

CITY COUNCIL AGENDA ITEM

CITY OF SHORELINE, WASHINGTON

AGENDA TITLE: Review of the City's Compensation System
DEPARTMENT: Human Resources
PRESENTED BY: Marci Wright, Human Resources Director

PROBLEM/ISSUE STATEMENT:

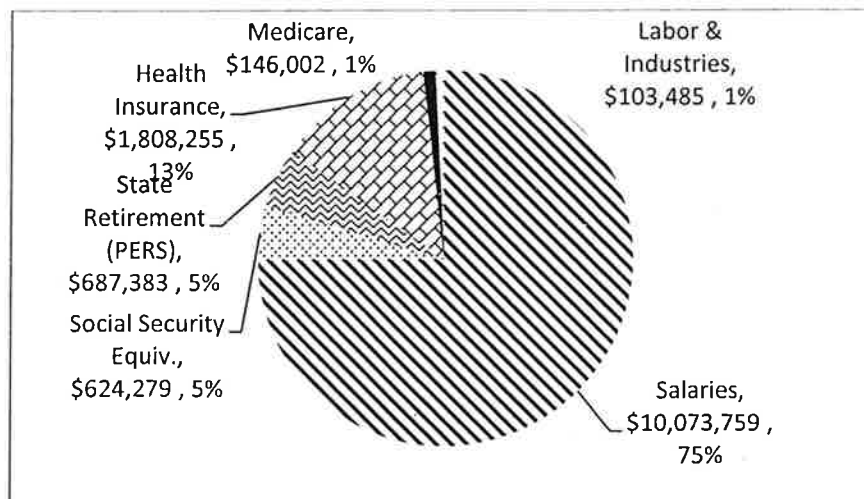
At the Council's request, staff has prepared an overview of the City's compensation system. This staff report includes an overview of the following:

- Classification and Compensation Plan
- Annual Salary Survey Process
- Annual Cost of Living Adjustment Process
- Health/Medical Benefits
- Retirement-Related Benefits
- Leave Benefits

FINANCIAL IMPACT:

The 2011 proposed budget totals \$69.9 million. Total salaries and benefits for the City's 137 FTE (full-time equivalents excluding City Council) is \$13.4 million, which is approximately 19% of the total budget. Of this total, 75% is spent on salaries and 25% is spent on benefits.

The pie chart below breaks down salaries and benefits by type.



Approximately 82% of the budgeted salaries and benefits for regular employees are paid from the City's operating budget. The remaining 18% is paid from the City's capital and surface water utility budgets. .

RECOMMENDATION

This overview is for information purposes and provides an opportunity for Council to discuss our current compensation approach and to request any additional information.

Approved By: City Manager _____ City Attorney _____

CLASSIFICATION AND COMPENSATION PROGRAM

In July 1997, Council approved the City's Classification and Compensation Plan. The plan established a comprehensive set of classification specifications for the work performed by City employees, and based on the City's adopted job market, established appropriate competitive salary ranges for these classifications.

The goals of the City's Compensation Plan are to:

- 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; and
- Ensure pay consistency and equity among related classes based on the duties and responsibilities assumed

The Plan created a salary range/step system. The major elements are:

- Multiple salary ranges
- Six steps in each salary range
- Salary ranges are two and one half percent apart
- Steps within salary range are four percent apart
- Employees move from one step to the next each year on their anniversary date
- Once an employee reaches step six, he or she remains at that top step

This table shows an example of Ranges/Steps from our 2010 salary table (hourly rates):

Range	Step 1	Step 2	Step 3	Step 4	Step 5	Step 6
44	26.29	27.35	28.44	29.58	30.76	31.99
45	26.95	28.03	29.15	30.31	31.52	32.79
46	27.61	28.72	29.87	31.06	32.30	33.60

The Plan defined the labor market for our compensation system. The market consists of ten public sector jurisdictions:

1. Auburn
2. Bellevue (non-Leadership Team only)
3. Edmonds
4. Everett
5. Federal Way
6. Kent
7. Kirkland
8. Redmond

9. Renton

10. King County (non-Leadership Team only)

For the purposes of compensation of Leadership Team members, we substitute two smaller cities for the two largest jurisdictions of King County and Bellevue. The two substitute cities are Lakewood and Olympia.

