



Midpeninsula Regional
Open Space District

ACTION PLAN & BUDGET COMMITTEE

R-14-125
October 7, 2014

AGENDA ITEM 2

AGENDA ITEM

Development of Employee Compensation Guiding Principles

GENERAL MANAGER'S RECOMMENDATION

Begin discussion and development of Employee Compensation Guiding Principles.

SUMMARY

In March 2014, during the Board of Director's final review and acceptance of the Fiscal Year (FY) 2013-14 Compensation Study prepared by Koff & Associates, the Board directed the Action Plan and Budget Committee (ABC) to develop Employee Compensation Guiding Principles for full Board consideration during FY2014-15. The purpose of the October 7, 2014, ABC meeting is to begin work on developing such guiding principles. In preparation for this meeting, staff has researched numerous resources, guiding principles provided by California law, and other agencies' employee compensation philosophies. As a result of this research, staff has identified common principles that may be appropriate to guide future compensation levels for employees. The General Manager has recommended a draft Employee Compensation Guiding Principles Board Policy as a starting point for the Committee's discussion.

DISCUSSION

Background

On March 26, 2014, the Board of Directors (Board) accepted the organization-wide 2013-2014 Compensation Study prepared by Koff & Associates. Prior to this acceptance, during the March 12, 2014 study session to review the compensation study data, the Board directed the Action Plan and Budget Committee (ABC) to develop Employee Compensation Guiding Principles for full Board consideration during FY2014-15 and prior to Board consideration of implementation of any compensation changes based on the results of the study (R-14-17). At that time, the stated purpose for developing such Guiding Principles was to bring clarity to the Board's employee compensation philosophy and minimize process and implementation inconsistencies between this compensation study and any future studies. As presented to the Board at the March 12, 2014 Study Session, potential topics to be addressed in the guiding principles may include:

- Purpose of competitive compensation, such as recruitment and retention of high-quality employees

- Accountability to the public
- Definition of “competitive” compensation
- Non-compensatory benefits of District employment
- Salary versus benefits
- Future compensation studies – when, how, consistency with previous studies, consistency of comparator agencies
- Focused compensation reviews vs. organization-wide studies

Staff has considered these potential topics and considered how other agencies address them. Staff has concluded that guiding principles may help the Board set unrepresented employee compensation and develop bargaining proposals and consider employee bargaining proposals related to compensation. However, staff has also concluded that guiding principles could present their own drawbacks. Guiding principles could be subject to multiple interpretations, potentially exacerbating differences of opinion. Guiding principles also must be used in a flexible manner. Certain principles may be more important at some times and less important at others. Ultimately, staff discovered that California labor relations law includes its own guiding principles for labor negotiations in local public agencies such as the District. These guidelines and the other considerations discussed in this report, on balance, are likely to help the District to determine appropriate compensation and working conditions for employees.

Employee Compensation Guiding Principles

As indicated above, formally adopted Employee Compensation Guiding Principles are neither unique nor commonplace for public agencies. Other elected boards or councils have chosen to publicly develop their compensation policy in response to specific circumstances confronting the agency, such as dire financial challenges, heightened public scrutiny of public employee salaries and benefits (particularly pensions), or employee recruitment or retention challenges affecting the agencies’ service delivery. This report provides the Committee with a starting point to discuss the common elements addressed in compensation guiding principles. Examples from other agencies are provided in Attachment 1. However, the Committee will need to decide the elements that are most relevant to the District at this point in its history, and then begin the process to articulate the content of those elements, followed by full Board consideration of the Committee’s work.

This report provides options for the Committee’s consideration regarding *process* for developing guiding principles, *structure* of the guiding principle document, *elements* that could be addressed in guiding principles, *analysis of various principles* related to each element, and, lastly, *specific language* for each element recommended by the General Manager as a starting point for the Committee.

Process

There are alternative processes available to the Committee in beginning work on the guiding principles. The General Manager recommends the Committee begin with the starting point draft policy language drafted by staff (Attachment 2). From this draft, the Committee could discuss and provide direction to staff regarding (1) whether there should be additions or deletions to the basic principles identified in the policy (i.e., are all of the appropriate topics included?) and (2) whether the Committee has specific wording changes to make, or general direction for staff to draft wording changes for follow-up confirmation by the Committee.

A follow-up process question is how many Committee meetings are anticipated to do this work, and is a full-Board study session anticipated prior to full-Board adoption of the Guiding Principles at a regular Board meeting? Finally, the Committee may decide to direct staff to perform additional research about other agencies' compensation philosophies to augment the research already completed; depending on the scope of any additional required research, the General Manager may suggest the District hire outside consultant expertise to complete the research thoroughly and in a timely manner.

During this process, members of the public, as well as interested employees, will have an opportunity to provide comments to the Committee/Board during the public input time of the Committee and Board meetings, as well as provide any written public/employee comments. The General Manager does not recommend that the process entail specific engagement with members of the public or employees, or surveys of these groups. Employee compensation decisions are management's responsibility under direction from the Board and subject to meet and confer requirements with represented labor unions as necessary. It is the Board's express prerogative to provide compensation policy guidance to the General Manager that a Board majority deems best achieves the District's mission in service and accountability to the public.

The Committee's answers to these process questions may not be decided at the outset of the process, but are identified here so the Committee is aware of them and can address them when appropriate.

Document Structure

Many other agencies' compensation philosophy, where formally adopted by the elected body in a public document, takes the form of a resolution and/or a policy. In some cases, the compensation philosophy is part of a broader guidance document regarding labor negotiations. While the form of the document is less important than the substance, it would be consistent with District practices for the Board to adopt the guiding principles as a Board Policy.

Many other agencies' guiding principles include an introductory statement of purpose, or the purpose and context is conveyed in the introductory "whereas" statements of the resolution. Including a purpose statement would be consistent with the structure of Board policies.

Finally, an important consideration is whether the guiding principles should be as short and general as possible while still providing clear guidance, or longer and more detailed and specific. The other agencies' guiding principles in Attachment 1 reveal a range of level of detail.

Again, these document structure options are identified here so the Committee is aware of them and can address them when appropriate.

Elements of the Principles & Analysis

Based on elements commonly addressed in other agencies' guiding principles, and the District's recent experience during two organization-wide compensation studies, the General Manager recommends the Committee consider the following elements for inclusion in the District's guiding principles:

- *Introduction/Purpose statement:* This statement could address the importance of high-quality employees in fulfilling the mission of the District and that compensation is one

important tool amongst several to motivate employees toward excellent work on behalf of the public. This statement could also address the value of having clear and transparent compensation principles for employees and the public to understand the Board's philosophy.

- *Public Accountability:* The Board of Directors is accountable to the public and is thus constantly tasked with aligning its policy decisions with the priorities of the public. In recent years, public sector compensation, particularly the considerable value of a defined benefit pension system, has received increased public scrutiny. The importance of public visibility and accountability is also elevated with the passage of Measure AA.
- *Competition:* As an organization operating within a specific labor market (public agency open space services in the San Francisco Bay Area), the District competes for the best employees to fulfill the District's purpose for the public. Compensation is one factor in the competition to recruit and retain high-quality employees. Two sub-elements could be addressed related to competition:
 - a. Definition of "competitive" compensation
 - Is compensation at the *median* of comparator agencies considered competitive by the Committee? The 2011 Compensation Study was implemented at the median of comparators.
 - When evaluating the competitiveness of compensation, is the focus on salary only, or salary plus benefits (total compensation). Attachment 3 provides more detail about challenges associated with comparing total compensation rather than just salary data between comparator agencies.
 - The high Cost of Living in the Bay Area is an ongoing challenge for public sector employee recruitment and retention. Generally, as discussed in more detail in Attachment 4, the Bay Area's higher cost of labor reflects in part the higher cost of living, but public agencies (and even private sector companies) are financially challenged to provide salaries that meet the cost of living, particularly related to housing costs. The guiding principles could include a statement acknowledging the challenges of Bay Area Cost-of-Living and that the District is willing to explore innovative ideas to partially help with this challenge.
 - An organization's compensation schedules must consider internal relationships and alignment to remain competitive internally, as well as externally.
 - One-time monetary benefits that accrue to qualifying individuals, such as merit increases, longevity pay, tuition reimbursement, etc., are other factors associated with competitive compensation.
 - b. Identification and value of non-compensatory benefits of District employment that help make the District competitive in the labor market, such as:
 - meaningfulness of the District's mission;
 - job-stability
 - future of the organization and professional growth opportunity;
 - organizational culture;
 - work environment
 - recognition of quality work
- *Affordability/Sustainability:* The District's compensation practices are critical to its short and long term fiscal health and all compensation adjustments must be made within this

context. The Board is challenged with providing the staffing resources needed to most effectively and efficiently fulfill its mission today, while ensuring adequate financial resources are available in the future.

