



Midpeninsula Regional
Open Space District

R-15-43
Meeting 15-06
March 11, 2015

AGENDA ITEM 5

AGENDA ITEM

Adoption of Employee Compensation Guiding Principles

GENERAL MANAGER'S RECOMMENDATION

A handwritten signature in dark ink, appearing to be "J. G. ...".

Adopt the Employee Compensation Guiding Principles Board Policy provided as Attachment 1 to this staff report.

SUMMARY

On January 14, 2015, the Board of Directors reviewed and discussed the Action Plan and Budget Committee's (ABC) work on developing an Employee Compensation Guiding Principles Board Policy. The ABC worked on developing a draft policy over the course of four meetings from October to December 2014. The ABC also considered staff's preliminary cost analysis of the potential cost implications of the draft policy, as did the full Board at the January 14, 2015, study session. The Board reviewed and discussed several options concerning the benefits side of compensation addressed in Principle 6 of the draft policy. The ABC recommended an option that states it is the Board's intent to provide a benefits package that helps attract and retain quality employees, rather than options that specify a targeted value range for benefits. After considering the policy options developed by ABC, the full Board did not provide different direction to the General Manager, therefore the recommended policy provided as Attachment 1 remains the same as was recommended at the January 14 study session.

The preliminary cost estimate for implementing salary and benefits decisions based on the recommended policy is approximately \$460,000 per year more than current salary and benefit costs based on current staffing levels. This estimate assumes, by way of example, a benefits package value enhancement of \$150 per month per employee. With anticipated significant growth in the number of District employees in the coming decade, this cost impact could increase to \$685,000 per year by 2025 (in today's dollars). According to the District Controller, the District's financial model can afford and sustain this cost increase. The operational implication of potential enhanced compensation for employees is the level of trade-off in being able to afford additional employees to accomplish the District's Mission, including Measure AA projects.

Adoption of an Employee Compensation Guiding Principles Board Policy is not in itself an action that sets employee compensation. Instead, the principles in the policy would help guide the General Manager's consideration of changes to the District's Classification and Compensation Plan in the future, with any recommended changes requiring Board approval at

that time. The principles would also help guide labor negotiations and the consideration of changes to employee benefits, which would also be approved by the Board at that time.

DISCUSSION

The background of the Employee Compensation Guiding Principles Policy development, summary of ABC's work, summary of each principle in the draft policy, and cost implications are provided in Attachment 2, the January 14, 2015, study session report. The recommended policy states the overarching purpose of having such a policy, and then establishes principles regarding public accountability, affordability/sustainability, flexibility, legality, competitiveness, and future compensation studies.

FISCAL IMPACT

<i>Total Annual Cost Estimate:</i>	Year 1 <u>(Current Workforce)</u>	Year 10 <u>(Estimated Future Workforce)</u>
Top-Range Salary & Benefits (Option C):	\$460,000	\$685,000

If the Board adopts the recommended Employee Compensation Guiding Principles policy, setting the compensation target for top-range salary at median to 55th percentile of comparator agencies and not specifying a target value for benefits, it is estimated that potential changes to employee compensation could cost approximately \$460,000 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 \$685,000 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 the cost increases of this recommendation. The operational implication of potential enhanced compensation for employees is the level of trade-off in being able to afford additional employees to accomplish the District's Mission, including Measure AA projects. The potential impact of the recommendation is estimated to be at the expense of being able to add four to seven additional employees that could otherwise be hired to accomplish the District's Mission, including accomplishing Measure AA projects sooner.

ALTERNATIVES

The Board may wish to consider the following alternatives:

1. Final wording changes to specific principles as may be suggested and discussed by Board members and supported by a majority of the Board;
2. The Board may choose to revisit the other options (A and B) provided in the January 14, 2014, study session report concerning the benefits side of compensation addressed in Principle 6 of the draft policy;

3. Due to the potential fiscal impact of Principle 6, the Board may choose to delay a decision on this matter until a comprehensive position by position salary range analysis and benefits analysis can be completed and the Financial and Operational Sustainability Model Study is complete. With current staff workloads, position by position salary range analysis and benefits analysis are estimated to take two to three months to complete.

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 approval 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 following completion of the Financial and Operational Sustainability Model Study and labor negotiations with the Field Employees Association.

Attachments

1. Draft Employee Compensation Guiding Principles Board Policy
2. Staff Report for January 14, 2015 Board Study Session (Without Attachments)

Responsible Department Head:
Stephen E. Abbors, General Manager

Prepared by:
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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

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, 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. Regarding the employee benefits part of compensation, it is the intent of the Board of Directors to provide a benefits package, when combined with salary, as well as other benefits described in Principle #7 below, that helps attract and retain quality employees over the long term.

