Midpeninsula Regional
Open Space District

ACTION PLAN & BUDGET COMMITTEE

R-14-157
December 10, 2014

AGENDA ITEM 2

AGENDA ITEM

Development of Employee Compensation Guiding Principles

GENERAL MANAGER'S RECOMMENDATION

Complete discussion and development of Employee Compensation Guiding Principles for recommendation to the full Board of Directors.

SUMMARY

Following the Action Plan and Budget Committee (ABC) meeting on November 18, 2014, staff completed additional preliminary analysis of the potential cost implications of the draft Employee Compensation Guiding Principles policy. The results of additional cost analysis are presented in this report to the ABC for review and discussion, prior to bringing the draft policy to the full Board for review and discussion. The preliminary cost estimate for implementing salary and benefits decisions based on median to 55^{th} percentile target compensation levels ranges from approximately $675,000 to $995,000 per year more than current salary and benefit costs based on current staffing levels. With anticipated significant growth in the number of District employees in the coming decade, this cost impact could increase to between $1.0 million and $1.5 million per year by 2025 (in today's dollars). Most of these costs are related to draft policy options concerning setting a median to 55^{th} percentile goal for employee benefits package value. According to the District Controller, the District's financial model can afford and sustain these cost increases, although at the expense of being able to add seven to fourteen additional employees that could otherwise be hired to accomplish the District's Mission, including Measure AA projects. The impact would be to lengthen the time required to complete Measure AA projects. The precise trade-off between enhanced compensation, the number of future employees and the time required to complete Measure AA projects cannot be calculated until a more detailed salary and benefits analysis could be completed, in addition to completion of the Financial and Organizational Sustainability Model Study.

Due to these significant potential impacts to future staffing capacity and Measure AA progress, the General Manager recommends the ABC's consideration of an additional option related to employee benefits package value that would not specify a specific target value or range, but rather state the Board of Directors' intent to maintain a benefits package that helps attract and retain quality employees. This option would allow more flexibility for the Board and

management to improve employee benefits, but at a lower and more sustainable cost that simultaneously allows for appropriate staffing capacity to complete Measure AA projects sooner.

DISCUSSION

At their November 18, 2014, meeting the ABC focused on the General Manager's recommended policy language for the definition of competitive salary and competitive benefits, as well as the preliminary cost estimate (draft minutes provided as Attachment 1). The ABC stated their support of the policy as currently drafted (Attachment 2), except for Principle 6 regarding the definition of competitive compensation. The ABC decided to not make a recommendation concerning this provision. Instead, the ABC decided the full Board should have an opportunity to review and discuss two alternatives for Principle 6, along with their comparative cost implications, before directing the General Manager on the content of that provision. After reviewing the additional cost analysis of the Principle 6 options, the General Manager and District Controller were concerned about the potential short and long term cost implications and, based on this new information, the General Manager decided to return to the ABC to present this cost information, prior to elevating the draft policy to the full Board. Principle 6 is described below.

<u>Principle 6, re: Competitiveness</u>

This principle conveys the ABC's recommendation that salary and benefits should both, and independently, be competitive in order to achieve competitive total compensation. The ABC reviewed and understands the importance of achieving internal alignment of salaries within work groups, departments, or the whole organization. Raising salaries to make up for lower benefits, or lowering salaries to make up for higher benefits can be detrimental to internal alignment. Additionally, the ABC reviewed and understands that compensation, whether for salaries or benefit package values, within a plus or minus five percent of the target value is considered competitive in the labor market and that this range of flexibility is important to maintaining internal alignment. Therefore, the central question discussed by the ABC in developing this principle was at what level to set the target value for top-range salary and for benefits package value and still achieve competitiveness, understanding some employees' compensation may be placed below or above the value by up to five percent. The ABC developed two options to present for the full Board's review and discussion:

A. *55/55 Option*: The target value for both top- range salary and benefits package value is median to 55th percentile of comparator agencies, plus or minus five percent, with no employee's top-range salary below median or above 60th percentile. The Board retains its decision-making flexibility as provided in the policy and also determines the core benefits that would be valuated and compared.

B. *55/50 Option*: The target value for top- range salary is median to 55th percentile of comparator agencies, plus or minus five percent, with no employee's top-range salary below median or above 60th percentile. The target value for benefits package value is median, plus or minus five percent, with no employee's benefits package value below 45th percentile or above 55th percentile. The Board retains its decision-making flexibility as provided in the policy and also determines the core benefits that would be valuated and compared.