Staff has heard some members of the public reference contracts with employees. Unlike every jurisdiction in our defined labor market, including Lakewood and Olympia, there are no bargaining units at the City. Therefore, we do not negotiate contracts with our employees. However, employee involvement is a primary value in our organization and an integral element of our day to day operation. For example, we currently have a cross-departmental Employee Advisory Committee working on issues related to reducing costs, increasing efficiencies and other issues related to our financial operations. We constantly provide opportunities to involve our employees in decisions that may affect them.

The Plan established a policy of paying at the median of the market of our comparable jurisdictions. We compare salaries at the top of the salary range. If the City's salary is within five percent of the market median salary than we consider the salary to be at market.

When the Plan was initially established, we contemplated surveying our comparable jurisdictions every three years or so to see if our salaries continued to be competitive. The City conducted its first follow-up salary survey in 2000, which was implemented in 2001. Given the large number of classifications, we took a "benchmark" approach, where just a sample of classifications is surveyed and salaries of non-surveyed positions are extrapolated from the benchmark results.

In 2002, the City Council determined that one of the City's seven critical success factors would be "Professional and Committed Workforce." Subsequently, the Council adopted the 2003–2009 Strategic Plan, which outlined the following goal, strategy, and performance measure:

- *Strategic Goal:* Retain, attract and develop a quality workforce
- *Strategy:* Maintain competitive compensation, recognition and reward systems
- *Performance Measure:* Market survey results demonstrates the City is meeting its compensation policy

Based upon the above policy direction, in 2004 we surveyed approximately one half of our classifications and resulting changes were implemented in the 2005 Budget. In 2005 we surveyed the remaining half of our classifications and implemented changes in the 2006 Budget.

Beginning in 2006, we instituted a plan of surveying approximately one third of our classifications each year. The reasons for this approach are:

- Minimizes the fiscal impact of updates by incurring minor adjustments every year rather than absorbing a larger impact in one year;
- Increases the likelihood we remain current because we are gathering detailed information every year;
- Makes the survey a more routine matter for staff decreasing the disruption to staff and impact on morale; and
- Enables us to survey almost all classifications directly, rather than relying on the “benchmark” approach which we used previously.

We divided the classifications into three hierarchically-based groups. The first year we began the one third approach we surveyed the first third; the second year the middle third and the third year the top third. In the following years we continued this rotation.

ANNUAL SALARY SURVEY PROCESS

We have used a consistent methodology in conducting these salary surveys and this process is as follows:

- Human Resources staff surveys the ten comparable jurisdictions for our labor market as established by the Council in 1997.
- We compare current salary to current salary (i.e., for the survey conducted in the summer of 2009 we compared the current 2009 City of Shoreline salaries with the current 2009 salaries of each comparable jurisdiction).
- At least five jurisdictions (half of the ten total jurisdictions) must have a comparable position (or “match”) for the position to be considered to have survey results.
- The median of the labor market is used to determine whether the “matched” classification is “at market” (City of Shoreline salary within five percent plus or minus of the median).
- If a surveyed classification does not have sufficient matches, internal comparisons are used to determine salary recommendation.
- HR staff analyzes the data and makes initial recommendations to the City Manager and Finance Director.
- Proposed changes are reviewed and discussed by the Leadership Team.
- City Manager decides on the recommended changes and includes them in the proposed budget to City Council.
- City Council receives survey recommendations during the annual budget process.
- Any changes are approved by Council in their adoption of the budget.
- Changes are effective January 1 of the ensuing year.

ANNUAL COST OF LIVING PROCESS

Generally the practice of our comparable jurisdictions and of cities in the Puget Sound region is to grant cost of living adjustments to their employees. Originally the City's compensation practice was to survey our comparable jurisdictions to determine their

planned cost of living with the goal of using the median proposed cost of living as the City's proposal. Because many of our comparable jurisdictions do not complete their labor negotiations until late fall or early winter, often their cost of living adjustments were not known in time for us to obtain useful information for our budget process. Over time we learned that most typically the median of the cost of living adjustments granted by the comparable jurisdictions was 90% of the Seattle/Tacoma/Everett June CPI-U.