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.



Midpeninsula Regional
Open Space District

R-15-13
Meeting No. 15-01
January 14, 2015

STUDY SESSION ITEM 1

AGENDA ITEM

Development of Employee Compensation Guiding Principles

GENERAL MANAGER'S RECOMMENDATION

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Review and discuss the Action Plan and Budget Committee's work on developing an Employee Compensation Guiding Principles Board Policy and direct the General Manager to revise the policy as necessary and return to the Board of Directors at a future regular meeting for consideration of adoption of the policy.

SUMMARY

In March 2014, during final review and acceptance of the Fiscal Year (FY) 2013-14 Compensation Study prepared by Koff & Associates, the Board of Directors (Board) directed the Action Plan and Budget Committee (ABC) to develop Employee Compensation Guiding Principles for full Board consideration during FY2014-15. On October 7 and 31, November 18, and December 10, 2014, the ABC worked on developing such guiding principles by discussing and providing feedback on the provisions of the General Manager's recommended draft Employee Compensation Guiding Principles Board Policy. Additionally, at the November 18 meeting, the ABC was presented the results of staff's preliminary cost analysis of the potential cost implications of the draft policy, followed by the presentation of additional cost analysis results at the December 10 meeting. Based on the cost analysis results, the General Manager prepared alternative policy language for the Committee's consideration related to employee benefits. Following the December 10 meeting, the ABC directed the General Manager to bring the draft policy to the full Board for review and discussion.

The ABC recommends to the full Board the policy as currently drafted, except for Principle 6 regarding the definition of competitive compensation. The ABC recommends Option C in Principle 6. However, the ABC would like the full Board to be able to see and discuss all three options in Principle 6 (A, B, and C), to understand the cost implications of each, and if in agreement with the ABC's selection of Option C, to consider wording revisions if necessary to make the intent of Option C clearer. The preliminary cost estimate for implementing salary and benefits decisions based on the ABC's recommendation is approximately \$460,000 per year more than current salary and benefit costs based on current staffing levels. This estimate assumes, by way of example, a benefits package value enhancement of \$150 per month per employee. With anticipated significant growth in the number of District employees in the coming decade, this cost impact could increase to \$685,000 per year by 2025 (in today's dollars). Options A and B in Principle 6 are estimated to cost much more than Option C – a range from \$675,000 to \$995,000 per year based on current staffing levels and increasing to \$1,000,000 to

\$1,480,000 over the next decade based on anticipated growth in the number of District employees. According to the District Controller, the District's financial model can afford and sustain the cost increases of any of the options, although at varying levels of trade-off in being able to add additional employees to accomplish the District's Mission, including Measure AA projects. The precise trade-off between enhanced compensation and the number of future employees 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.

Adoption of an Employee Compensation Guiding Principles Board Policy is not in itself an action that sets employee compensation. Instead, the principles in the policy would help guide the General Manager's consideration of changes to the District's Classification and Compensation Plan in the future, with any recommended changes requiring Board approval at that time. The principles would also help guide labor negotiations and the consideration of changes to employee benefits, which would also be approved by the Board at that time.

DISCUSSION

Background

On March 26, 2014, the 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). 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 from study to study. 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

In preparation for the ABC's work, staff considered these potential topics and researched how/if 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. During this research, staff learned that although formally adopted Employee Compensation Guiding Principles are neither unique nor commonplace for public agencies, at this point in the District's history development of such principles may help the Board set unrepresented employee compensation and develop bargaining proposals and consider employee bargaining proposals related to compensation. In addition, staff also learned that it is important for guiding principles

to be flexible; certain principles may be more important at some times and less important at others.

Summary of ABC Meetings

The minutes from each of the ABC's meetings are provided in Attachment 1.

10/7/14 ABC Meeting

At their first meeting, the ABC discussed the *process* for developing guiding principles, the *structure* of the guiding principle document, potential *elements* that could be addressed in guiding principles along with *analysis* of these elements, and *specific language* for each element recommended by the General Manager as a starting point for the ABC. The ABC acknowledged that a Board policy document would be the appropriate *structure*, that the *process* would likely entail multiple ABC meetings in which the members reviewed, discussed, and provided direction on draft policy language recommended by the General Manager, and that *elements* such as an introduction/purpose statement, public accountability, affordability, flexibility, legality, competitiveness, and future compensation studies were appropriate to address in the policy. The ABC provided numerous wording changes to draft principles and directed the General Manager to return to a future ABC meeting for continuing discussion of the policy, particularly related to the definition of competitiveness.

