City of Portage: Classification & Compensation Study

Project Update

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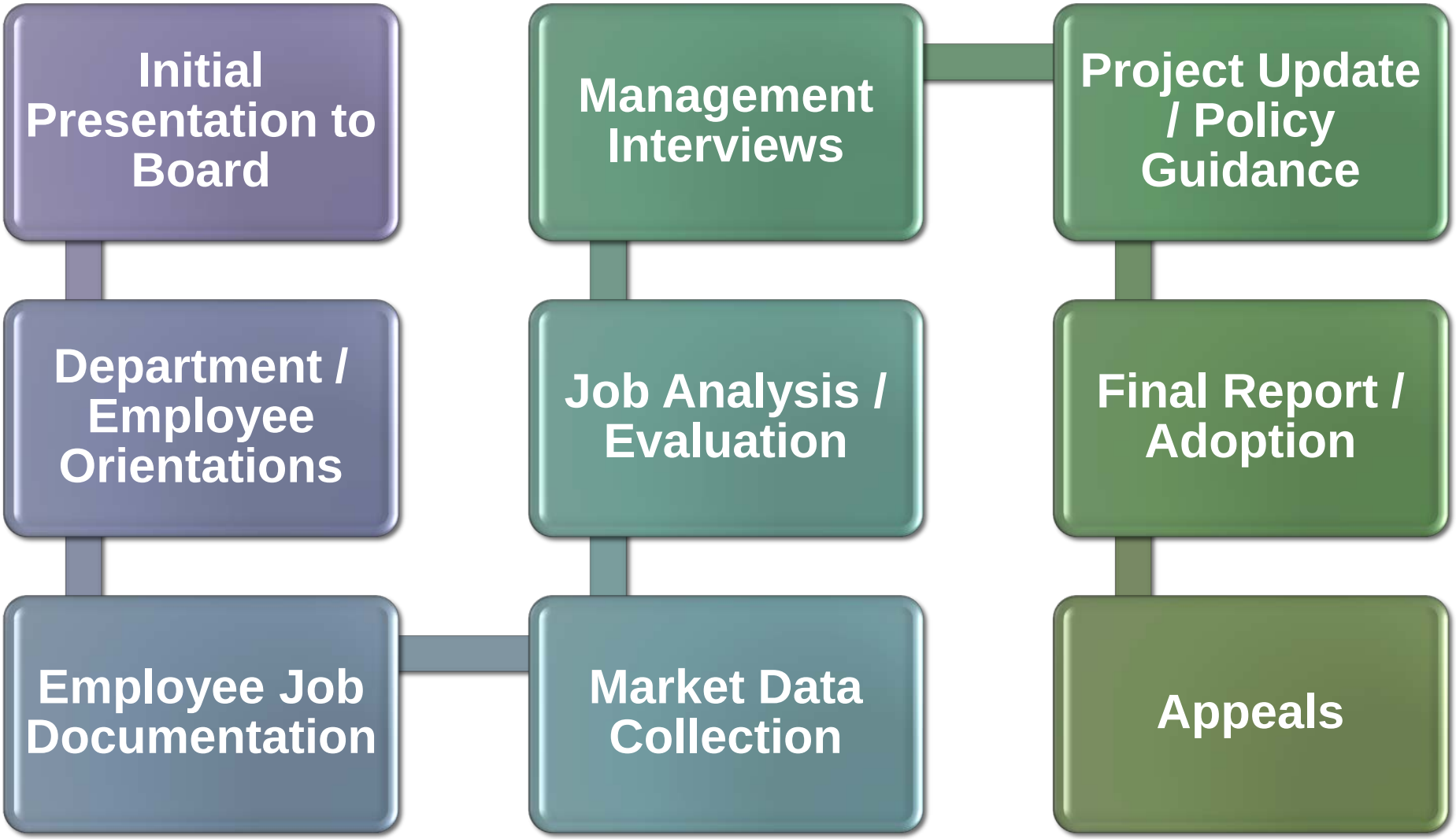
August 16, 2017

Disclaimer

Subject to additional review and comments, the information presented today is intended to be a DRAFT report. All ratios, charts, and graphs are subject to revision in the preparation of the final report. However, subject to review and revision by the client, we expect such revisions to be slight, and do not expect significant fluctuations in the data.