However, since it was more efficient and predictable to simply base the City's recommended cost of living adjustment on the benchmark of 90% of Seattle/Tacoma/Everett June CPI-U, we have followed this practice for several years and used this data point to develop the proposed budget.

The proposed cost of living adjustment is presented to Council during the annual budget process. The final decision on any cost of living adjustment is made by the Council at the time of budget adoption.

HEALTH/MEDICAL BENEFITS

Health benefit costs were budgeted at \$1.68 million in 2010 and are projected to be \$1.8 million in 2011. This represents a 7.9% increase.

The City currently purchases its insurance through a statewide benefit trust pool that is operated by the Association of Washington Cities. The trust is one of the largest insurance purchasing groups in the state, and includes 273 entities and approximately 36,000 employees and dependants.

Since the City has less than 150 employees, it has been beneficial to be a member of the trust. This means that the City is in a pooled claims environment, and since premiums are generally based on claims experience, this enables us to have serious and costly claims spread across the much larger pool of employee claims within the trust. For instance, if the City had a very bad year in terms of expensive claims and was purchasing insurance on its own, the City would likely experience much greater premium increases than we would experience within the trust.

The City has experienced other benefits for being part of the trust including:

- The trust negotiates new rates and packages every year with insurance providers – they have had success with negotiating administrative fees and large claims insurance to marketplace lows.
- The trust has no margin built into its premiums, nor its administration, and does not pay commission to brokers.
- The trust believes true cost containment lies in its investment in health risk management. The City's volunteer employee Wellness Committee has been recognized numerous times by AWC with WellCity awards. AWC provides resources such as health screenings, trainings, and grants in order to help member cities promote the health and well-being of employees.

- Finally, the trust provides several ancillary services in the area of benefit administration that the City would need to find a means to perform/fund if the City were to purchase insurance on its own.

Health/Medical Coverage Benefits

The City's current health benefit package includes:

- Medical: Choice between two plans
 - Regence Blue Shield AWC HealthFirst Plan
 - Group Health Co-Pay Plan 2
- Dental: Choice between two plans
 - WA Dental Service Plan F
 - Willamette Dental \$10 Co-Pay Plan
- Vision: Vision Services Plan
- Term Life and Accidental Death & Dismemberment Insurance:
 - Provider is Standard Insurance
 - Benefit is \$50,000 (or annual salary, whichever is lower)
- Long-Term Disability:
 - Provider is Lincoln Financial Group
 - This insurance is purchased separately from the trust
 - Coverage generally begins after 180 days of disability
 - Monthly benefit equals 60% of salary (monthly maximum \$6,000/minimum \$100)

The table below lists 2011 monthly premiums for our health/medical plans:

Coverage	Employee	Spouse	1 st Dependent	2+ All Other Dependents
MEDICAL				
Regence	\$568.00	\$571.90	\$280.20	\$231.80
GH	\$423.92	\$416.28	\$210.93	\$210.93
DENTAL				
WDS	\$55.07	For dental, spouse is treated as any other dependent.	\$49.01	\$60.19
Willamette	\$56.90		\$49.50	\$63.45
OTHER COVERAGES				
Vision	15.67	Rate is for full family		
Life/ADD&D	10.50	If make less than \$50,000 premium is based on formula (annual salary/1,000 x .21)		
LTD	Annual salary/12/100 x .21		Eg. if make \$50,000 = 8.75; if make \$95,000 =16.63	

How the City Pays for Health/Medical Benefits

Background

In September 1995, City Council initially contracted with the Association of Washington Cities to participate in their benefit trust. At that time, in Ordinance 56, the Council also established the practice of allocating a uniform amount of money to each regular employee to purchase health (medical, dental, vision, life and disability insurance) benefits. Any money remaining after benefits were purchased was paid into the employee's deferred compensation account; if the City's allotment did not fully cover the benefits selected, the employee would pay the balance.