10/31/18 ABC Meeting

At the second ABC meeting the discussion focused on different approaches to achieving competitiveness when looking at salaries and benefits as two different but important parts of compensation. Staff explained, and cited a specific example of, the challenge related to implementing a total compensation approach whereby adjustments to salary are intended to compensate for benefits that are low or high. This approach makes it difficult to achieve internal alignment of salaries amongst work groups, departments, or the whole organization. Instead, an approach that looks at salary and benefits separately, yet strives to ensure each is competitive, can also result in competitive total compensation. Staff also explained challenges associated with accurately quantifying and comparing benefit package values between comparators.

Another discussion point in this ABC meeting was that it is acceptable within compensation study best practices that a range of plus or minus five percent from the target salary goal is considered competitive, yet allows necessary flexibility to achieve internal alignment within work groups, departments, or the whole organization. It is impractical to expect that every classification's compensation could be set at the precise target salary goal of comparator agencies while maintaining internal alignment. Finally, the ABC discussed whether median top-range salary is the appropriate target salary goal. When they reviewed staff's input about the normal practice of the plus or minus five percent, the ABC acknowledged its importance but expressed interest in a target salary goal that would not have any employee's top-range salary be below median of comparators. The discussion evolved toward evaluating whether a target salary goal of the 55th percentile, plus or minus five percent, would better capture the ABC's interest. The ABC directed the General Manager to return to a future ABC meeting to continue this discussion, as well as for the ABC to understand preliminary cost implications of not having any employee's top-range salary, or benefits package value, be below median of comparators. The staff report for this second ABC meeting, provided as Attachment 2, contains more detail about the numerous topics addressed during this meeting.

11/18/14 and 12/10/14 ABC Meetings

At the third and fourth meetings, the ABC primarily 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. The ABC directed the General Manager to bring the policy to the full Board for discussion, stating that the ABC recommends to the full Board the policy as currently drafted, except for Principle 6 regarding the definition of competitive compensation. The ABC recommends Option C in Principle 6. However, the ABC would like the full Board to be able to see and discuss all three options in Principle 6 (A, B, and C), to understand the cost implications of each, and if in agreement with the ABC's selection of Option C, to consider wording revisions if necessary to make the intent of Option C clearer. A summary of the draft policy provisions and explanation of the cost implications is provided later in this report.

At the December 10, 2014, meeting the ABC also requested the General Manager provide an analysis of employee recruitment and retention. Based on research completed by the District's Human Resources Division within the timeframe allowed for preparing this staff report, the data suggest the District's recruitment efforts have been very competitive and successful and that retention of employees has also been very successful. For the small number of employees that have chosen to leave employment with the District, Human Resources' staff did not find information that suggests that employee compensation was a main reason for their decision. A summary of the Human Resources Division's research is provided in Attachment 3.

Public and Employee Input

During the process undertaken by the ABC, members of the public, as well as employees, have had the option to address the ABC during the public input time of the meetings, as well as provide any written public/employee comments. The ABC did not receive any input from members of the public. They did hear comments directly from numerous unrepresented and FEA represented employees, as well as received written comments directly. At the outset of the ABC's work on this topic, the General Manager did 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 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.

Policy Summary by Provision

The draft Employee Compensation Guiding Principles Board Policy is provided as Attachment 4. A summary of each provision is provided below, along with key points discussed by the ABC in developing the specific language of each provision.

- *Purpose statement:* This statement addresses the importance of high-quality employees in fulfilling the mission of the District and that compensation is one important tool amongst several to deliver consistent, high quality service from represented and unrepresented employees on behalf of the public. This statement also addresses the value of having clear and transparent compensation principles for employees and the public to understand the Board's philosophy, and the importance of the Board retaining flexibility in compensation decisions.

- *Principle 1, re: 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 has also been elevated with the passage of Measure AA.
- *Principle 2, re: 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 in the present, while ensuring adequate financial resources are available in the future.
- *Principle 3, re: Flexibility:* This principle states that the Board retains the flexibility in compensation decisions to respond to changes impacting the District's ability to attract and retain high-quality employees.
- *Principle 4, re: Legality:* This principle refers 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, and provides a point-in-time excerpt from the law as an attachment to the policy.
- *Principle 5, re: Flexibility:* This principle conveys that the Board understands that different work groups of employees, such as represented or unrepresented, field or office, may have different levels of interest in different types of benefits, and that these differences should be considered when conducting a benefits analysis. For example, work time and place flexibility may be more highly valued by some employees than others.
- *Principle 6, re: Competitiveness:* 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, understanding some employees' compensation may be placed below or above the value by up to five percent, yet still achieve competitiveness. The ABC has developed three options for the full Board's review and discussion, and recommends Option C:

Option A (55/55): 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.

