years of work experience (1:1), while the original cost estimates a year earlier had been based on using state longevity. The report did not provide findings about how this had happened, it just summarized that they had reviewed payroll data and determined that the majority of classified employees had been placed on the new schedules based on the “assigned steps as of the previous fiscal year” with “no correlation to the NC state longevity years which are verifiable.” The consultants also identified other apparent shortfalls in the District’s budget, due in part to declining student enrollment that has resulted in a significant decrease in state funding.

On January 9, 2024, the Superintendent first contacted the Board attorney. The Superintendent brought the issue to the full Board for the first time on January 11. The problem, as reported by the Superintendent both to the attorneys and to the Board, was that the Finance department had used the wrong data set to implement the new salary schedules. We now know that this was not an accurate description of the problem. The schedules were implemented using total years of experience as intended by the administration, but without

providing accurate estimates to the Board of the cost of that decision. As a result, the classified salary increases were on track to cost nearly twice as much as the \$10.8 million estimate presented to the Board and to the County.

The total estimate as of January 2024 is that paying classified staff on the new salary grades using 1:1 experience steps instead of longevity would result in a total cost to implement the new classified salary schedules of approximately \$20 million for the 2023-2024 fiscal year. This is approximately \$9 million more than was originally budgeted for the raises, and approximately \$7 million more than it would have cost to implement the salary schedules if longevity had been used for placement instead of total years of experience.

Conclusion

This report provides information to the public regarding the findings of our ongoing review to date, within the limitations imposed by state personnel privacy laws. The Board has taken several public steps since it was first notified in January to rectify this situation while preserving the funds needed for its educational programs. In its public meeting on Friday, February 2, the Board voted to hire an independent comptroller to review the school system's finances and report his findings directly to the Board of Education.