It is believed that this approach to health/medical benefits was adopted for the following reasons:

- At the time it provided a unique employee recruitment and retention tool.
- This approach treats all employees equally regardless of personal life choices (e.g., single, married, family, etc.).
- In the mid-90s this method was popular with new cities that were forming.

Ordinance 56 established this initial City contribution at \$400 a month and this amount was in place for the remainder of 1995 and in 1996. For the next several years, the City increased the monthly amount each year as follows (the Council had to adopt this amount by ordinance each year):

- For 1997: \$455
- For 1998: \$470
- For 1999: \$509

To provide some context for this \$509 in 1999:

- An employee choosing to cover his or her full family for the full health coverage package would likely have a total monthly premium cost of \$610—and thus would self-pay about \$100 a month/\$1,200 a year.
- An employee choosing to purchase medical/dental/vision package only for themselves would likely have a total monthly premium cost of \$233—and thus would receive \$276 a month/\$3,312 a year to deferred compensation.
- An employee choosing to purchase the minimum required health package (no medical) would likely have a total monthly premium cost of \$75—and thus would receive \$434 a month/\$5,208 a year to deferred compensation.

In December of 1999 (Ordinance 220), the Council revised the approach for setting the annual allocation amount. Instead of setting a specific amount each year by ordinance, the Council established a formula to establish each year's allocation. The formula is as follows: the monthly payment amount was an amount equal to the lowest cost for medical, dental and vision coverage for an employee, spouse and one child.

Applying this new formula approach, the City contribution rate for the ensuing years was as follows:

- For 2000: \$527
- For 2001: \$559
- For 2002: \$632
- For 2003: \$739

To provide some context for this \$739 in 2003:

- An employee choosing to cover his or her full family for the full health coverage package would likely have a total monthly premium cost of \$859—and thus would self-pay about \$121 a month/\$1,452 a year.
- An employee choosing to purchase medical/dental/vision package only for themselves would likely have a total monthly premium cost of \$323—and thus would receive \$415 a month/\$4,980 a year to deferred compensation.
- An employee choosing to purchase the minimum required health package (no medical) would likely have a total monthly premium cost of \$86—and thus would receive \$652 a month/\$7,824 a year to deferred compensation.

Current Approach

In 2003, because projections indicated that health insurance premiums would increase an average of 15-20% annually over the next five years and that continuing the City's health benefits policy unchanged could result in the City's costs related to health benefits increasing by 48% over the next four years, we formed an employee task force to develop a recommendation that would limit the City's annual health benefit cost increases to approximately one-half of future annual premium cost increases.

The task force, operating under the assumption that the increase in the City's health benefit costs was outpacing the resources available, reviewed several alternatives including:

- Self-Insurance
- Joining Alternative Pools
- Joint Venture with Other Agencies
- Plan Alternatives within the Association of Washington Cities
- Alternatives to how the City provides health benefits.

Based on its work, the employee task force recommended the City modify its health benefit policy accordingly:

- Continue to provide a flat amount for each regular full-time employee, as a minimum contribution amount by the City.
- Limit this minimum flat amount at the 2003 rate through 2005.
- Beginning in 2006, apply a 5% growth cap to the flat amount.

- Provide an additional City contribution for employees whose insurance choices have a premium cost in excess of the minimum flat amount.
- Establish the maximum of this additional contribution as 95% of the cost of health insurance (medical, dental, and vision) premiums for an employee, spouse, and two children based on the lowest cost plans offered by the City.

The City Council adopted the recommendation developed by the task force in November of 2003 (Ordinance 343) and this remains the City's policy on paying for health benefits. Since the change was made in 2003, the City has saved nearly \$1 million.

Applying this new policy, the City contribution rates for the ensuing years (minimum/maximum):

- For 2004: \$739/\$965
- For 2005: \$739/\$1,023
- For 2006: \$764/\$1,073
- For 2007: \$780/\$1,117
- For 2008: \$802/\$1,183
- For 2009: \$806/\$1,194
- For 2010: \$831/\$1,268
- For 2011: \$865/\$1,370

To provide some context for this \$865/\$1,370 in 2011:

- An employee choosing to cover his or her full family for the full health coverage package (using the most popular plan choices) would likely have a total monthly premium cost \$1,857—and thus would self-pay about \$487 a month/\$5,844 a year.
- An employee choosing to purchase medical/dental/vision package only for themselves (using the most popular plan choices) would likely have a total monthly premium cost of \$664—and thus would receive \$201 a month/\$2,412 a year to deferred compensation.
- An employee choosing to purchase the minimum required health package (no medical) would likely have a total monthly premium cost of \$96—and thus would receive \$769 a month/\$9,228 a year to deferred compensation.