<u>Cost Implications</u>

Staff has conducted a preliminary cost estimate of the potential implications of the Employee Compensation Guiding Principles Board Policy, showing the difference between the 55/55 Option and the 55/50 Option, as well as the difference between the cost implications based on current staffing levels compared to increased staffing levels in the future. Data used to calculate the costs are based on Koff & Associates' 2013-14 MROSD Compensation Study data. *Although staff is confident that these preliminary cost estimates represent the order of magnitude cost impact that could be expected if/when future employee compensation decisions are guided by this policy*, staff cannot precisely calculate the cost at this time due to the following reasons:

- Precise salary costing requires a position by position salary range placement decision, which entails complex management decisions such as internal alignment, Y-rating, or salary increases or reductions, before precisely knowing the cost difference between current salary placement and recommended salary placement. The preliminary estimate assumes that everyone is at top range salary, no one's salary is reduced, and salaries that exceed the recommended placement are Y-rated (meaning their salary remains status quo until the new range catches up to them).
- Current data does not reflect the 3% cost of living adjustment received by District employees on July 1, 2014. Nor does it reflect changes in salaries or benefits other comparator agencies have made since the current study was completed in January 2014.
- Precise benefits costing would require a comprehensive benefits package analysis, which entails assessing limitations of adjusting benefits differently for different classifications of employees.
- A benefits package analysis will also entail Board direction and/or management decisions about what benefits should be compared with comparator agencies; those decisions cannot be made until the details of the benefits are analyzed.
- Future growth in the number of District employees is not precisely known at this time. The District has grown by 50% over the last ten years, which includes a major recessionary period. The preliminary estimate assumes this same growth rate over the next ten years. There are currently 124.55 full-time equivalent budgeted positions, of which 112.5 receive benefits. The preliminary cost estimate for increased staffing levels ten years from now is based on 187 full-time equivalents, of which 169 receive benefits.

Salary Cost Estimate (Annual):	Year 1 (Current Workforce)	Year 10 (Estimated Future Workforce)
	$255,000	$380,000

Both options in Principle 6 set the target top range salary within the range of median to 55th percentile, with no one's salary below median nor above 60th percentile. The difference in annual salary costs between Koff & Associates' recommended salary range placements between median and 55th percentile and no one below median, compared to salary range placements between 45th percentile and median is approximately $255,000 per year with the current workforce. This assumes all employees are at top-range salary, no one's salary is reduced, and salaries that exceed the recommended placement are Y-rated. This cost impact could grow to $380,000 per year based on an estimated growth rate of 50% of employees over the next 10 years (slightly less depending on how many positions were Y-rated initially and how many years it takes for salary ranges to catch up to the Y-rated salaries).

Benefits Cost Estimate (Annual):	Year 1 (Current Workforce)	Year 10 (Estimated Future Workforce)
Option A:	$500,000 - $740,000	$750,000 - $1,100,000
Option B:	$420,000 - $610,000	$625,000-$915,000

Option A in Principle 6 sets the target benefits package value within the range of median to 55th percentile, with no one's benefits package value below median nor above 60th percentile. Option B sets the target benefits package value within the range of 45th percentile to median, with no one's benefits package value below 45th percentile nor above 55th percentile. The estimated cost to raise the current benefits package value to 45th to median range (Option B) would range from approximately $420,000 to $610,000 per year with the current workforce. This cost impact could grow to a range from approximately $625,000 to $915,000 per year (in today's dollars) based on an estimated growth rate of 50% of employees over the next 10 years. The estimated cost to raise the current benefits package value to median to 55th percentile range (Option A) would range from approximately $500,000 to $740,000 per year with the current workforce. This cost impact could grow to a range from approximately $750,000 to $1,100,000 per year based on an estimated growth rate of 50% of employees over the next 10 years.

FISCAL IMPACT

Total Annual Cost Estimate:	Year 1 (Current Workforce)	Year 10 (Estimated Future Workforce)
Top-Range Salary & Benefits Option A:	$755,000 - $995,000	$1,130,000 - $1,480,000
Top-Range Salary & Benefits Option B:	$675,000 - $865,000	$1,000,000-$1,295,000

If the ABC recommends to the full Board, and the full Board adopts, an Employee Compensation Guiding Principles policy that sets the compensation target for top-range salary and benefits at median to 55th percentile of comparator agencies, it is estimated that potential changes to employee compensation to meet this target could range from $675,000 to $995,000 per year more than current salary and benefit costs based on current staffing levels (depending on whether Option A or B is selected). With anticipated significant growth in the number of District employees in the coming decade, this cost impact could increase to between $1,000,000 and $1,480,000 per year by 2025 (in today's dollars). The precise fiscal impact in the short term will be unknown until a detailed review and analysis of a final recommended salary schedule and where each employee sits in his/her salary range, as well as a comprehensive benefits package analysis, can be completed.