- *Benefits:* Health, retirement, and other financial and non-financial benefits are important elements of competitive compensation. However, it is often difficult to place a value on benefits, which makes it difficult to accurately compare to other agencies. The guiding principles could include a statement acknowledging the importance of competitive benefits and that the District will analyze benefit values using the best available data to ensure the accuracy of comparisons to comparator agencies' benefits prior to making decisions based on those comparisons.
- *Flexibility:* The Guiding Principles should clearly state that the Board retains the flexibility to modify the guiding principles in response to changes impacting the District's ability to attract and retain high-quality employees, and that the Board will balance these modifications with considerations related to fiscal health, public accountability, disasters, or other circumstances.
- *Legality:* The Guiding Principles should rely strongly on the eight factors provided by California labor relations law concerning local public agency workforce compensation.
- *Future Compensation Studies:* Based on the District's recent experience with two organization-wide compensation studies, the Guiding Principles could be helpful in providing broad guidelines concerning future compensation studies. Topics to address could include:
 - Flexibility for the Board to periodically direct the General Manager to carry out a compensation study
 - Consistency of comparator agencies from study to study
 - Focused compensation studies (e.g., specific departments, divisions, or positions) versus organization-wide studies in response to new information or changed circumstances
 - Study variables to be consistent with other guidance from the Employee Compensation Guiding Principles, such as the definition of competitive compensation and how and when benefits are analyzed or addressed
 - Other details, such as whether data results that fall within +/-5% of the target salary range (e.g., median) are also considered competitive and do not warrant changes

Specific Language

Attachment 2 provides "starting-point" language for the guiding principle elements described above. This language is not intended to be final, but rather draft language that the Committee can evaluate and discuss, which is often easier than having a Committee draft language from scratch. Where policy positions are stated or implied in the draft language, the Committee should consider that language to be the General Manager's recommendation on that policy matter, open to discussion and different direction from the Committee.

FISCAL IMPACT

There is no fiscal impact directly related to the Committee's work on developing Employee Compensation Guiding Principles. Any anticipated or known future fiscal impacts that could result from guiding principles that may be eventually recommended by the Committee for the full Board's consideration will be analyzed as part of that recommendation.

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

This item is not subject to the California Environmental Quality Act (CEQA).

NEXT STEPS

Next steps are to be determined based on the Committee's input and direction. The preliminary schedule for development and adoption of Employee Compensation Guiding Principles is below and includes the following major milestones:

- *October 7, 2014*: ABC meeting to discuss guiding principles
- *October-November*: Follow-up staff work, including preparation of draft final guiding principles and staff report to return to ABC or to full Board
- *November*: Follow-up ABC meeting and/or Board study session
- *November/December*: Final Board adoption of guiding principles

Following development of these principles, the General Manager will complete review and analysis of the 2013-14 Compensation Study results and bring forth any proposed compensation recommendations to the Board for consideration in the future, which may be during the FY2015-16 budget process or following labor negotiations.

Attachments

1. Examples of Compensation Guiding Principles from other agencies
2. Draft Employee Compensation Guiding Principles
3. Understanding Salary and Total Compensation
4. Understanding Cost of Living and Cost of Labor

Responsible Department Head:
Stephen E. Abbors, General Manager

Prepared by:
Kevin S. Woodhouse, Assistant General Manager

ATTACHMENT 1

Table of Contents

- 1. Article, "Aligning Compensation Strategy," Competitive Human Resources Strategies, LLC**
- 2. City of Greenville**
- 3. City of Palo Alto**
- 4. City of San Jose**
- 5. City of San Luis Obispo**
- 6. City of Sugarland**
- 7. ICMA Guidelines for Compensation**
- 8. Yukon Government**



ALIGNING COMPENSATION STRATEGY

by Michael H. Schuster, Ph.D.
Competitive Human Resources Strategies, LLC.

In recent years, the necessity for organizations to control labor costs, while at the same time increasing productivity and enhancing quality and customer service, has never been more urgent. Although many companies have become acutely aware of this problem, few companies have yet to fully address this issue. The present competitive environment requires new strategies toward employee compensation, new management and employee practices, and new methods of educating employees to the shifting competitive environment that has brought about the necessity for these changes.

At the same time that companies are examining the method and basis for compensating employees, there has been a growth in the number of companies seeking to develop high performance, high commitment work systems. These systems, based upon expanded roles for employees, require that employees accept more responsibility and accountability. Other organizational initiatives, such as flatter organization structure; more fluid organization design; and faster-paced, quicker-response customer focus have driven sweeping changes. Often it has been difficult for compensation systems to keep pace and support these changes.

Additionally, employee compensation is a critical component to financial success. Careful attention must be placed on the development of reward systems that reflect the financial capability of the company as well as reinforce the new directions associated with contemporary organizational strategies. Compounding all of these problems are the recent dynamics of the labor market. In contrast to the period 1985-1995, when wages and salaries grew only modestly, the period 1996-1997 has been marked by an increasingly dynamic labor market in which wages and salaries are beginning to grow at a pace not seen in many years. The tightened labor market has meant that, for the first time in many years, greater attention must be given to the traditional role of compensation, i.e., attraction and retention.

Changing compensation systems is a difficult task for any organization. Employee and management perceptions of organizational compensation systems are typically well-formed. Concerns and skepticism over how they will be affected by any new system are natural. It is difficult for organizations to achieve compensation driven changes in behavior if their compensation plans have not been adequately communicated, employee understanding and trust established, and new expectations firmly "seated" and accepted. It goes without saying that communications, training, and execution are critical.

Compensation in the high performance organization needs to **reinforce** the directions set by the leadership. We *underscore* the word reinforce as efforts to make compensation too great a driver for change may lead to unintended consequences. That is, if the organization becomes too heavily compensation driven, the focus may be lost on the factors leading to successful high performance organization, and instead toward short term compensation goals.

Compensation philosophy is the set of values and beliefs that an organization has in regards to compensation decision-making. This often is combined with a set of guiding principles that further assist in compensation administration. Many firms report that they have no formal compensation philosophy and this would certainly be true of many we have worked with over the years. However, we would argue very strongly that the collection of decisions that the firm has made over a period of time constitutes a compensation set of beliefs and values — a compensation philosophy — regardless of whether or not the firm has actually committed those ideas to a formal document. Compensation strategy is used to guide the design of specific compensation decisions.

Differences in compensation philosophies are widespread. Thus, some organizations believe in the widespread use of incentive compensation, while others only apply incentive compensation to a very narrow group of employees who are believed to affect the bottom line. This represents a significant philosophical difference between the firms. Another illustration may be found in the examination of the behavior of firms who seek to apply compensation levels "at the

ALIGNING COMPENSATION STRATEGY

midpoint.” These firms differ philosophically from those firms that seek to pay at the top of the market, thus enabling them to attract the highest caliber employees that they can find. Business settings often explain these differences. Some firms are proportionally more generous to certain levels of exempt employees, while others believe in principles of achieving widespread equity across all employees. The openness with which compensation decisions are made, and the degree of stakeholder involvement in those decisions, is yet another example of philosophical differences that may exist between organization.

Needless to say, compensation is a key issue for the high performance organization, as the employee and management systems utilized by the organization must be reinforced through the rewards structure. Again, our experience is telling in avoiding making compensation unduly controversial, thus adversely affecting the very heart of the high performance system.

