



SHORELINE CITY COUNCIL SPECIAL MEETING

Monday, November 2, 2015
5:45 p.m.

Conference Room 303 · Shoreline City Hall
17500 Midvale Avenue North

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| 1. | Call to Order | 5:45 p.m. |
| 2. | 2015 Compensation and Classification Study Update | 5:46 p.m. |
| 3. | Adjournment | 6:45 p.m. |

The Council meeting is wheelchair accessible. Any person requiring a disability accommodation should contact the City Clerk's Office at 801-2231 in advance for more information. For TTY service, call 546-0457. For up-to-date information on future agendas, call 801-2236 or see the web page at www.shorelinewa.gov. Council meetings are shown on Comcast Cable Services Channel 21 and Verizon Cable Services Channel 37 on Tuesdays at 12 noon and 8 p.m., and Wednesday through Sunday at 6 a.m., 12 noon and 8 p.m. Online Council meetings can also be viewed on the City's Web site at <http://shorelinewa.gov>.



Memorandum

DATE: November 2, 2015

TO: Shoreline City Councilmembers

FROM: Debbie Tarry, City Manager
John Norris, Assistant City Manager

RE: 2015 Compensation and Classification Study Update

CC: Paula Itaoka, Human Resources Director
Sara Lane, Administrative Services Director

Background

In early 2014, the City Council directed the City Manager to conduct a holistic review of the City's compensation plan in 2015 and subsequently provided direction on the scope of the study in September of 2014. At this same time, the Council reestablished the goals of the City's Compensation Plan. They are:

- Ensure the City has the ability to attract and retain well-qualified personnel for all job classes.
- Ensure the City's compensation practices are competitive with those of comparable public sector employers.
- Provide defensibility to City salary ranges based on the pay practices of similar employers.
- Ensure pay consistency and equity among related classes based on the duties and responsibilities assumed.
- Ensure that the City's compensation policies and long-term financial sustainability plan/goals are coordinated.

Following the compensation plan review, staff conducted a request for proposal to engage a consulting firm to conduct the study, and Ralph Andersen and Associates was selected with Doug Johnson as the project manager. On March 23, 2015, Mr. Johnson attended a Council Dinner Meeting to facilitate a labor market discussion in advance of conducting the compensation study. Mr. Johnson subsequently recommended a set of survey agencies to the City Manager. On May 18, 2015, Mr. Johnson joined the Council to review the recommended survey agencies and discuss the continuation of the City's current policy of "Y-Rating" when a position salary is greater than a newly adopted salary range.

Most recently, on October 12, 2015, the City Council held a dinner meeting discussion with Mr. Johnson to go over the initial results of the market survey conducted as part of the compensation study. Mr. Johnson shared with Council that although the market analysis was underway, the internal alignment work had yet to be started and it is the combination of the market and internal alignment/equity analysis that would establish the recommended salary ranges for positions.

Also during the Dinner Meeting, Council was asked two policy questions regarding the compensation study – what market position should the City use to determine whether the City’s salary ranges are “at” market, and what implementation methodology the City should use when making recommended adjustments as a result of the study. At this meeting, staff received direction to look at the 45th, 50th (median), and 55th percentile for market position, and received general direction to use the ‘nearest step’ implementation methodology.

The memos and staff reports for these previously held discussions can be found at the following links:

- [September 8, 2014 Dinner Meeting Memo](#)
- [March 23, 2015 Dinner Meeting Memo](#)
- [May 18, 2015 Council Staff Report](#)
- [October 12, 2015 Dinner Meeting Memo](#)

Discussion

Tonight, Mr. Johnson will provide an update to the Council on the study, including specifics on study implementation. As this discussion will have implications for the 2016 budget and future year budgets, Council will also be joined by Administrative Services staff. As Council will be discussing compensation and the proposed 2016 salary tables on November 9, as part of the 2016 budget process, staff would like Council to affirmatively concur with staff’s recommendation or provide alternative recommendation during the Dinner Meeting. This will allow staff the time to finalize the November 9 staff report and recommended 2016 salary tables by Thursday, November 5, so that the report and appropriate attachments can be published on Friday, November 6.