According to the District Controller, the District's financial model can afford and sustain these cost increases, although at the expense of being able to add seven to fourteen additional employees that could otherwise be hired to accomplish the District's Mission, including Measure AA projects. The impact would be to lengthen the time required to complete Measure AA. The precise trade-off between enhanced compensation, the number of future employees and the time required to complete Measure AA cannot be calculated until a more detailed salary and benefits analysis could be completed, in addition to completion of the Financial and Organizational Sustainability Model Study.

ALTERNATIVE

Due to the significant potential impacts to future staffing capacity and Measure AA progress of Principle 6 when limited to Options A or B regarding employee benefits, the General Manager recommends the ABC's consideration of an additional option related to employee benefits package value that would not specify a specific target value or range, but rather state the Board of Directors' intent to maintain a benefits package that helps attract and retain quality employees. This option would allow more flexibility for the Board and management to improve employee benefits, but at a lower and more sustainable cost that simultaneously allows for appropriate staffing capacity to complete Measure AA projects sooner. The draft policy provided in Attachment 1 includes language for this alternative as Option C of Principle 6.

Under this alternative, the ABC would still be recommending an Employee Compensation Guiding Principles policy that sets forth a compensation philosophy for higher salaries and benefits than current. However, the potential cost implications in the short and long term would be more sustainable and allow for appropriate staffing capacity to complete Measure AA projects sooner. For example, a $150 per month benefit package value increase for each employee would cost approximately $203,000 per year near term and $304,000 per year ten years from now (in today's dollars). Combined with the salary related part of Principle 6, the total cost implication would be:

Total Cost Estimate for Alt:	Year 1 (Current Workforce)	Year 10 (Estimated Future Workforce)
Top-Range Salary & Benefits Option C (Example est: $150/mo/EE):	$460,000	$685,000

PUBLIC NOTICE

Public notice was provided as required by the Brown Act.

CEQA COMPLIANCE

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

NEXT STEPS

Following the ABC's discussion and input at the December 10th meeting, and unless directed otherwise by the ABC, the General Manager recommends that staff finalize revisions to the draft policy and bring the policy to a Board study session in January, followed by final Board adoption of the 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. Draft ABC meeting minutes from November 18, 2014
2. Draft Employee Compensation Guiding Principles Board Policy

Responsible Department Head:
Stephen E. Abbors, General Manager

Prepared by:
Kevin S. Woodhouse, Assistant General Manager

ATTACHMENT 1

Midpeninsula Regional
Open Space District

SPECIAL MEETING
ACTION PLAN AND BUDGET COMMITTEE
Administrative Office – Board Room
330 Distel Circle
Los Altos, CA 94022

November 18, 2014

DRAFT MINUTES

I. ROLL CALL

Director Kishimoto called the Special Meeting to order at 2:04 p.m.

Members Present: Yoriko Kishimoto and Curt Riffle

Members Absent: Pete Siemens

Staff Present: General Manager Steve Abbors, General Counsel Sheryl Schaffner, District Controller Mike Foster, Assistant General Manager Ana Ruiz, Assistant General Manager Kevin Woodhouse, Administrative Services Manager Kate Drayson, Real Property Manager Mike Williams, Natural Resources Manager Kirk Lenington, Public Affairs Manager Shelly Lewis, Planning Manager Jane Mark, Operations Manager Michael Newburn, and District Clerk Jennifer Woodworth

II. ORAL COMMUNICATIONS

No speakers present.

III. ADOPTION OF AGENDA

Motion: Director Riffle moved, and Director Kishimoto seconded the motion to adopt the agenda.

VOTE: 2-0-0

IV. COMMITTEE BUSINESS

1. Approve the Minutes from the November 12, 2014 meeting.

Motion: Director Riffle moved, and Director Kishimoto seconded the motion to approve the minutes.

VOTE: 2-0-0

2. Review Proposed District Fund Balance Policy & Capitalization Policy (R-14-141)

District Controller Mike Foster provided a brief summary of the proposed Fund Balance Policy including the various components of the District's fund balance, specific reserved funds and amounts, committed funds, assigned funds, and unassigned funds. Mr. Foster explained that if approved by the Committee, the draft policy will be forwarded to the Board of Directors at its November 25, 2014 meeting.