Our approach to compensation strategy is shown in the model presented below. It is important to approach compensation strategically by developing a philosophy toward compensation, along with a set of objectives. Three factors are employed: (1) business and operating inputs; (2) industry and labor market practices and trends; and (3) employee inputs and preferences.

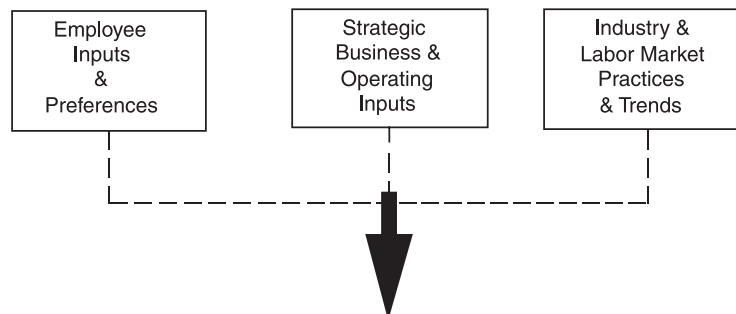
Once a philosophy and objectives are developed, the four elements of compensation can be determined. Base pay structures deliver to employees their wage or salary. Employees typically receive 90-100% of the cash compensation and two-thirds of their total compensation from their base pay.

Variable pay plans are organizational systems for sharing the economic benefits of improved productivity, cost reductions, quality, and overall business performance in the form of regular cash bonuses. Most variable pay plans incorporate existing, or develop enhanced, systems of employee involvement. To develop a variable pay plan system requires examination of existing management and compensation practices.

In most cases fringe benefit structures are set at a corporate level and are highly influenced by legal requirements. From the point of view of compensation strategy, fringes represent a substantial cost of total compensation and therefore must be considered as a strategic cost. Organizations derive little if any behavioral change from this portion of compensation. Fringes can influence attraction and retention.

Compensation administration includes a collection of activities required to sustain the effectiveness of a compensation strategy. Thus issues ranging from labor market surveying to performance management to skill certification and peer review come under this umbrella. Involving stakeholders in compensation administration can reinforce the values and beliefs underlying the compensation philosophy and strategy.

Assessment



Design

Compensation Philosophy and Objectives			
Based Upon Business, Operating, and Human Resource Requirements			
Base Pay Delivery	Organization Performance or Variable Pay, Nonmonetary & Other Monetary Rewards & Recognitions	Fringe Benefits	Compensation Administration

ALIGNING COMPENSATION STRATEGY

Below we provide a checklist of key compensation questions.

- ❑ ***Employee Inputs and Preferences***
 - Perceptions of external pay equity
 - Perceptions of internal pay equity
 - Pay delivery beliefs
 - Form (cash, gainsharing, benefits)
 - Method (individual, small group, large group)
 - Risk tolerance
 - Trust in management
- ❑ ***Business and Operating Inputs***
 - Operations and Manufacturing strategy
 - Sales development strategy
 - Percentage of compensation costs to total product/service costs
 - Percentage of compensation costs to controllable product/service cost
 - Existing markets/products
 - Potential markets/products
 - Anticipated volume
 - Reinforce/enhance work design
 - Maintain cultural change processes
 - Other operating issues
- ❑ ***Industry and Labor Market Practices and Trends***
 - Availability and quality of work force
 - Industry practices
 - Retention of work force
 - Retention of key contributors
 - Wage/salary levels and movement
 - Wage/salary delivery charges
- ❑ ***Compensation Philosophy and Objectives***
 - How much emphasis should be placed on rewards to drive organization
 - What issues are to be driven by compensation as opposed to management practices
 - Market definition (exempt and non-exempt)
 - Method of delivery
 - Targeted position in labor market
 - Targeted position in product market
 - Relationship within total company
 - Relationship to selection and retention
 - Portion of pay guaranteed and at risk
 - Percentage of workforce bonus eligible
- ❑ ***Base Pay Delivery***
 - Method of delivery — Job-based vs. individual-based
 - Number of levels
 - Structure of levels
 - Pricing strategies
 - Adjustment method
 - Weighting of individual performance
- ❑ ***Organization Performance or Variable Pay***
 - Role in total compensation strategy
 - Structure
 - Measures
 - Targets
 - Tolerance for pay at risk
 - Risk - reward ratios
 - Use of other monetary rewards
 - Use of non-monetary rewards
 - Individual performance recognition
- ❑ ***Fringe Benefits***
 - Usually determined at corporate level; limited scope at other levels
 - Tie to business and human resource objectives
 - Coverage
 - Cost
 - Communications (Purpose - Coverage - Value)
- ❑ ***Compensation Administration***
 - Stakeholder role in compensation administration
 - Performance management & evaluation
 - Overtime policy (exempt & non-exempt)
 - Shift differentials
 - Attendance policy
 - Role of seniority

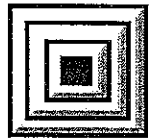
Conclusion

Compensation decisions should be fully integrated into the organization's business and operations strategy, through its compensation philosophy. The design of compensation systems should be subsequent to, and not precede, this key analysis and decision point. For the high performance firm, an appropriate level of employee involvement can further reinforce the organization's general beliefs and values.

Report on Total Compensation

*Presentation to the
City of Greenville and Greenville Utilities Commission
January 11, 2011*

Presented by:



**THE WATERS
CONSULTING
GROUP, INC.**



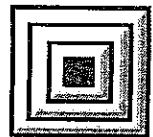
CITY OF GREENVILLE, NC

**Greenville
Utilities**

Dallas ■ Seattle ■ Austin ■ Cleveland
800.899.1669 www.watersconsulting.com

Focus on Total Compensation

- Simply Defined: An Organization's commitment to how it values its employees
- Goal of the Philosophy: Attract, Retain, and Motivate Qualified Employees



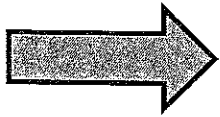
Proposed Total Compensation Philosophy

GUC/COG will:

- Provide a competitive base salary- not an aggressive one but a salary comparable to what an employee could get in its defined market
- Provide affordable benefits that meet the general needs of employees while focusing on options to control costs
- Continue benefits options for retirees that allow continued access while focusing on cost sharing and cost control measures
- Consider additional options to encourage high levels of job performance
- Focus on employee growth, motivation, and performance through professional development and training

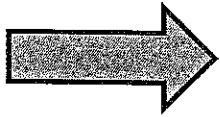


Pay Policy Options



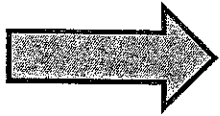
Above Market Strategy

Range midpoints above market average pay



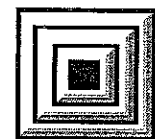
At Market Strategy (recommended)

Range midpoints at market average pay



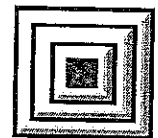
Below Market Strategy

Range midpoints below market average pay

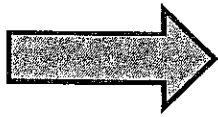


Benefits of Recommended Approach

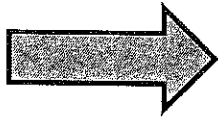
- Balances employer cost with compensation needs
- Continues ability to compete in the market, attracting quality employees
- Maximizes retention in key positions
- Minimizes impact on current employees
- Provides flexibility to respond to market changes
- Clearly communicates values to all employees
- Offers employees the opportunity to grow and develop
- Continues the focus on employee recognition and pay for performance



Pay Policy Options



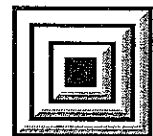
Above Market Strategy
Range midpoints above market average pay



At Market Strategy (recommended)
Range midpoints at market average pay



Below Market Strategy
Range midpoints below market average pay



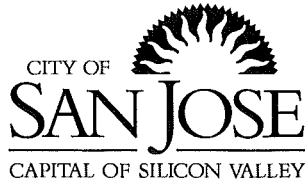
Labor Guiding Principles
Palo Alto City Council
Adopted April 9, 2012

To help maintain and support stronger working relationships between the City and Labor that are grounded in the standards of good faith bargaining, transparency, open communication and mutual respect, the Council hereby adopts the following principles to provide Labor, employees and the public with a policy framework of principles intended to guide the City's labor relations policies and priorities:

- 1. City Services/Programs/Activities:** The City's core mission is to provide services, programs, and activities that align with the priorities of the public and the City Council; levels of employee compensation should support the City's long-term ability to continue providing those services.
- 2. City Finances:** The City should be able to meet the cost of any compensation commitment from current and projected on-going City revenues.
- 3. Timing of Negotiations:** The City shall, to the maximum extent possible, reach agreement on the successor MOA with recognized employee organizations on matters within the scope of representation prior to expiration of their existing MOA. The City will work with employee groups to set an appropriate starting time for negotiations.
- 4. Total Compensation:** In making compensation decisions, the City shall consider the total costs of a position including salary, pension, and all other benefits and shall communicate such information to all employees, labor and the public.
- 5. Equity Across Employee Groups:** The City should strive to set and make similar structural changes to compensation and benefits for all employee groups, while recognizing that some flexibility may be required to fairly address issues specific to individual units and/or achieve the objectives of other guiding principles.
- 6. Recruitment & Retention:** When economically feasible, the City's compensation should be set at levels sufficient to recruit, train and retain qualified employees who are committed to the City's goals, programs and delivery of high quality services. The City should pursue hiring and training strategies that further the City's goal of finding and growing staff that are critical to maintaining its goals, programs, and services.
- 7. Transparency:** The structure and components of compensation of City employees should be easy for Councilmembers, employees, labor and the public to understand, and as efficient as possible for staff to administer.
- 8. Management of Increasing Benefit Costs:** The City should pursue short term and long term strategies to curtail increasing employee benefit costs. It should move away from providing benefits that place the burden on the City to pay the cost of automatic

increases and toward benefit structures that require negotiations to determine how much and who will pay for such costs.

- 9. Innovation in Employment and Compensation:** Providing broader and more creative choices regarding benefits may further the concepts set forth in Guiding Principles 1-8. The City should consider innovative alternatives to traditional models of public employment and public employee benefits such as Governor Brown's 2011-2012 public employee pension proposal and other innovative alternatives including, for example, but not limited to hybrid pension plans, cafeteria plans, scaled compensation in lieu of guaranteed benefits, benefit buyout options, and similar ideas



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Edward K. Shikada

**SUBJECT: APPROVAL OF REVISED
GUIDING PRINCIPLES FOR
LABOR NEGOTIATIONS
RELATED TO COMPENSATION**

DATE: March 27, 2014

RECOMMENDATION

Approve revised Guiding Principles for Labor Negotiations related to compensation.

OUTCOME

If approved by the City Council, staff will utilize the Guiding Principles during negotiations with the City's bargaining groups.

BACKGROUND

On June 12, 2007, the City Council approved the following Guiding Principles for Labor Negotiations:

- *Focus on the total cost of compensation while considering the City's fiscal condition, revenue growth, and changes in the Consumer Price Index.*
- *Use short-term and long-term strategies to address increasing benefit costs such as wellness programs, cost containment initiatives, etc.*
- *Maintain a consistent approach to bargaining through clear, ongoing communication of policy direction among City Council and City staff.*
- *Remain mindful of increasing costs, including the retiree healthcare liability.*
- *To the extent possible, preserve the City's market competitiveness as an employer.*
- *Efficiently and effectively provide services that align with both the priorities of the community and the City Council.*

At the time these guiding principles were approved, the City had undergone significant budget shortfalls and was facing even more significant budget shortfalls. It was recognized that for represented employees, salaries and benefits are determined through the negotiation process with the City's bargaining units. It was determined that in order to address the significant budget issues, the City should be guided by principles in labor negotiations in order to remain mindful of the service needs of the City and the continued fiscal challenges.

Subsequently, on March 4, 2008, the City Council adopted *Council Labor Negotiation and Transparency Guidelines*, which were revised on January 25, 2011. These guidelines are attached. These guidelines cover areas beyond compensation and benefits, and set parameters for the City Council when the City Manager or the City Manager's designee is in negotiations with any bargaining unit. These include the roles of Council members and staff relative to the City Manager's execution of the duty to negotiate on behalf of the City, and that written proposals made or received shall be posted for public review on the City's web site after the proposals have been submitted to the designated negotiators. Negotiation information can be found at the City's website at <http://www.sanjoseca.gov/index.aspx?NID=505>.

As indicated in the 2014-2015 City Manager's Budget Request and 2015-2019 Five-Year Forecast, the City's budget is in a fairly stable position over the forecast period. The difficult budget balancing actions implemented in recent years played a critical role in bringing revenues and expenditures in close alignment. These actions included a combination of significant service and position reductions, and employee total compensation reductions. These employee compensation reductions included but are not limited to a 10% total compensation reduction, rollback of a general wage increase of 2% two unions received, and benefit cost sharing changes. These were significant concessions made by City employees.

It is important to note that while the City's budget has stabilized, there continues to be a significant deficit in the service levels provided to the residents and businesses in San José. There are major gaps in services across the board that impact our community, from public safety to parks, libraries, and community services. There are also significant unmet deferred infrastructure and maintenance needs that will have a long-term impact on the City.

ANALYSIS

As noted above, significant changes have been made to employee compensation in that all City employees took an across the board compensation reduction of 10%. This was done in recognition that for Fiscal Year 2011-2012, the City had to address another General Fund shortfall of \$115 million. Yet despite achieving a 10% total compensation reduction for all employees, 140 employees were laid off, including 66 Police Officers.¹ Absent this sacrifice by the workforce, additional significant layoffs and resulting service reductions would have had to occur. This is illustrative of the difficult fiscal situation faced by the City and its employees that,

¹ Source: 2011-2012 Adopted Budget.

regardless of the significant sacrifices made by employees, the City could not avoid a reduction in its workforce. This is also significant in that it was across the board, meaning every City employee took the wage reduction.

While the City must continue its pursuit of balancing the long-term need of eliminating the General Fund structural deficit, bringing revenues and expenditures into alignment, with the immediate service delivery needs of the community, the City also recognizes the needs of the workforce in restoring the pay reduction and has committed to doing so over time. For example, most City employees received a 2% general wage increase for Fiscal Year 2013-2014. The City is also cognizant that there might be areas in which pay may need to be restored more quickly due to recruitment and retention issues with certain classifications.

Also as noted in the 2015-2019 Five-Year Forecast, an employee compensation planning reserve and an employee market competitiveness reserve has been included. The employee compensation planning reserve is for planning purposes to restore over time the compensation reductions all employees took. The employee market competitiveness reserve is included to potentially provide salary adjustments to specific job classifications where significant ongoing recruitment and retention issues are being experienced.

The Administration is recommending revisions to the Guiding Principles for Labor Negotiations in recognition of the changes in our budget situation and to provide guiding principles on negotiations related to increases that may need to occur for certain classifications represented by a bargaining unit due to recruitment and retention issues.

The following are the recommended revised Guiding Principles for Labor Negotiations, to accompany the attached *Council Labor Negotiation and Transparency Guidelines, Policy 0-39*:

Salaries and benefits are determined through negotiations with bargaining units. In negotiations with the unions over salaries and benefits, the City will be guided by the following principles:

- *The City strives to maintain a compensation structure that provides salaries and benefits that are competitive within the marketplace to attract and retain highly qualified employees.*
- *The City's fiscal circumstances will be considered when negotiating changes to compensation.*
- *The City will consider employee compensation and benefits in the context of providing high quality community services in both the short and long term.*
- *The City will consider Total Compensation (salary, pension, and all other benefits) while recognizing that market competitiveness adjustments may need to emphasize a review of "Total Cash Compensation" of comparable classifications.*

March 27, 2014

Subject: Revisions to Guiding Principles for Labor Negotiations Related to Compensation

Page 4

- *Priorities for market-based compensation adjustments will consider recruitment, retention, and the market as these factors affect specific job classifications.*
- *Market competitiveness adjustments will be advanced as funding is identified.*
- *Negotiations regarding compensation should take into consideration both short term and long term strategies to address increasing benefit costs for both the City and employees, such as retiree healthcare.*
- *The City will maintain a consistent approach to bargaining through clear, ongoing communication of policy direction among City Council and City staff, as specified in Council Policy 0-39.*

These revised guiding principles will align the approach to bargaining with the priorities established by both the Council and the community in recognition of our current circumstances.