Council should also be aware that the classification and compensation study has been a major work effort for the organization and one that has been of primary interest to many employees. As Council has moved to the “compensation” component of the study, many employees are anxious to understand and review the compensation outcomes. It is the intent of the City Manager to be able to share the outcomes with employees prior to the publication of the reports for November 9.

As was noted by Ralph Anderson and Associates during the October 12 dinner meeting, the City’s cumulative base compensation is roughly 2.7% below our comparable labor market if the median is used as the market position in the study. Once the market analysis and internal equity analysis were reconciled into a proposed compensation recommendation, cumulative base compensation is now slightly above median (1.2%), but within the +5%/-5% range that the City determines to be “at market”.

Policy Questions Finalization

The Council was asked two policy questions during the October 12 dinner meeting. One regarded the market position to use in the study, and the other was how implementation should occur. Tonight, staff needs final direction on these policy questions so that we can move these policies forward in the study and incorporate the proposed salary table into the 2016 budget. As well, staff also needs direction on a third policy question regarding overall study implementation, and how this affects the 2016 and future year budgets.

Market Position

As noted earlier, on October 12, Council gave direction for the consultant to study the 45th, 50th (median) and 55th percentile for market position. It is important to note that these market positions are not 5% apart – but rather represent a smaller spread. The City’s current market position, adopted in 1998, is the 50th (median) percentile. The chart in Attachment A shows the outcomes of these market positions. As can be seen on the chart, while there is some variation between these market positions, staff does not believe that there is enough cost savings in the 45th percentile (compared to median) to justify this position’s use, especially given the messaging sent to staff with the downgrade in market position. Staff is concerned that this market position would signal that providing competitive compensation and retaining staff is less of a priority than it has been historically in the organization. Similarly, staff would also not recommend the 55th percentile, as this additional cost makes it more challenging to financially sustain on-going services to the Shoreline community.

Recommendation – Staff recommends that Council select the median (50th percentile) as the market position for the study.

Step Implementation Methodology

As Council recalls, the proposed salary table has vertical ranges, with a 2.5% variance between ranges, and six (6) horizontal steps per range, with a 4.0% variance between steps. Staff received general direction at the dinner meeting of October 12 to use the ‘nearest dollar’ step implementation methodology when implementing the study if an employee’s salary range moves as a result of the study. This generally means that if an employee’s position is placed in a higher range, the employee will be placed on a step in the new range that is the nearest pay rate, without a decrease.

While staff continues to recommend the nearest dollar methodology, it has been refined further to say that all employees would be placed at a minimum of Step 2, unless the employee is currently at Step 1, in which case they will remain on Step 1, or unless an employee who is currently higher than Step 1 and when moved to a new salary range placement at Step 1 results in more than a 10% increase, then the employee would be placed at Step 1 in the new range. This step implementation methodology ensures that employees that have been in the organization for a longer duration who may be moving up multiple ranges as a result of the study aren’t placed in the same range (Step 1) as an employee that just entered the organization or will be entering in the coming year. However, it is recommended that an increase in excess of 10% be used as a threshold for maintaining placement at Step 1, regardless of tenure.

Recommendation – Staff recommends that Council use the nearest step implementation methodology with the additional recommended refinement.

Compensation Study Implementation

Given the proposed cost of implementing this study, staff would like to receive direction from Council on the timing of implementation. Staff has put together the following three options:

- **Full 2016 Implementation** – This option would entail full implementation in 2016. The cost for full implementation is estimated at \$482,000 and is reflected in Attachment B. This includes the cost to implement range and step changes and the associated benefit costs (employer contributions for social security replacement, medicare, and state retirement) linked with base compensation.

