



Memorandum

DATE: September 8, 2014

TO: Shoreline City Councilmembers

FROM: Paula Itaoka, Human Resources Director

RE: 2015 Compensation Study Preparation and Policy Direction

CC: Debbie Tarry, City Manager
John Norris, Assistant City Manager
Richard Moore, Senior Human Resources Analyst

In early 2014, the City Council directed the City Manager to conduct a holistic review of the City's compensation plan in 2015. Staff is seeking policy direction to determine the scope of the study prior to issuing a request for proposal for consulting services to conduct the study. This memo outlines policy options and analyzes those options for Council's consideration. In support of the discussion, historical information is also included in this memo.

Historical Information

1995 Interim Salary Schedule

After incorporation, the Council passed Ordinance No. 43 which adopted an interim salary schedule for employees.

1997 Study

As the City developed its operations and services, new jobs and employees were hired and the Council recognized the need for more permanent policies. Following a request for proposal, the City engaged Ralph Andersen and Associates to conduct a compensation study of all regular positions. The goals were:

- 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.

In the consultant’s report to the City, they selected their recommended labor market by analyzing a variety of factors to select a list of comparable agencies. The guidelines the consultant considered included geographic proximity, employer size, and other factors such as government structure. The resulting list of agencies was:

<u>Non-Director Jobs</u>	<u>Director Jobs</u>
Auburn	Auburn
Bellevue	Edmonds
Edmonds	Everett
Everett	Federal Way
Federal Way	Kent
Kent	Kirkland
King County	Lakewood
Kirkland	Olympia
Redmond	Redmond
Renton	Renton

(For Director jobs, Olympia and Lakewood are substituted for Bellevue and King County)

The study analyzed data based on the median (50th percentile or “middle point”) of the comparables and not the average; thereby avoiding any extreme data points or outliers that might alter the results of the analysis.

The study also created a Plan for a salary range/step system. The major elements of the Plan were:

- Multiple salary ranges.
- Six steps in each salary range.
- Salary ranges two and one half percent (2.5%) apart.
- Steps within salary ranges four percent (4%) apart.
- Employees move from one step to the next each year on their anniversary date.
- Once an employee reaches step six, they remain at that top step.

The study recommendations were passed by Council via Ordinance No. 134, which became effective August 6, 1997. In the following years staff has conducted periodic salary surveys to maintain the plan at market levels.

2002 Critical Success Factor of a “Professional and Committed Workforce”

In 2002, the City Council determined that one of the City’s seven critical success factors would be “Professional and Committed Workforce”, with 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 demonstrate the City is meeting its compensation policy.

The Council adopted the 2003–2009 Strategic Plan, which included this goal, strategy, and performance measure.

2004 Change to Benefits

Ordinance No. 220 adopted December 13, 1999 authorized the City Manager to expend funds to purchase health insurance for employees. A determination was made to allocate a flat cafeteria amount to all employees equal to the lowest cost health insurance premium for an employee, spouse and one dependent. Employees who made insurance coverage choices at an amount less than the flat cafeteria allocation could put the difference in deferred compensation. Employees whose insurance coverage choices had a cost in excess of the flat cafeteria allocation paid the difference out-of-pocket.

In 2003, the City recognized the need for a change in the way health insurance benefits were provided to employees because costs were outpacing the resources available. On January 1, 2004 a change was implemented that created two tiers of contribution levels. At Tier I, the City allocated a sum to regular employees from which the employee could purchase benefits and if they did not use the entire sum, the remaining amount went into a deferred compensation plan. The Tier I allocation was modified from the original policy to longer tie to the premium cost of an employee, spouse and dependent, but was capped at the level that existed in 2003 with a cap of annual growth. If the employee's insurance cost choices were greater than the Tier I allocation, the employee would move to Tier II and was able to receive an additional contribution from the City up to an established maximum. If the cost exceeded that maximum, the employee paid the difference.

2006 Revision to how Salaries were set for the Leadership Team

On December 4, 2006 the City Council adopted Resolution No. 253 which changed how Leadership Team salaries were set; from “at the discretion of the City Manager” to “the same as other City of Shoreline regular employees.” These changes were memorialized in the personnel policies and adopted in the 2007 budget.

2006 Change to the Salary Survey Process

Beginning in 2006 the City changed which jobs were to be studied each year as part of the City's salary survey. The change was from selected benchmarks every year to one third of all positions every three years on a rotating basis. The "first third" studied in 2006 were jobs in the lower ranges of the City's salary schedule, the second third studied in 2007 were jobs in the middle ranges, and the last third studied in 2008 were jobs in the upper ranges. This cycle has continued to repeat itself in subsequent years.

Compensation Overview and Council Discussion

At the November 8, 2010 Council meeting, staff provided an overview of the City's compensation system, salary survey process, comparables and other related items. Staff also explained how the system was being maintained by surveying one third of City positions each year. Following a discussion, there were no changes to policy direction. A copy of the Staff Report for this agenda item is attached to this memo as Attachment A.

Future Policy Direction – Three Key Questions

Staff is seeking policy direction on three key questions to determine the scope of the 2015 study prior to issuing a request for proposal for consulting services. The consultant that is selected may have additional questions. The three questions are as follows:

1. What information should be surveyed?
2. Should the study include classification review, otherwise known as “Job Evaluation”?
3. Which positions should be included in study?

Staff has identified options for each policy question, rating the options in simple terms of one to five 1 – 5 to help gauge the level of time it may take and the level of organizational distraction that may occur.