EVALUATION AND FOLLOW-UP

Follow-up with the City Council related to this action is anticipated to occur through Closed Session direction and subsequent action in Open Session.

PUBLIC OUTREACH/INTEREST

- Criteria 1:** Requires Council action on the use of public funds equal to \$1 million or greater.
(Required: Website Posting)
- Criteria 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- Criteria 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

This memorandum doesn't meet any of the criteria above, but will be posted on the City's website in advance of the April 8, 2014 meeting.

HONORABLE MAYOR AND CITY COUNCIL

March 27, 2014

Subject: Revisions to Guiding Principles for Labor Negotiations Related to Compensation

Page 5

COORDINATION

This memorandum was coordinated with the City Attorney's Office.

CEQA

Not a Project, File No. PP10-068(b), Municipal Code or Policy change, Title 3 (Personnel).



EDWARD K. SHIKADA
CITY MANAGER

For questions please contact Alex Gurza, Deputy City Manager, at (408) 535-8155.

Attachment

City of San José, California

COUNCIL POLICY

TITLE Council Labor Negotiation and Transparency Guidelines	PAGE 1 of 3	POLICY NUMBER 0-39
EFFECTIVE DATE March 4, 2008	REVISED DATE January 25, 2011	
APPROVED BY COUNCIL ACTION	3/4/2008, Item 3.6, Res. No. 74265; 1/25/11, Item 3.2, Res. No. 75705	

BACKGROUND

Collective bargaining is governed by the Meyers-Milias-Brown Act (MMBA), the City of San José Employer-Employee Relations Resolution (#39367) and the City Charter. The City Charter designates the City Manager as the chief administrative officer of the City. Accordingly, Resolution #39367 delegates the authority to negotiate labor contracts on behalf of the City to the City Manager or the City Manager's designee.

Pursuant to the Meyers-Milias-Brown Act, the City has a right to insist that contract negotiations take place at the bargaining table between the designated representatives of the City and the designated representatives of the various bargaining unit employees. Members of the City Council shall not negotiate with employee representatives. Both the City and the bargaining units have an obligation under applicable laws to negotiate in good faith and not to bypass the negotiation teams.

As used in this policy, "negotiate" means to meet and confer with another to endeavor to reach agreement on matters within the scope of representation.

Unless agreed to by the City and the bargaining unit, negotiation sessions are confidential, but there is great public interest in having information about the negotiations available for public review.

PURPOSE

This policy applies only to the Mayor, members of the City Council, Mayor and Council staff, and Council Appointees.

References in this policy to members of the City Council or Council staff include the Mayor and Mayor's staff.

The purpose of this policy is to set guidelines for the City Council and Council staff to ensure labor negotiations are conducted in good faith, to avoid actions that would circumvent the City's designated bargaining team, and to provide timely and accurate information about the negotiations to the City Council and the public.

TITLE Council Labor Negotiation and Transparency Guidelines	PAGE 2 of 3	POLICY NUMBER 0-39
--	-----------------------	------------------------------

POLICY

It is the policy of the City Council that all of its members and staff and Council Appointees shall abide by the following guidelines when the City Manager or the City Manager's designee is in negotiations with any bargaining unit:

1. Pursuant to San Jose Resolution #39367, negotiations are conducted by the City Manager through his/her designee. Accordingly, negotiations regarding potential proposals and possible settlement shall occur between the City's designated negotiator(s) and the union's designated negotiator(s).
2. Pursuant to Section 411 of the City Charter, while the Council may express its views to the City Manager, the Council shall not interfere with the execution by the City Manager of his or her authority and duty to negotiate on behalf of the City.
3. Members of the City Council or Council staff or other Council Appointees shall not negotiate with the bargaining unit representatives or persons acting on their behalf.
4. In order to avoid misunderstandings and potential unfair labor practices, unless requested by the City Manager, members of the City Council or Council staff or other Council Appointees should not discuss with any bargaining unit representative or persons acting on their behalf any matter that is a subject of the negotiations while the City and the bargaining units are engaged in the negotiation process. The negotiating process shall be defined as the time period starting with the first negotiation session until a resolution has been achieved. This provision does not apply when the City Attorney is handling litigation on matters that are subject to negotiations, interest arbitration, or when the City Attorney is contacted by a bargaining unit's designated legal counsel to discuss legal issues. The City Attorney shall notify the City Manager of any such communications to ensure coordination with the legal issues and Council direction to the City Manager for labor negotiations.
5. Nothing in this policy shall prohibit members of the City Council, Council staff or Council Appointees from listening to bargaining unit representatives or persons acting on their behalf. Members of the City Council shall not knowingly respond to or discuss any proposals or any other confidential closed session discussion.
6. Nothing in this policy shall preclude the City Manager from requesting the assistance of the City Attorney or other Council Appointees in carrying out the responsibilities as the Municipal Employee Relations Officer.
7. Members of the City Council and City Council staff shall disclose to the City Manager and to the entire City Council material facts regarding issues related to ongoing negotiations. (See Council Policy 0-32 regarding disclosure of material facts).
8. Authorization and direction to the City Manager is provided in closed or open session. If done in closed session, in order to maintain the integrity of the negotiation process, closed session discussions must remain confidential.
9. Written proposals made or received shall be posted for public review on the City's web site after the proposals have been submitted to the designated negotiators.

TITLE Council Labor Negotiation and Transparency Guidelines	PAGE 3 of 3	POLICY NUMBER 0-39
---	-----------------------	------------------------------

10. The City Manager will provide periodic updates on labor negotiations to the City Council in open session except for elements that are required to be held confidential. These updates shall include a summary of proposals exchanged since the last update.
11. Bargaining unit representatives or persons acting on their behalf may comment on the City Manager's open session labor negotiations update. This shall be done during open session to ensure all of the Council receives the same information. The City Council may listen to these statements made in the public forum and may ask questions for clarification purposes, but shall not respond to the comments, or engage in dialogue or any other form of bargaining with the representatives.
12. Nothing in this policy shall limit, restrict, or modify any of the powers provided to Council Appointees under the City Charter.

RESOLUTION NO. 10248 (2011 Series)

**A RESOLUTION OF THE CITY OF SAN LUIS OBISPO MODIFYING ITS
COMPENSATION PHILOSOPHY SUPERSEDING PREVIOUS
RESOLUTIONS IN CONFLICT**

WHEREAS, the City of San Luis Obispo strives to provide excellent service to the community at all times, and supports this standard by promoting organizational values including customer service, productivity, accountability, innovation, initiative, stewardship, and ethics; and

WHEREAS, to achieve our service standards, the City must attract and retain well qualified employees who exemplify our organizational values; and

WHEREAS, fostering an environment attractive to such employees depends upon many factors, including a competitive compensation program.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of San Luis Obispo that the City's compensation philosophy is adopted as follows:

SECTION 1. The City is committed to providing competitive compensation as part of an overall strategy of attracting and retaining well qualified employees who exemplify our organizational values.

SECTION 2. The City will consider total compensation, including but not limited to, salary, health, retirement, and time off benefits.

SECTION 3. In evaluating competitive compensation, the City considers:

A. **Financial sustainability** including the City's financial condition as reflected throughout the financial forecast, competing service priorities, maintenance needs, capital improvement and other asset requirements, fund reserve levels, and revenue projections prior to implementing changes in compensation.

B. **Community acceptability** since taxpayers and ratepayers ultimately fund all employee compensation.

C. **The "relevant labor market"** that may vary depending upon classification and is primarily defined by the geographic region (local, state-wide, or national) and key markets (municipal, other government agencies, private sector) where labor talent is found, recruited from, and/or lost.

When the relevant labor market is defined as "local"; local private sector compensation data will be considered along with local public sector compensation (municipal and other government agencies). When the relevant labor market is statewide or national, the City will consider compensation data for public sector agencies (municipal and other government) with several

comparable demographic data points including but not limited to population, median home price, median household income, median age, median education level, services provided, and unemployment rate. Quality of life should also be considered when selecting comparable municipal and other government agencies.