While the Proposed 2016 Budget already includes 1.45% COLA adjustment and the cost of ‘natural step increases’ (those step increases that would have occurred for staff regardless of the study being conducted), implementation of the compensation study will result in additional COLA costs, as the COLA rate will be applied on the higher base salary cost, and some staff, who are placed in new salary ranges below the top step (Step 6), will be eligible for a step increase in 2016 that would not have otherwise occurred.

As Council recalls, staff did budget a \$200,000 contingency cost in the 2016 budget to offset potential cost increases from the compensation study. However, as can be seen in Attachment B, the proposed cost of implementing the study in 2016 is greater than this contingency. This difference (\$282,000) between the total cost of implementing the study and the \$200,000 study contingency already budgeted for is 0.3% of the 2016 budget.

To pay for the difference between what was already anticipated in the budgeted contingency and the actual cost, staff is proposing to use Property Tax Equalization Funds. Currently, \$200,000 of Property Tax Equalization funds are included in the proposed budget to offset increased projected jail costs in 2016. However, should the City Council decide to utilize the Yakima County Jail for sentenced prisoners in 2016, this use of the Property Tax Equalization Fund for jail services may not be necessary. Even if the funds are required for jail services, there is \$708,000 remaining in the fund that has not been appropriated for any specific purpose. The Property Tax Equalization funds were created in the early years of the property tax levy lid lift and had been expected to be expended by the end of 2016 to fund basic services. Using approximately \$250,000 of the Property Tax Equalization funds in 2016 to fund the implementation of the compensation study leaves a minimum of \$450,000 that can be carried forward into future years to help off-set future costs.

The benefits to full implementation of the study in 2016 are that the City’s salary table will now be at the median of the labor market by January 1. This will allow for better recruitment of staff from the regional labor market when positions open up. This will also help retain current staff without the disruption of a staggered implementation. It will also support the full range of compensation policy goals approved by the City Council

prior to embarking on the study. Full implementation would also more closely align with expectations of employees within the organization.

Regardless which of the implementation strategies are used, it is also important to analyze the effect on the City's 10 Year Financial Sustainability goals. As Council has previously seen, budget gaps are projected to occur starting in 2019. Implementation of the compensation study does increase the future projected budget gaps, if the Council does not implement any of the adopted strategies. Sustaining a competitive compensation position, which is key to providing staff to deliver basic services, will require that Council implement some of the strategies including renewal of the property tax levy lid lift, economic development goals, reducing the General Fund capital budget allocation, and consideration of a business & occupation tax.

- **Two Year Implementation** – This implementation option would shift some of the cost of implementing the study to 2017; spreading out the initial cost impact over two years. Specifically, for those staff projected to have salary range increases as an outcome of the study, all the range increases would be implemented in 2016 except for one salary range. Thus, if a position is proposed to move up three salary ranges (a 7.5% increase), it would just move up two ranges in 2016 and the one range in 2017, if a position is proposed to move up two salary ranges, it would move up one range in 2016 and one range in 2017, and so on.

If this option is used, the cost impact in 2016 would drop to \$297,000. This makes this option more affordable in the first year following the study. This cost differential however would be shifted to 2017; and then costs would approximate the single year implementation going forward. In other words by 2018, the out year cost of this option and the Full 2016 Implementation option will be aligned. Basically the two-year implementation would produce around \$185,000 in one-time savings in 2016.

This option delays the organization getting to the median of the marketplace by one year, potentially affecting short-term recruitment and retention, and it also has the opportunity for additional organizational disruption. Additionally it would require commitment by Council to take steps with the adoption of the 2017 budget to fully implement the compensation study – as that would be the organizational expectation. Other considerations that complicate this option is that there will be at least one new Councilmember on the Council in 2016, who will not have participated in the review process with Council as they have reviewed information with Doug Johnson, and Council will also be contemplating the renewal of the City's property tax levy lid lift next year, which could create heightened public concerns of staff compensation issues. Given these considerations and given that there is a way to implement the Full 2016 Implementation option, staff views that option as superior to this option.