Directors Riffle and Kishimoto expressed concerns regarding using specified numbers in the policy because they will require updating the policy each year.

Mr. Foster explained that the numbers can reflect the initial amount of the funds.

Director Kishimoto requested the fund amounts be removed from the Board policy and be adopted separately for the upcoming budget year and be amended, as necessary, as part of the annual budget.

Accountant Andrew Taylor provided information on the proposed revisions to the Capital Expenditures and Depreciable Fixed Assets board policy explaining the changes were recommended by the District's auditor to better reflect the District's assets and annual budget.

Public comment opened at 2:30 p.m.

No speakers present.

Public comment closed at 2:30 p.m.

Motion: Director Riffle moved, and Director Kishimoto seconded the motion to recommend approval by the full Board of Directors of the proposed new District Fund Balance Policy and revisions to the Capital Expenditures and Depreciable Fixed Assets Board Policy. The numbers will be stricken from the "Committed Funds" portion of the Fund Balance Policy, and initial balances for the reserve funds as written in the proposed policy are recommended for separate approval.

VOTE: 2-0-0

3. Review Proposed Format Changes to District Budget and Action Plan Documents

Administrative Services Manager Kate Drayson described the proposed new format for District Budget and Action Plan documents. Ms. Drayson explained that as the District's financial operations become more complicated it will be helpful for the Board to adopt a standalone budget document rather than the current budget documents, which are a part of a Board report. Ms. Drayson outlined the various sections of the proposed budget document and described the format for Department Budgets and Workplans as well as detailed project pages.

District Controller Mike Foster inquired where information would be included for staffing costs for Measure AA projects.

Ms. Drayson explained that departments will have detailed breakdowns of labor costs and staff time will be included as part of capital costs, excluding benefits.

Director Kishimoto inquired if additional information will be given to the Action Plan & Budget Committee.

Ms. Drayson explained that additional information may be presented to the Action Plan & Budget Committee if needed, which information will also be available to the public.

Director Riffle inquired as to the reasons for making changes to the current format.

Ms. Drayson explained that the proposed format changes will remove the necessity of staff inputting budget information in to duplicate documents but will allow for all information to be inputted and maintained in a single document.

Director Kishimoto suggested including the “Summary list of capital projects” and “MAA Projects summary” earlier in the budget document, such as directly after the General Manager’s transmittal letter.

General Manager Steve Abbors suggested staff can return with revised budget documents to address Committee member concerns.

Director Riffle stated that removing the details may be the way the Board should be headed as it moves towards a policy making body and away from the details of project implementation.

Public comment opened at 3:06 p.m.

No speakers present.

Public comment closed at 3:06 p.m.

No action taken by the Committee.

4. Employee Compensation Guiding Principles (R-14-143)

Assistant General Manager Kevin Woodhouse summarized previous discussions by the Action Plan & Budget Committee and corresponding revisions to the policy. Mr. Woodhouse provided information regarding the potential cost impact of increasing salaries and benefits from 50% to 55% of the median.

Director Kishimoto inquired as to why the cost for the benefits is so much more than the difference in salaries between 50% and 55% of the median.

Ms. Drayson explained that the difference is largely due to the cost range for individual positions.

Director Kishimoto inquired as to how staff determined the $300 per month cost for benefits.

Mr. Woodhouse explained that this amount was determined based on the average cost of bringing current employee benefits up to median.

Director Riffle inquired if it is included in the draft policy that total compensation, including salary and benefits, will be examined as part of determining staff compensation.

Mr. Woodhouse stated that this is included in item 6 of the draft policy.

Mr. Abbors stated that the Board will most likely want additional cost information before making a final decision, and the District Controller will need to include this information in his financial models.

Public comment opened at 3:40 p.m.

Gina Coony, Planner III, provided comments on the difficulty of this process. Ms. Coony expressed her confusion as to the goal of the proposed policy. Ms. Coony stated that the purpose of the policy should be to attract and retain staff in a transparent and consistent manner including benefits that can be offered to employees and increasing diversity among the workforce including age range.

Public comment closed at 3:44 p.m.

Director Kishimoto suggested that information be provided to the full Board of Directors regarding the cost of bringing benefits to the median and to 55% of the median.