D. **“Internal relationships”** referring to the relative value of classifications to one another as determined by the City. Classifications performing comparable duties, with comparable responsibilities, requiring a similar level of skill, knowledge, ability, and judgment, will be valued similarly in the City’s compensation structures.

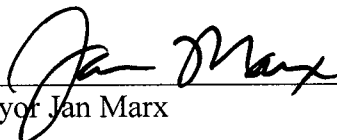
E. **Other relevant factors** may include unforeseen economic changes, natural disasters, states of emergency, changes in City services, and changes in regulatory or legal requirements.

SECTION 4. At least every five years, the City will evaluate its compensation structure, programs, and policies to assess market competitiveness, effectiveness, and compliance with State Law. Adjustments to the compensation structure may be made as a result of this periodic evaluation and will be done through the collective bargaining process, if applicable, or other appropriate Council-management processes.

Upon motion of Council Member Carter, seconded by Council Member Carpenter, and on the following vote:


AYES: Council Members Carpenter, Carter and Smith, and Mayor Marx
NOES: Vice Mayor Ashbaugh
ABSENT: None

The foregoing resolution was adopted on March 15, 2011.



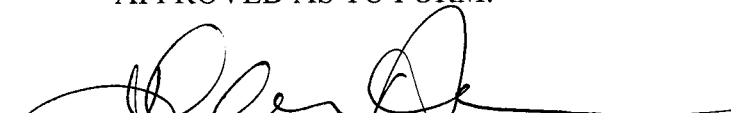
Mayor Jan Marx

ATTEST:



Elaina Cano
City Clerk

APPROVED AS TO FORM:



J. Christine Dietrick
City Attorney

RESOLUTION NO. 13-21

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SUGAR LAND, TEXAS,
ADOPTING THE CITY'S COMPENSATION POLICY.**

**BE IT RESOLVED BY THE CITY COUNCIL
OF THE CITY OF SUGAR LAND, TEXAS:**

Section 1. That the City Council adopts the following policy:

CITY OF SUGAR LAND COMPENSATION POLICY

The Policy serves as the values for establishing salary and benefits administration and maintenance guidelines.

The compensation philosophy provides a common understanding and consensus regarding the underlying tenets of a compensation system. A compensation philosophy that underlies the compensation system consists of two components, the guiding principles and the key objectives. Together, the components form the basis of a long-term compensation philosophy and serve as the values for establishing the salary and benefits administration and maintenance guidelines.

Guiding Principles

1. The City of Sugar Land recognizes the value of our employees, which includes both new and current dedicated employees. The City of Sugar Land will pay on a competitive basis and target the market mean (average) of appropriate benchmark surveys that include both public and private sector organizations for all positions other than Fire and Police classified positions.
2. The City of Sugar Land will benchmark Fire and Police classified positions to determine the minimum range for Firefighter and Police Officer positions. The City will do this by targeting the 75th percentile of comparable municipalities. The City will drop the highest paid and the lowest paid in order to average out the impact that may occur from year to year. The salary structure will then be changed accordingly.
3. The City of Sugar Land will recognize performance and reward employees for work well done by the use of merit pay programs and other forms of formal recognition.
4. The City of Sugar Land is committed to the fair and equitable administration of the compensation system. The compensation system for the City of Sugar Land will be easy to understand and effectively communicated to all employees.
5. The City of Sugar Land has the potential to compensate employees above the market median for consistent and documented exemplary performance and results or as a result of the negotiation process for recruited positions.

6. The Human Resources Department of the City of Sugar Land will continually monitor and evaluate the compensation system to ensure management is fully aware and sensitive to relevant market fluctuation(s) and/or movement(s).
7. The City of Sugar Land will provide competitive group health benefits programs for all current and future full-time employees as part of the employees' compensation package.
8. The City of Sugar Land will offer post-employment benefits at group costs to employees who retire from City service.
9. The City of Sugar Land will evaluate total compensation through applying and reviewing the benefits burden.

Key Objectives

1. It is the philosophy of the City of Sugar Land that the City maintain fair, consistent and equitable pay practices in alignment with the City of Sugar Land's core community service and business values.

The community service and business values of the City of Sugar Land are to be fiscally responsible and maintain an established level of service to its constituents. The development of fair, consistent and equitable pay practices provides the means for employees to receive a compensation level that is consistent with these values.

2. It is the philosophy of the City of Sugar Land that the City utilize a fair and equitable compensation system that will assist the City in attracting, hiring, developing and retaining a championship workforce.

The purpose of an organization's compensation system is to contribute to the maintenance of a workforce that helps the organization achieve its goals and objectives. To optimize this achievement, the organization must have a compensation system that will secure and retain high levels of competency. The City of Sugar Land requires and expects the best from its creative, energetic, knowledgeable and capable employees.

3. It is the philosophy of the City of Sugar Land that the City should employ pay structures for ease of communicating the compensation system, illustrating career growth, and as one measure of internal equity.

The pay structures will communicate the compensation plan during the budget process and will help employees readily see career paths within the organization. Pay structures will also provide one way of analyzing internal equity among positions.

4. It is the philosophy of the City of Sugar Land to emphasize the importance of exemplary work performance by rewarding and recognizing it accordingly in relation to the compensation plan.

The City of Sugar Land considers employees who continuously perform exemplary work as a valuable asset. The compensation system should provide a method to identify and reward exemplary employees as it relates to their experience in their current position and the placement of the employee within the compensation structure.

5. It is the philosophy of the City of Sugar Land that the City provides an equitable system of evaluation and classification covering all positions at the City of Sugar Land to properly reflect internal relationships.

The relationship of positions within the compensation structure result from job factor evaluations for non-public safety positions as well as a market analysis of base salary for comparable positions.

6. It is the philosophy of the City of Sugar Land to maintain base compensation and salary ranges deemed competitive or externally equitable among the relevant markets in which the City competes for talent.

The principle of external equity states that an organization's pay structure must possess competitive integrity, (i.e., the ability to secure a competent work force from the labor market(s) in which it competes with other organizations for its labor supply), without injuring its relative competitive position with regard to the cost of its services.

7. It is the philosophy of the City of Sugar Land that external equity within the City's compensation plan can best be achieved by conducting objective wage and salary surveys.

The impact of current labor market conditions and basic supply-and-demand economics must be considered when developing an organization's pay structure. To maintain consistency, the City of Sugar Land will consider re-surveying compensation survey data every two to three years to determine the market average pay rates.

8. It is the philosophy of the City of Sugar Land that the findings from the internal evaluation and the findings from external determinants (i.e., wage and salary survey results) should be integrated to formulate a compensation system that is fair, equitable and non-discriminatory.

The dimensions of market worth and internal position worth have to be objectively integrated if a valid and reliable pay structure is to be achieved. The internal evaluation system determines the internal equity associated with each job and the market evaluation determines the average salary being paid for the job in the market. When these two factors are combined, both the internal relative worth and the market competitive worth dimensions are integrated to achieve pay equity.

9. It is the philosophy of the City of Sugar Land that salary ranges should be supported by a system of wage and salary administration.

The use of a "Minimum" and "Maximum" are identified for each City of Sugar Land position. Employees should progress through the pay plan, between the minimum and maximum pay levels, based upon performance standards or some other method established by the City.

10. It is the philosophy of the City of Sugar Land that salary ranges for the City should be dynamic rather than static.

Periodic adjustments to the salary schedule component of the City's pay structure will be based on market conditions and the City's compensation philosophy. Periodic adjustments should not be considered cost-of-living adjustments, but rather adjustments to maintain competitive salary ranges into the future. If the City chooses to position itself at a specific point in the labor market (e.g., the mean or 75th percentile), annual adjustments will be necessary to maintain that position. If ranges are not adjusted to keep up with the labor market and inflation, eventually the organization will lose its ability to attract and retain a quality workforce. This does not mean that all employees' salaries and/or the salary ranges must be adjusted annually. Salaries may be adjusted on the basis of the individual's job performance or attainment of other criteria as determined by the City, and not necessarily when the pay structure is adjusted.

11. It is the philosophy of the City of Sugar Land that pay increases for promotions should be significant enough in magnitude to provide an obvious incentive and to stimulate aspirations for higher positions within the City.