- **Status Quo** – Finally, Council always has the option of not implementing the study. As noted earlier, the 2016 budget has already accounted for the proposed 1.45% COLA increase for staff and natural step increases for those eligible staff members. While this option is the least cost, it continues to keep the City under the median of our selected

labor market. As well, this option would cause the most organizational disruption, as staff within the organization have put in a great deal of effort with the study, especially the classification portion of the study, and are aware that cumulative base compensation is not at the market median. Thus, not implementing the study would send a signal to staff and the future labor market that staff retention and recruitment are less of a Council priority, given that there are affordable ways to implement the study.

Recommendation – Staff recommends that Council implement the compensation study fully in 2016.

Next Steps

Staff is looking for direction from Council tonight on these three policy questions. Once direction is provided, staff will prepare information for staff so the draft outcome of the study can be shared with the organization. This will be followed by the November 9 Council budget discussion where the proposed salary table will be shared with Council. Council will then have the opportunity to discuss the proposed salary table at your November 9 and November 16 budget discussions. Adoption of the 2016 budget is scheduled for November 23.

Attachments

Attachment A – Market Position Cost Summary

Attachment B – Full 2016 Cost Implementation Summary

Cost Implementation Summary

Annual and Percentage Base Salary Cost

Median			45th Percentile			55th Percentile		
Threshold: <5.0% above market			Threshold: <5.0% above market			Threshold: <5.0% above market		
Nearest Step *	\$ 274,810	2.5%	Nearest Step *	\$ 233,563	2.1%	Nearest Step *	\$ 296,213	2.7%
Step to Step	\$ 546,187	5.0%	Step to Step	\$ 462,530	4.2%	Step to Step	\$ 700,232	6.4%
2016 Step Increases	\$ 160,820	1.4%	2016 Step Increases	\$ 149,413	1.3%	2016 Step Increases	\$ 179,260	1.6%
Nearest Step Min 1	\$ 244,358	2.2%	Nearest Step Min 1	\$ 211,931	1.9%	Nearest Step Min 1	\$ 254,488	2.3%
Y Rates	3		Y Rates	5		Y Rates	3	

*Placement at Step 1 if currently at Step 1 or if Step 2 placement result in greater than 10.0% change in salary

Cost Implementation Summary

Adjusted Range; 1 Range Reduction

Median			45th Percentile			55th Percentile		
Threshold: <5.0% above market			Threshold: <5.0% above market			Threshold: <5.0% above market		
Nearest Step *	\$ 162,115	1.5%	Nearest Step *	\$ 132,059	1.2%	Nearest Step *	\$ 243,693	2.2%
2016 Step Increases	\$ 135,101	1.2%	2016 Step Increases	\$ 126,703	1.1%	2016 Step Increases	\$ 150,381	1.4%
2017 Range & Step Inc.	\$ 192,939	1.7%	2017 Range & Step Inc.	\$ 176,457	1.6%	2017 Range & Step Inc.	\$ 212,427	1.9%

*Placement at Step 1 if currently at Step 1 or if Step 2 placement result in greater than 10.0% change in salary

Full Implementation Cost & Funding Summary

Salary Increase	406,000
Impact on Benefits*	<u>76,000</u>
Total Impact	482,000
Budgeted Comp Class Allowance	<u>(200,000)</u>
Remaining Cost to Fund:	282,000
(Budget Contingency	(32,000)
Property Tax Equalization 2016	<u>(250,000)</u>
Remaining Balance to Fund:	<u>-</u>

*Employer contributions for social security replacement, Medicare, and state retirement

Impact on Property Tax Equalization Fund

2016 Proposed Budget EFB	708,000
Use of PTEF for Comp Class	<u>(250,000)</u>
Revised 2016 EFB	<u><u>458,000</u></u>

10 Year Financial Sustainability Impact

The proposed strategy to utilize Property Tax Sustainability for full implementation maintains a gap between projected revenues and expenses in 2019. While the gap is increased by \$350K, the forecast does not account for likely cost driven fee increases or anticipated cost reductions in Jail Costs. Additionally, strategies identified as part of the 10YFSP will be implemented and further mitigate this impact. The following charts show the current forecast of the 10YFSP and the impact of the full implementation utilizing Property Tax Sustainability in 2016, 2018, and 2019 to offset costs.