Motion: Director Riffle moved, and Director Kishimoto seconded the motion forward the policy, as drafted, to the Board of Directors and recommends approval of the draft Employee Compensation Guiding Principles, with the exception of Item 6 of the policy. Staff is also directed to provide additional information related to the cost of bringing current benefits to 50% and current salary to 55% of the median and cost information to bring both salary and benefits to 55% of the median.

VOTE: 2-0-0

V. ADJOURNMENT

Director Kishimoto adjourned the special meeting of the Action Plan and Budget Committee of the Midpeninsula Regional Open Space District at 3:58 p.m.

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Jennifer Woodworth, CMC
District Clerk

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 for represented and unrepresented employees, through a transparent and public process, 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 or situations.

Guiding Principles:

1. 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;

2. 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;

3. 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;

4. The Board will refer to the California Meyers Milias Brown Act (MMBA) to determine what, if any, factors the law identifies related to determining appropriate compensation through labor negotiations in local public agencies. An excerpt from the MMBA, as of the effective date of this policy and subject to future changes in the MMBA, is provided

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as an Attachment to the policy to partially show factors in the law at this time related to determining compensation, but is not intended to represent the full extent of the law.

5. The Board of Directors shall consider the appropriateness of certain benefits between different groups of employees.

6. The Board of Directors shall consider salary and benefits as key factors comprising competitive compensation. Periodically, salaries and benefits may be evaluated in comparison to benchmark agencies that 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. When comparing to benchmark agencies using “top-range salary”, a competitive salary is defined as median to 55th percentile of the comparator agencies, plus or minus five percent, with no employee’s top-range salary below median or above 60th percentile unless under the Board’s decision-making flexibility as provided in this policy. *[OPTIONS RE: BENEFITS-RELATED PRINCIPLE PRESENTED HERE FOR FURTHER COMMITTEE REVIEW AND DISCUSSION]:*

   Option A *(previously discussed by Committee): When comparing to benchmark agencies, a competitive benefits package is defined as median to 55th percentile benefits package value, plus or minus five percent, utilizing comparisons of select core benefits as determined by the Board of Directors, with no employee’s benefits package value below median or above 60th percentile unless under the Board’s decision-making flexibility as provided in this policy; OR*

   Option B *(previously discussed by Committee): When comparing to benchmark agencies, a competitive benefits package is defined as median benefits package value, plus or minus five percent, utilizing comparisons of select core benefits as determined by the Board of Directors, with no employee’s benefits package value below 45th percentile or above 55th percentile unless under the Board’s decision-making flexibility as provided in this policy; OR*

   Option C *(not previously discussed by Committee): Regarding the employee benefits part of compensation, it is the intent of the Board of Directors to maintain a benefits package, when combined with salary, as well as other benefits described in Principle #7 below, that helps attract and retain quality employees.*

   The plus or minus five percent from the compensation target is a range that the Board acknowledges as important to give the General Manager flexibility in achieving internal alignment within the organization on compensation recommendations, yet still remaining competitive.

7. The Board of Directors also considers one-time and individual monetary benefits and non-monetary benefits as factors in remaining competitive within the District’s labor market;

8. 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.

9. To determine competitive salaries and benefits in the District's labor market in response to unforeseen, dramatic changes in the labor market or as new positions or work groups are established, and with the intent of managing potential "drift" of District compensation, the General Manager may periodically direct that a compensation study be performed, organization-wide or for specific departments, work groups or classifications. When conducting a compensation study, benchmark comparator agencies will remain as consistent as possible from study to study.

Attachment 1: Meyers Milias Brown Act

The following is an excerpt from the Meyers Milias Brown Act and is intended to partially show factors in the law as of October 2014 related to determining compensation. This excerpt is not intended to represent the full extent of the law.

Excerpt from California Government Code section 3505.4:

(1) State and federal laws that are applicable to the employer.
(2) Local rules, regulations, or ordinances.
(3) Stipulations of the parties.
(4) The interests and welfare of the public and the financial ability of the public agency.
(5) Comparison of the wages, hours, and conditions of employment of the employees involved in the factfinding proceeding with the wages, hours, and conditions of employment of other employees performing similar services in comparable public agencies.
(6) The consumer price index for goods and services, commonly known as the cost of living.
(7) The overall compensation presently received by the employees, including direct wage compensation, vacations, holidays, and other excused time, insurance and pensions, medical and hospitalization benefits, the continuity and stability of employment, and all other benefits received.
(8) Any other facts, not confined to those specified in paragraphs (1) to (7), inclusive, which are normally or traditionally taken into consideration in making the findings and recommendations.