When an employee is promoted to a position in a higher pay grade, the employee should be placed in the new pay grade based on the City's administrative policy. In no instance will an employee's salary increase result in being paid more than the current maximum of the assigned pay range.

12. It is the philosophy of the City of Sugar Land to provide a post-employment pension and savings program to all full-time employees.

In lieu of participation in the Federal Social Security Program, City of Sugar Land employees participate in the Texas Municipal Retirement System (TMRS) pension program, which contains the plan designs of Updated Service Credits (USC) to help keep employees' retirement benefits from being eroded over time and Annuity Increases (COLAs) for retirees to counter the effects of inflation on their fixed pensions. The City also provides a supplemental death benefit to current employees and retirees through TMRS. Employees are also offered the opportunity to voluntarily participate in 457(b) savings plans.

13. It is the philosophy of the City of Sugar Land to provide competitive group health benefits to qualified employees.

To ensure employees and their families have access to healthcare, the City of Sugar Land offers group-sponsored medical and dental plans that foster wellness and preventative care as well as provide security and peace of mind in the event of a serious condition.

14. It is the philosophy of the City of Sugar Land to offer employees who qualify for retirement with the City to continue participating in the City's group health benefits and certain ancillary benefits.

Retirees are offered the opportunity to continue participation in certain benefits by paying the group rate(s) as they transition into retirement. These opportunities are offered to ensure retirees and their families have access to healthcare and other services and programs as they did prior to retirement from the City.

15. It is the philosophy of the City of Sugar Land to offer a menu of appropriate ancillary benefits to full-time employees.

A wide array of ancillary benefits is offered to employees so they may tailor their overall benefits selections to meet their personal needs. These programs are offered to ensure employees have access to services and programs that provide them with the greatest level of security and comfort, yet have minimal fiscal impact to the City.

16. It is the philosophy of the City of Sugar Land to provide life and disability programs for qualified employees.

In lieu of participation in the Federal Social Security Disability and Death Benefits, the City of Sugar Land provides full-time employees with Long-Term Disability coverage as well as basic life insurance coverage. These benefits are provided to address employee concerns for themselves and their families in the event of significant and/or catastrophic health conditions and even death.

17. It is the philosophy of the City of Sugar Land to maintain a benefits burden as it relates to total compensation.

The City of Sugar Land's benefits burden will be calculated annually utilizing the same process as the State Auditor's office and the Federal Bureau of Labor statistics. The benefits burden will be calculated by dividing the costs of benefits by total compensation. The benefits burden will be no greater than what is listed in these benchmarks for the private sector.

Section 2. That City of Sugar Land Policy No. 6000-03 is hereby repealed.

APPROVED on May 7, 2013.

James A. Thompson, Mayor

ATTEST:

Glenda Gundermann, City Secretary

APPROVED AS TO FORM:

A handwritten signature in cursive script, appearing to read "M. Powell", is written in a light grey or blue ink on a white background.

**ICMA
Guidelines for Compensation**

General Compensation Guidelines for all Employees

1. Each local government should establish benchmark agencies which are determined using set criteria, such as, but not limited to:

Close geographic proximity

Similarity with regard to the nature of the services provided

Similarity in employer size/population size

Similarity in the socio-economic makeup of the population

Other similar employers in the immediate area

2. The local government should develop appropriate compensation levels that are in line with their labor market. Doing so will enable the organization to establish and maintain a reputation as a competitive, fair, and equitable employer as well as a good steward of public funds.

3. When considering any salary or benefit changes, the immediate and anticipated long-term financial resources of the organization always should be taken into account.

4. Appropriate financial practices should be followed



YUKON GOVERNMENT TOTAL COMPENSATION PHILOSOPHY – MANAGEMENT GROUP

Purpose

This Total Compensation Philosophy statement is to detail the Yukon government's goals and principles for management compensation. This philosophy statement is a map or a guide for the evolving compensation system and for making effective compensation decisions that recognize employees for business and service results on behalf of our citizens.

The management total compensation philosophy is distinct and separate from that which applies to the unionized staff of the Yukon government.

The Yukon government intends to maintain a management compensation program that will help it attract and retain the managerial and leadership talent needed to grow and further the strategic interests and needs of the Yukon public service. The compensation program will be sufficiently attractive to provide talented employees with good reason to remain with the Yukon government and continue in their efforts to enhance service to the citizens of the Yukon.

Finally, the management compensation program will be designed to motivate, engage and recognize employees who achieve targeted results. Compensation for employees will be commensurate with their success in achieving Yukon government, department and individual goals and objectives.

Guiding Principles

The Yukon government will be guided by seven principles in the design, review and administration of management compensation programs.

1. *Performance based:* we will focus on specific, value improving performance objectives.
2. *Objective:* wherever possible, we will use quantitative measures to measure achievement.
3. *Complete:* the programs will be designed to meet the needs and requirements of both YG and employees, and will be consistent with competitive practice.
4. *Competitive:* we will regularly monitor the external market to ensure that YG employees have pay opportunities consistent with our desired competitive practice.
5. *Flexible:* the employee compensation program will be revised as business conditions and employee needs change. We will continue programs that are effective, and modify or eliminate those that are ineffective or lose effectiveness over time.
6. *Appealing to employees:* we will strive to design and deliver compensation programs that take into account employees' personal and career goals and objectives.
7. *Clear and understandable:* the employee compensation program will be designed and managed in a way that achieves on-going clarity and understanding for employees and our citizens.

Yukon Government Total Compensation Philosophy - Management Group
Employee Compensation Branch, Public Service Commission



Our total management compensation package includes pay and benefits as well as non-monetary components.

PAY

Total cash compensation is first and foremost performance-based and is driven by the Yukon government's and the individual management employee's achievements on behalf of our citizens. Thus, management compensation at the Yukon government cannot be assumed; rather, it is to be earned in a manner that will further the interests of the public service working on behalf of Yukon citizens.

Our fundamental management compensation strategy is to differentiate between levels of performance and to recognize consistent levels of superior performance in the attainment of both short and long-term objectives.

When reviewing base salary it is important to keep in mind that job value is based on a continuum, anchored at one end by the external market and at the other end, by appropriate internal relativity (job evaluation). The Yukon government will review this continuum and decide the appropriate placement for each management position.

It is not the intent of the Yukon government to externally measure every position to the external market. We will select benchmarks that represent the diversity of hierarchy within the organization. Positions that are not benchmarked will be aligned through the internal job evaluation process.

In defining our external marketplace, the Yukon government will remain sensitive to the federal government, the western provincial/territorial governments, other selected governments as required, the private sector when necessary and our geographic-specific area where we attract and lose talent. In defining our internal relativity, the Yukon government will use a proven job evaluation methodology for management. The results of the external marketplace and internal position evaluation will be integrated to produce and ensure appropriate salary ranges for the Yukon government. We will review and monitor both external and internal processes on an on-going basis.

The goal of the management total cash compensation program is to target our programs at the median of our defined external marketplace. We will review this target level to ensure that it remains valid and competitive. This target level may be adjusted as business and market conditions change.

BENEFITS

Our benefit strategy is to provide competitive, cost effective benefits that will help to attract and retain employees. Our benefits package includes an extensive, flexible group insurance package, a defined benefit pension plan, an exemplary paid and unpaid leave benefits package and a variety of allowances.