Attachment B - 20151102 – Dinner Meeting Memo –Comp Class

Chart 1 – Original 10-year forecast

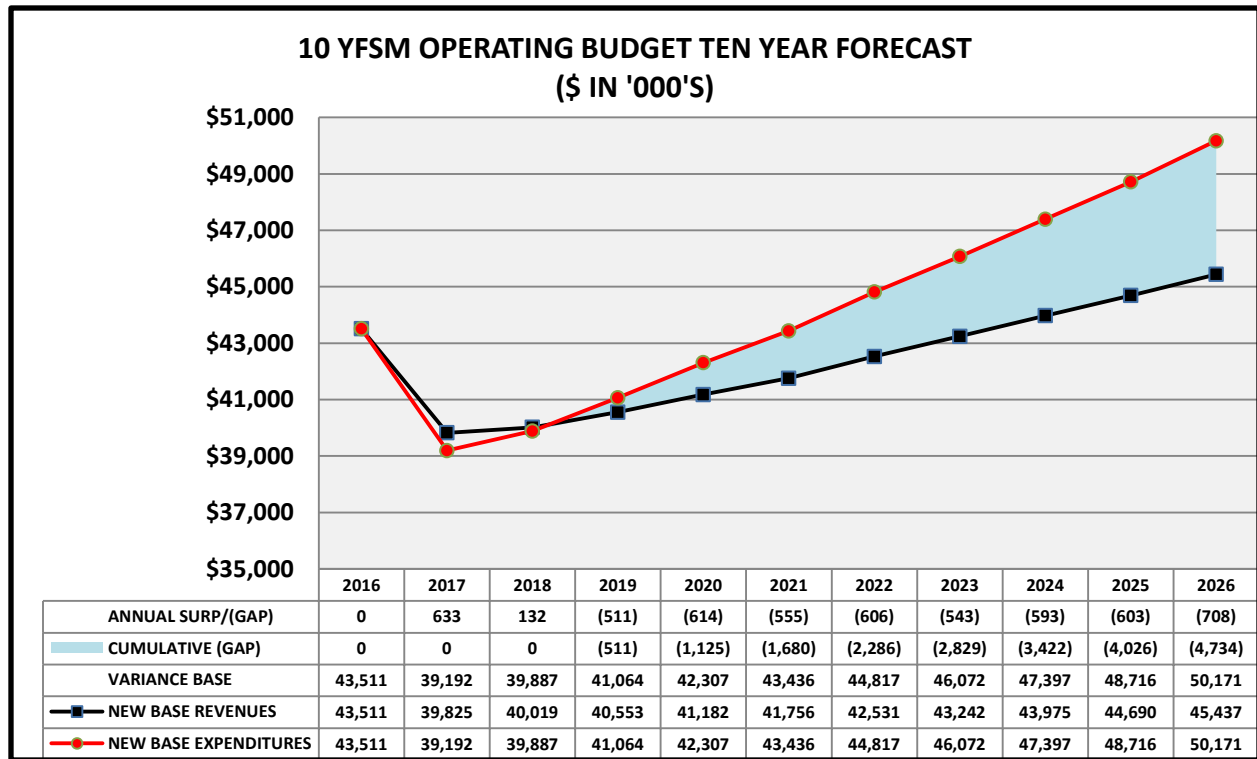


Chart 2 – Showing impact of full implementation of Comp/Class Study in 2016 and use of remaining balance of Property Tax Equalization Fund in 2016 and beyond.