The net result of the 2003 changes was to accomplish two primary goals:

1. Transfer City contribution from employees choosing either no medical/dental coverage or coverage only for themselves to employees purchasing "full family" coverage
2. Slowing the growth of the overall City contribution by providing the 5% annual cap.

And to provide a contrast to these current results, here's what the numbers would look like if Council had not made a change in policy in 2003:

- The City would have paid \$1,231 a month for each full time employee.
- An employee choosing to cover his or her full family for the full health coverage package (using the most popular plan choices) would likely have a total monthly premium cost \$1857—and thus would self-pay about \$626 a month/\$7,512 a year.
- An employee choosing to purchase medical/dental/vision package only for themselves (using the most popular plan choices) would likely have a total monthly premium cost of \$664—and thus would receive \$1,193 a month/\$14,316 a year to deferred compensation.
- An employee choosing to purchase the minimum required health package (no medical) would likely have a total monthly premium cost of \$96—and thus would receive \$1,761 a month/\$21,132 a year to deferred compensation.

Based on 2010 health benefit choices, we currently have:

- 35/26% employees self-paying a portion of their benefit premiums.
- 32/23% employees whose premiums are entirely paid by the City contribution, but not receiving any deferred compensation.
- 75/51% employees whose premiums are entirely paid by the City contribution and also receiving some deferred compensation.

The following is a table showing total 2011 premium costs and how that cost is split between the employee and the City for each coverage option listed (note this table uses the premium cost for Regence medical and WDS dental—these are the most selected plans by City employees):

Coverage Choice	Employee Pays	City Pays	Total Annual Premium
No Medical or Dental	\$0	\$10,380	\$1,155
Employee Only	\$0	\$10,380	\$7,971
Employee + Spouse	\$0	\$15,422	\$15,422
Employee + 1 Child	\$0	\$11,921	\$11,921
Emp + 2 Children	\$0	\$15,425	\$15,425
Emp + Sp + 1 Child	\$3,066	\$16,440	\$19,506
Full Family (Emp+Sp+2 Children)	\$5,848	\$16,440	\$22,288

As you can see from the above table, City annual premium payment for a regular full time employee ranges from the minimum \$10,380 to the maximum \$16,440; the amount an employee may self-pay ranges from zero to about \$5,848. Based on the 2011 proposed budget, the average annual cost of health benefits per FTE is \$13,199.

Working with an employee committee to perform an analysis of our health benefit package and conducting a competitive selection process to select a health care provider for 2012 is on the workplan for Human Resources and Finance in 2011.

RETIREMENT-RELATED BENEFITS

Public Employees Retirement System (PERS)

The City is required to participate in the State of Washington Public Employees Retirement System. The rules for PERS and PERS rates are established by the State; the City has no role in establishing rules or rates.

Regular employees, upon hire becomes a PERS covered employee and are required to make an irrevocable selection between two current PERS choices:

- PERS 2—a defined benefit program or
- PERS 3—a mix of defined benefit/defined contribution program

If a new City employee has previously worked in a PERS position elsewhere, they are required to participate in the system they initially joined. A new City employee who has never participated before in PERS makes this irrevocable election of PERS 2/PERS 3 at the time of hire by the City.

PERS 2 Overview

- Both Employee and Employer contribution rates are fixed by the State (they may vary year to year, but neither the employee nor the City has control over the rates)
- 2011 Rates
 - January – June 30
 - Employer: 5.31%
 - Employee: 3.90%
 - July 1 – December
 - Employer: 8.48%
 - Employee: 4.43%
- Vests: after five years of eligible service
- Retirement Eligibility:
 - At age 65 with at least five years of service, or
 - At age 55 with an actuarially reduced benefit with twenty years of service
- Defined Retirement Benefit: 2% of employee's average final compensation (monthly average of employee's 60 consecutive highest paid months of service) per year of service

PERS 3 Overview

- Employee Contribution Rates:
 - Employee's contribution is the "defined contribution" portion of PERS 3.