Project Process Overview



Matters for Discussion

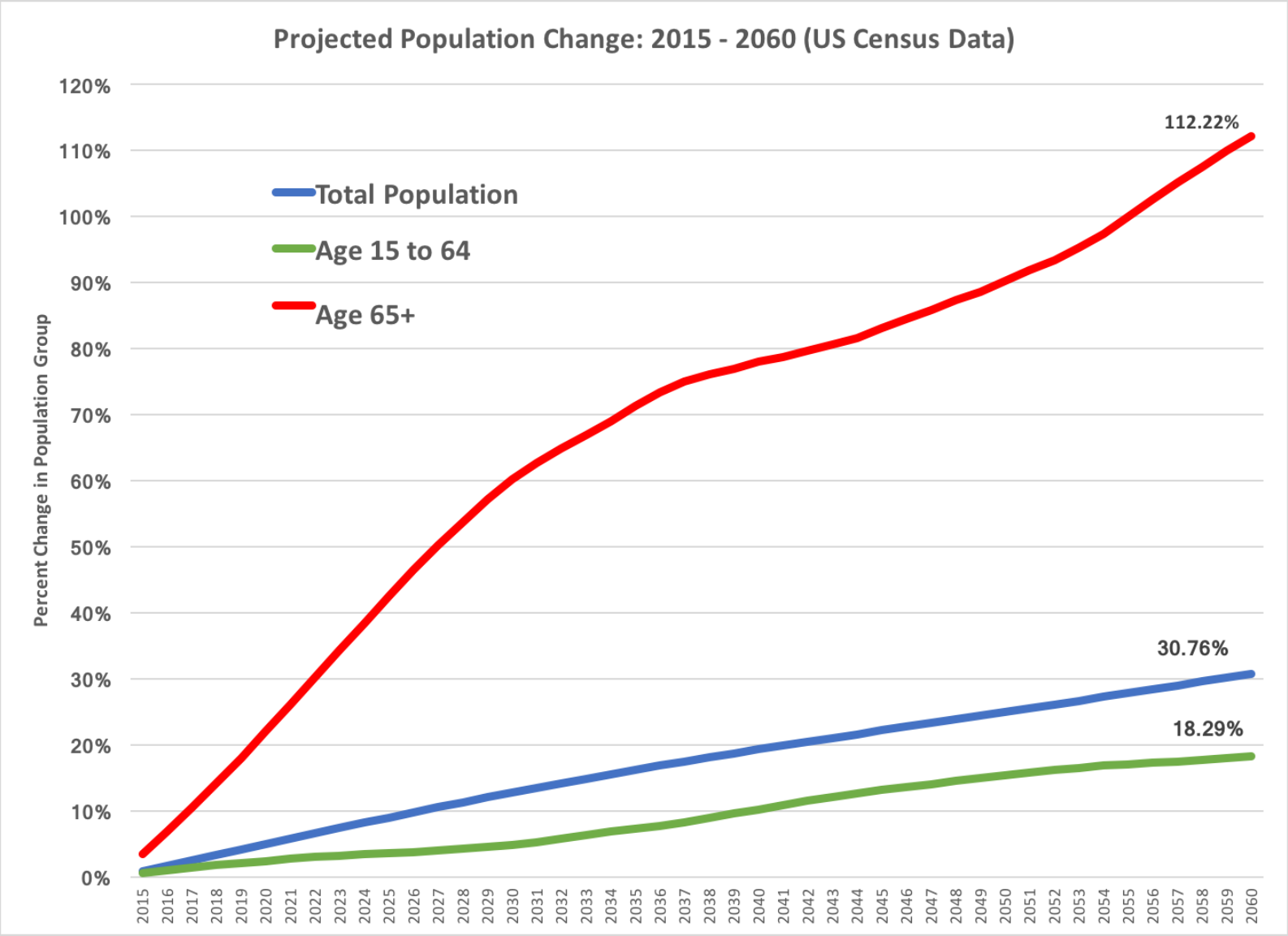
- **Overview of Process To-Date**
  - Internal Equity Analysis
  - Review of Job Documentation
  - Preliminary Market Analysis
  - Department Interviews
- **Policy Issues**
  - Q1: Market Comparisons/Matches (Previously Addressed)
  - Q2: Market Position
  - Q3: Pay Structure and Administration
    - Dual Structures
  - Q4: Implementation
- **Next Steps**
  - Feedback/Guidance

WORKFORCE CHALLENGES

The World of Public Sector Compensation

- **Multiple Pay Plans, Often Misaligned**
  - Multiple plans, varying levels, differing rules
  - Some positions have never been looked at side-by-side from an internal equity standpoint
- **Shifting Market**
  - Numerous public sector compensation plans have been completed/updated
  - “Hot jobs” are becoming increasingly difficult to recruit/retain
- **Aging Workforce**
  - Future recruitment needs requires competitive compensation plan
  - “Silver Tsunami”
- **Younger Workforce**
  - Newer generations of employees have different expectations.
  - “Stay a career” mentality is eroding … More mobile with shorter (and more) “careers”
- **Funds Are Limited**
  - Departments are stretched to the limit
  - Discretionary services are increasingly under the microscope
  - Automatic (across-the-board) increases are no longer a given
- **Compensation Decision-Making Has Shifted**
  - Boards/Councils continue wrestle with the responsibilities that come with managing compensation from a strategic perspective