Option B (55/50): 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.

Option C: 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. For benefits, no specific target value is indicated, but the principle states it is the Board's intent to provide a benefits package that helps attract and retain quality employees.

The preliminary estimates of the different cost implications of these three options are described in the Cost Implications section of this report.

- *Principle 7, re: Competitiveness:* This principle establishes that 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. One-time and individual monetary benefits are payments that accrue to qualifying/participating individuals, such as merit increases, longevity pay, tuition reimbursement, tax benefits from 457 deferral plans, etc.. Non-monetary benefits are considerations 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, etc..
- *Principle 8, re: Competitiveness:* The high Cost of Living in the Bay Area is an ongoing challenge for public sector employee recruitment and retention. 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. Principle 8 in the policy acknowledges this challenge, states that the policy's other principles that relate to maintaining competitive compensation within the District's labor market help to partially address the Cost of Living challenges, and states that the District is willing to explore innovative ideas to improve this regional challenge.
- *Principle 9, re: Compensation Studies:* This final principle is intended to bring clarity to when and why future compensation studies may be performed, that they are at the General Manager's discretion, and that consistency of benchmark comparator agencies is important.

Cost Implications

Staff has conducted a preliminary cost estimate of the potential implications of the Employee Compensation Guiding Principles Board Policy, showing the difference between Options A, B,

and C in Principle 6, based on current staffing levels as well as 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.

<i>Salary Cost Estimate (Annual):</i>	Year 1	Year 10
	<u>(Current Workforce)</u>	<u>(Estimated Future Workforce)</u>
	\$255,000	\$380,000

All three options in Principle 6 set the target top range salary within the range of median to 55th percentile, with no one’s top range 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).

<i>Benefits Cost Estimate (Annual):</i>	Year 1	Year 10
	<u>(Current Workforce)</u>	<u>(Estimated Future Workforce)</u>
Option A:	\$500,000 - \$740,000	\$750,000 - \$1,100,000
Option B:	\$420,000 - \$610,000	\$625,000-\$915,000
Option C:	\$205,000	\$305,000

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. Option C does not specify a target value for benefits. However, just as an example for cost estimate purposes, a \$150 increase in benefits value per employee per month was estimated. 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 (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 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 increase the current benefits package value by \$150 per employee per month would be approximately \$205,000 per year. This cost impact could grow to approximately \$305,000 per year (in today's dollars) based on an estimated growth rate of 50% of employees over the next 10 years.

FISCAL IMPACT

<i>Total Annual Cost Estimate:</i>	Year 1	Year 10
	<u>(Current Workforce)</u>	<u>(Estimated Future Workforce)</u>
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
Top-Range Salary & Benefits Option C:	\$460,000	\$685,000

If the full Board adopts the ABC's recommended Employee Compensation Guiding Principles policy, setting the compensation target for top-range salary at median to 55th percentile of comparator agencies and not specifying a target value for benefits, it is estimated that potential changes to employee compensation could cost approximately \$460,000 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 \$685,000 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 the cost increases of any of the options, although at varying levels of trade-off in being able to add

additional employees to accomplish the District's Mission, including Measure AA projects. Option C is the most affordable and sustainable option, at the expense of being able to add four to seven additional employees that could otherwise be hired to accomplish the District's Mission, including Measure AA projects. Option B translates to an approximately seven to thirteen additional employee trade-off; Option A, an approximately seven to fourteen employee trade-off. The impact, particularly for Options A and B, would be to lengthen the time required to complete Measure AA projects. The precise trade-off between enhanced compensation and the number of future employees 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.

ALTERNATIVES

The Board may wish to consider the following alternatives:

1. Final wording changes to specific principles as may be suggested and discussed by Board members and supported by a majority of the Board;
2. Due to the potential fiscal impact of Principle 6, the Board may choose to delay a decision on this matter until a comprehensive position by position salary range analysis and benefits analysis can be completed and the Financial and Operational Sustainability Model Study is complete. With current staff workloads, position by position salary range analysis and benefits analysis are estimated to take two to three months to complete.

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 Board's discussion and input at the January 14th study session, and unless directed otherwise by the Board, the General Manager recommends that staff finalize revisions to the draft policy and bring the policy to a regular Board meeting in February for consideration of adoption.

Following approval 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. ABC meeting minutes from October 7 and 31, November 18, and December 10, 2014
2. Staff report for October 31 ABC meeting
3. Summary of MROSD Recruitment and Retention Analysis
4. Draft Employee Compensation Guiding Principles Board Policy

Responsible Department Head:
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