- Upon hire, the employee selects a contribution rate (range of choice is 5% - 15%)
- This contribution rate remains fixed (only time it can be adjusted by the employee is in the event that the employee terminates from the City and becomes employed in a PERS position with another employer)
- This “defined contribution” is managed by the employee as an investment account
- Employer contribution rates are fixed by the State (they may vary year to year, but the City has no control over the rates)
 - This City contribution is the “defined benefit” portion of PERS 3
- 2011 Rates
 - January – June 30
 - Employer: 5.31%
 - July 1 – December
 - Employer: 8.61%
- Vests: Varies, but most commonly after ten years of eligible service
- Retirement Eligibility:
 - At age 65 if vested, or
 - At age 55 with an actuarially reduced benefit with ten years of service (this is for the defined benefit portion)
- Defined Retirement Benefit: 1% of employee’s average final compensation (monthly average of employee’s 60 consecutive highest paid months of service) per year of service

Even though the State Legislature lowered the employer contribution rate for the 2009-2011 biennium, the rate is currently projected to increase on July 1, 2011 to 8.61%, with continued increases over the next few years. Employee contribution rates will also increase. The increases are required to meet the actuary projections for the retirement plans over the long-term.

Social Security Replacement Program

When the City formed, the City Council opted to not participate in Social Security and instead created a Social Security Replacement Program. Instead of Social Security, both the employee and the City contribute to a mandatory 401a account. This 401a is an investment account fully owned by the employee from day one of employment with the City. The contribution rates are identical to the amounts employee/City would pay to the Social Security System: 6.2%.

LEAVE BENEFITS

The City provides several leave benefits to regular employees. Leave benefits are generally pro-rated for regular part-time employees. Our leave benefit package is quite similar to our comparable jurisdictions and to other public sector employers in the Puget Sound region. All elements of the City’s leave package are contained in the City’s personnel policies and are established by the City Council.

Vacation Leave

- Vacation leave can be taken for any purpose (as with any other use of leave, the leave time must be approved in advance by the employee's supervisor)
- Leave is earned based upon an established, graduated accrual schedule based upon years of service with the City. Accrual schedule ranges from:
 - Minimum accrual: 8 hours/month (12 days total for a year) in the first month of employment
 - Maximum accrual: 15.3 hours/month (23 days total for a year) after 15 years of employment
- There is a maximum leave accrual (equivalent to two years accumulation)
- Employees may "cash-out" leave on an annual basis (maximum of 40 hours a year)
- City cashes out employee's full accrual at termination
 - Exception: Retiring employee's maximum cash out is 240 hours (this limitation is based upon PERS rules concerning leave cash outs)

Sick Leave

- May only be used for a sick leave related purpose
- Accrued at a fixed amount of 8 hours/month
- Leave accrual is capped at 1,040 hours
- Generally no "cash-out" of sick leave
 - Exception: Retiring employee paid for 10% of accrued sick leave

Holidays

- Ten paid holidays a year
 - New Year's Day
 - Dr. Martin Luther King, Jr's Birthday
 - President's Day
 - Memorial Day
 - Independence Day
 - Labor Day
 - Veteran's Day
 - Thanksgiving Day
 - Day after Thanksgiving
 - Christmas Day

Personal Days

- Two days per calendar year
- Employee must use the day during the year or it is "lost"
- Cannot carry over unused personal days from one year to the next

Management Leave

- Three days per calendar year
- This leave is for exempt employees only
 - Exempt employees are those who are not eligible to receive any overtime payment when they work over 40 hours in a week

- Leave is considered token recognition for the fact that exempt employees are expected as part of their job to exceed an average of 40 hours per week
- Employee must use the day during the year or it is "lost"
- Cannot carry over unused management leave days from one year to the next

Bereavement Leave

- In case of death of a member of an employee's immediate family member
- Up to three days (per event)

RECOMMENDATION

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