Yukon Government Total Compensation Philosophy - Management Group
Employee Compensation Branch, Public Service Commission



NON-MONETARY COMPONENTS

The Yukon government takes a broad philosophical approach to total management compensation; an approach that includes both monetary and non-monetary components. There are a number of non-monetary components which are an integral part of the total compensation package and which reflect the vision, values and strategies of the organization. The Yukon government is committed to providing management employees with a robust work environment which includes:

Leadership: leaders who strive to be strategic thinkers who are innovative in meeting public and public service needs, and who focus on developing their employees and make it possible for their employees to establish a work-life balance

Culture: an organization that is transparent, professional, and ethical; delegated decision-making and flexibility for managers; an environment which encourages innovation and accepts that there are risks associated with being innovative; reasonable workloads and acknowledgement of the need for work/life balance; a learning organization; an organization where people want to work and take pride in being members of the public service

Flexible Work Arrangements: acknowledging the role balance plays in creating personal well-being, satisfaction and productivity in our workforce; promoting the use of flexible work arrangements to help our employees resolve the conflicts created by demands in their personal and work lives

Learning and Career Management: developing core competencies for job families and using these to establish career paths and related training; promoting and providing career counseling and training opportunities for employees to increase and improve their skills in their current jobs and to enhance their careers

Corporate Orientation: a comprehensive corporate orientation for employees

Line of Sight: ensuring employees understand their role in the public service and how it contributes to the ultimate goal of providing high quality service to the Yukon public

Diversity: an organization which strives to create and maintain a public service that represents the diversity of the population it serves, and reflects, values and respects the cultures, traditions and history of all Yukon people.

Yukon Government Total Compensation Philosophy - Management Group
Employee Compensation Branch, Public Service Commission



Midpeninsula Regional Open Space District

Board Policy Manual

Employee Compensation Guiding Principles	Policy # Chapter 2 – District Personnel & Board Support
Effective Date:	Revised Date:
Prior Versions:	

Purpose:

The District's Board of Directors values high-quality employees dedicated to fulfilling the mission of the District in service to the public. Competitive compensation is one important tool to attract and retain high-quality employees. By clearly setting forth Employee Compensation Guiding Principles in this policy, the District's Board of Directors is establishing its compensation philosophy, through a transparent and public process for employees and members of the public, to guide the General Manager's employee compensation recommendations into the future. These guiding principles are flexible. Factors may prove to be more or less important in particular negotiations.

Guiding Principles:

- As stewards of public funds, the District shall hold accountability to the public as a cornerstone value in maintaining competitive, fair, and equitable compensation for its employees for their high-quality and hard work in delivering excellent services to the public; *[public accountability]*
- Employee compensation decisions shall be considered in the context of short and long-term affordability, and shall not negatively impact the District's ability to fulfill its mission with excellent service into the future; *[affordability]*
- The Board of Directors shall always retain flexibility to address circumstances that may be negatively impacting the District's ability to attract and retain high-quality employees and deliver excellent services to the public; *[flexibility]*
- The Board will refer to the California Meyers Miliias Brown Act to determine what, if any, criteria the law identifies to be considered in labor negotiations in local public agencies to determine appropriate compensation. *[legality]*
- The Board of Directors shall consider salary and benefits as key, yet different, factors comprising competitive compensation. Within the District's labor market and within comparison to benchmark agencies (which are determined through a combination of

factors, typically including organizational type and structure, similarity of population, staff, and budget, scope of services provided and geographic location, labor market, and compensation philosophy) a competitive salary is defined as the “median salary” of the comparator agencies, utilizing comparisons of “top-range” salary when comparing classifications. *[competition]*

- The Board of Directors also considers one-time monetary benefits (such as lump-sum merit or longevity pay, tuition reimbursement, deferred compensation plans or other pre-tax deferrals) and non-monetary benefits (such as meaningfulness of the District’s mission, job-stability, professional growth opportunities and organizational future, organizational culture, work environment, and work recognition) as factors in remaining competitive within the District’s labor market; *[competition]*
- The Board of Directors acknowledges that the high Cost of Living in the Bay Area is an ongoing challenge for public sector recruitment and retention. While the guiding principles above that relate to maintaining competitive compensation within the District’s labor market help to partially address the Cost of Living challenges, the District is willing to explore innovative ideas, alone or in concert with other public agencies, to improve this regional challenge. *[competition]*
- To determine competitive salaries and benefits in the District’s labor market, the Board of Directors may periodically direct the General Manager to conduct a compensation study. The following guidelines will apply to compensation studies, unless otherwise directed by the Board: *[future compensation studies]*
 - Benchmark comparator agencies will remain as consistent as possible from study to study;
 - Focused compensation reviews, conducted by Human Resources, will generally be undertaken every 2-3 years, in response to unforeseen, dramatic changes in the labor market or as new positions or work groups are established, with the intent of managing potential “drift” of District compensation;
 - Data results that fall within +/-5% of median are considered competitive and do not warrant changes.
 - Competitiveness of benefits will be periodically evaluated and addressed, typically in the context of labor negotiations.

Understanding Salary and Total Compensation

As part of the 2013-14 Compensation Survey Update, Koff & Associates collected both top-range salary data and total compensation data (salary plus benefits) for 36 benchmark positions. The data results show the percentage variation for district benchmark positions above or below the median of the District's comparator agencies for both top range salary and total compensation. Because the total compensation data show more positions below median of comparators than the top-range salary data, numerous comments were received from employees suggesting that implementation of any compensation changes as a result of this compensation survey update should be based on the total compensation data instead of the top-range salary data.

In understanding this topic, there are numerous factors that management needs to consider from an organizational-wide perspective in this evaluation:

- Benefits are typically applied equally to all District employees, so there is limited control in individually adjusting benefits. This is particularly true of major cost benefits such as health insurance and retirement pensions with CalPERS. Salaries can be adjusted by individual classifications, while also keeping internal alignment concerns in mind. However, implementing compensation changes by adjusting salaries to make up for benefits that are lower than median could contort salary comparisons and internal salary alignment.
- Comparing benefit values between comparator agencies is more complex than comparing salaries. For example, numerous agencies participate in Social Security in addition to CalPERS for their pension benefit, yet how these two pension systems affect each other for one's pension calculation in retirement is too individualized to reflect as part of this study. In addition, for those that participate in Social Security, the mandatory 6.2% contribution from the employee's salary is not reflected in the salary comparison.
- District benefits remain competitive with comparator agencies. On average, District benefits are only slightly below the median.

These factors – maintaining uniformity of benefits while not upsetting internal alignment, challenges with comparing benefits between comparator agencies, and the competitiveness of current benefits – are important considerations when implementing compensation study results. Based on these factors, compensation changes following the last study were approved by the Board based on salary only, not total compensation.

Understanding Cost of Labor, Labor Market Geographic Adjustor, and Cost of Living

During discussions about employee compensation, it is common for questions to arise about the distinction between “cost of living” and “cost of labor,” and the extent to which a “labor market geographic adjustor” reflects geographic cost of living differences.

As was explained during the 2011 and 2013-14 compensation studies during the selection of the Comparator Agencies and subsequent Board approval, one of the challenges for the District is identifying a sufficient number of comparator agencies within the geographic area that provide similar open space services. Consequently, the study had to expand to other agencies within California. While the County of Sacramento and the Riverside County Regional Park and Open Space District remain as comparators, more greater Bay Area agencies were added for the 2013-14 study -- County of Santa Cruz, Livermore Area Recreation and Park District, Marin Municipal Water District, Santa Clara County Open Space Authority, and Santa Clara Valley Water District. Even with these greater Bay Area agency additions, Riverside and Sacramento counties remained essential as comparators for the study to achieve a sufficient number of benchmark classification matches. Of the fourteen comparator agencies as approved by the Board for this study, four are considered outside the District’s labor market, resulting in cost of labor adjustments as follows:

- Riverside County Regional Park and Open Space District: +13.2%
- Sonoma County Agricultural Preservation and Open Space District: +12.3%
- County of Santa Cruz : +8.7%
- County of Sacramento: +9.8%

These labor market adjustors are from the Economic Research Institute (<http://www.erieri.com/>).

However, numerous comments have suggested that these labor market adjustors do not make up for the cost of living differences, particularly the cost of housing, between these different geographic areas. This is generally true. Prevailing pay rates in the Bay Area’s labor market do not compensate employees for their cost of living. Prevailing pay rates are designed to pay employees a competitive salary for the particular jobs they perform and the specific skill/capability sets that they offer to the organization. And by basing pay scales on local prevailing pay rates, an employer is reflecting local cost of living, including cost of housing, *to the same extent as all other employers in the area*. In other words, while the cost of labor only generally reflects the region’s cost of living, employment/unemployment rates, housing costs, growth rate, and other demographic characteristics, it precisely reflects the extent to which other agencies that compete with the District’s talent pool are compensating their employees for their cost of living.