Rating 1 Means:	<ul style="list-style-type: none"> • The least amount of time with likelihood of completion estimated at 3 – 6 months. • The potential for organizational distraction exists but is modest.
Rating 3 Means:	<ul style="list-style-type: none"> • Substantial amount of time with likelihood of completion estimated at 6 – 12 months. • The potential for organizational distraction is significant, but the organization is able to deal with it.
Rating 5 Means:	<ul style="list-style-type: none"> • The most amount of time with likelihood of completion within 6 – 12 months followed by organizational and Council deliberation about the results. The length of time required for these deliberations depends on the number of issues that require decision making. • Organizational distraction is high because of anxiety about potential outcomes, be they favorable or adverse.

Policy Question Options and Analysis

1. What information should be surveyed?

Option		Time	Organizational Distraction
1.A <i>Recommended</i>	All Cash Compensation (Salary, Bonus, Premium Pay, Longevity Pay, Cash-Out of Paid Leave, any other form of cash for work performed.) <i>Pros: Provides a complete understanding of Shoreline’s competitive position on salaries. Some agencies provide other forms of cash in addition to salary.</i> <i>Cons: Consulting time is more expensive.</i>	3	4
1.B Alternative	Salary Only <i>Pros: Consulting time is less expensive.</i> <i>Cons: Does not provide a complete understanding of Shoreline’s competitive position on salaries.</i>	1	1-3*

<p>1.C Alternative</p>	<p>Cash and Deferred Compensation and Health Insurance (Salary, Bonuses, Premium Pays, Cash-Out of Paid Leave, any other form of cash for work performed. Deferred compensation contributions beyond social security replacement (401 types of plans in which the employer makes an extra contribution as part of a total compensation package). Health insurance contributions (premiums, health savings accounts, etc.)</p> <p><i>Pros: Provides the most complete understanding of how Shoreline’s total compensation and benefits package compares. Information on health insurance may be useful as the City prepares for the Affordable Care Act as it relates to “Cadillac” plans in the year 2018.</i></p> <p><i>Cons: The work involved is likely more than can be accomplished within a 12 month window, especially if other aspects of the compensation study are time consuming. The information on health insurance may be stale by 2018. Staff has the ability to conduct the health insurance survey as we get closer to 2018 or alternatively the City could engage a separate consultant specializing in health insurance and the Affordable Care Act. Finally, the consulting expense will be very high.</i></p>	<p>5</p>	<p>5</p>
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*depends on the other policy questions.

2. Should the study include classification review, otherwise known as “Job Evaluation”?

Option		Time	Organizational Distraction
<p>2.A Recommended</p>	<p>Engage the consultant to provide a job evaluation methodology for a new compensation plan and ongoing classification decisions. Job evaluation is a systematic way of determining the value/worth of a job in relation to other jobs in an organization. It makes a logical comparison between jobs to assess their relative worth for the purpose of establishing a rational pay structure.</p> <p><i>Pros: The City has an opportunity to refresh our methodology for objectively determining the value/worth of a job in relation to other jobs in our organization.</i></p> <p><i>Cons: The work involved is substantial and will require a significant commitment of time in an</i></p>	<p>5</p>	<p>5</p>

	<i>already full work plan throughout the organization. Consulting time is more expensive.</i>		
2.B Alternative	Do not conduct a classification study as part of this compensation study and continue to respond to changes in job responsibilities through the existing reclassification process. <i>Pros: Consulting time is less expensive.</i> <i>Cons: The City misses an opportunity to refresh our methodology for objectively determining the value/worth of a job in relation to other jobs in our organization.</i>	0	0
2.C Alternative	Engage the consultant to conduct a classification review for only those jobs that have experienced substantial change in duties. The consultant uses the existing reclassification process to determine placement in the ranges. <i>Pros: Consulting time is less expensive.</i> <i>Cons: The City misses an opportunity to refresh our methodology for objectively determining the value/worth of a job in relation to other jobs in our organization. Plus, determining what “substantial” means is a source of conflict and debate.</i>	4	5

3. Which positions should be included in the study?

Option		Time	Organizational Distraction
3.A Recommended	All Regular Positions <i>Pros: Ensures a consistent application of policy throughout the organization.</i> <i>Cons: Consulting time is more expensive.</i>	3-5*	3-5*
3.B Alternative	Directors only <i>Pros: Consulting time is less expensive.</i> <i>Cons: An inconsistent application of policy throughout the organization.</i>	2-4*	2-4*
3.C Alternative	Non-directors only <i>Pros: Consulting time is less expensive.</i> <i>Cons: An inconsistent application of policy throughout the organization.</i>	3-5*	3-5*

*depends on the other policy questions.

Conclusion and Next Steps

Given the policy questions and options analysis above, staff recommends that the survey collect information on all forms of cash compensation for all regular positions (Options 1A & 3A). Staff also recommends the study include a review of classifications using a best practice job evaluation methodology to develop a new compensation plan and to provide staff with a tool for consistently maintaining the classification system prospectively (Option 2A).

With regard to next steps, the 2015 budget includes a placeholder for an estimated cost of \$50,000 for a consultant contract. If the scope of work that the Council recommends is larger than what staff is recommending, this budget placeholder amount will need to be reviewed. Upon approval of the final budget, staff will prepare an RFP and subsequently select a consultant. The consultant will start work in early January 2015, depending on their availability. More detailed timeframes will be developed with the consultant and staff will ensure regular progress reports.

Attachments

Attachment A – November 8, 2010 Staff Report - Compensation System Review