Aging Workforce



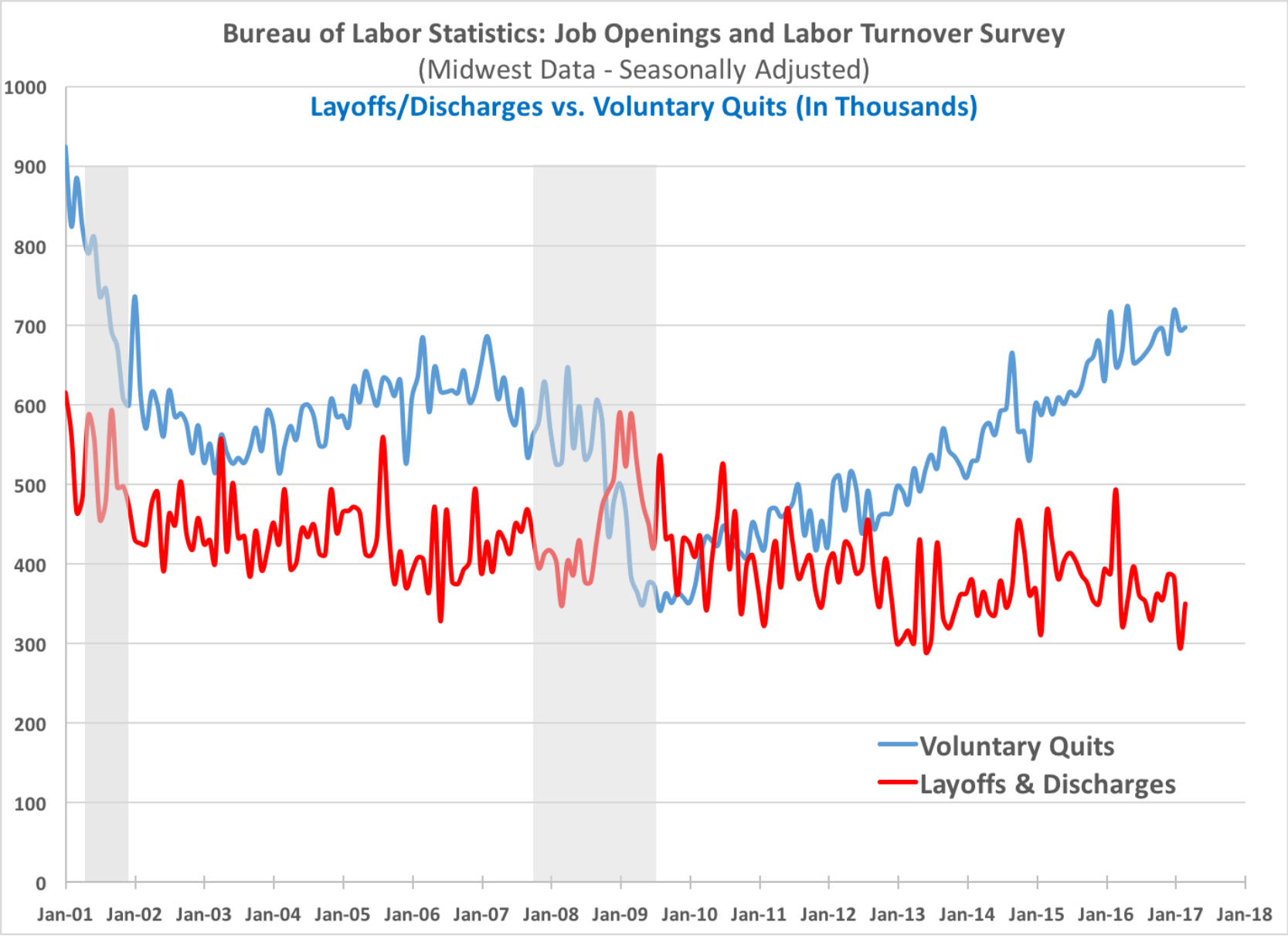
City of Portage: Age Profile

Grouping	Number	Percent of Whole	Cumulative Percent
Age 60 or Older	9	19.1%	19.1%
Age 55 to Age 60	8	17.0%	36.2%
Age 50 to Age 55	8	17.0%	53.2%
Age 45 to Age 50	5	10.6%	63.8%
Age 40 to Age 45	8	17.0%	80.9%
Age 35 to Age 40	5	10.6%	91.5%
Age 30 to Age 35	2	4.3%	95.7%
Age 30 or Less	2	4.3%	100.0%
Total	47	100%	

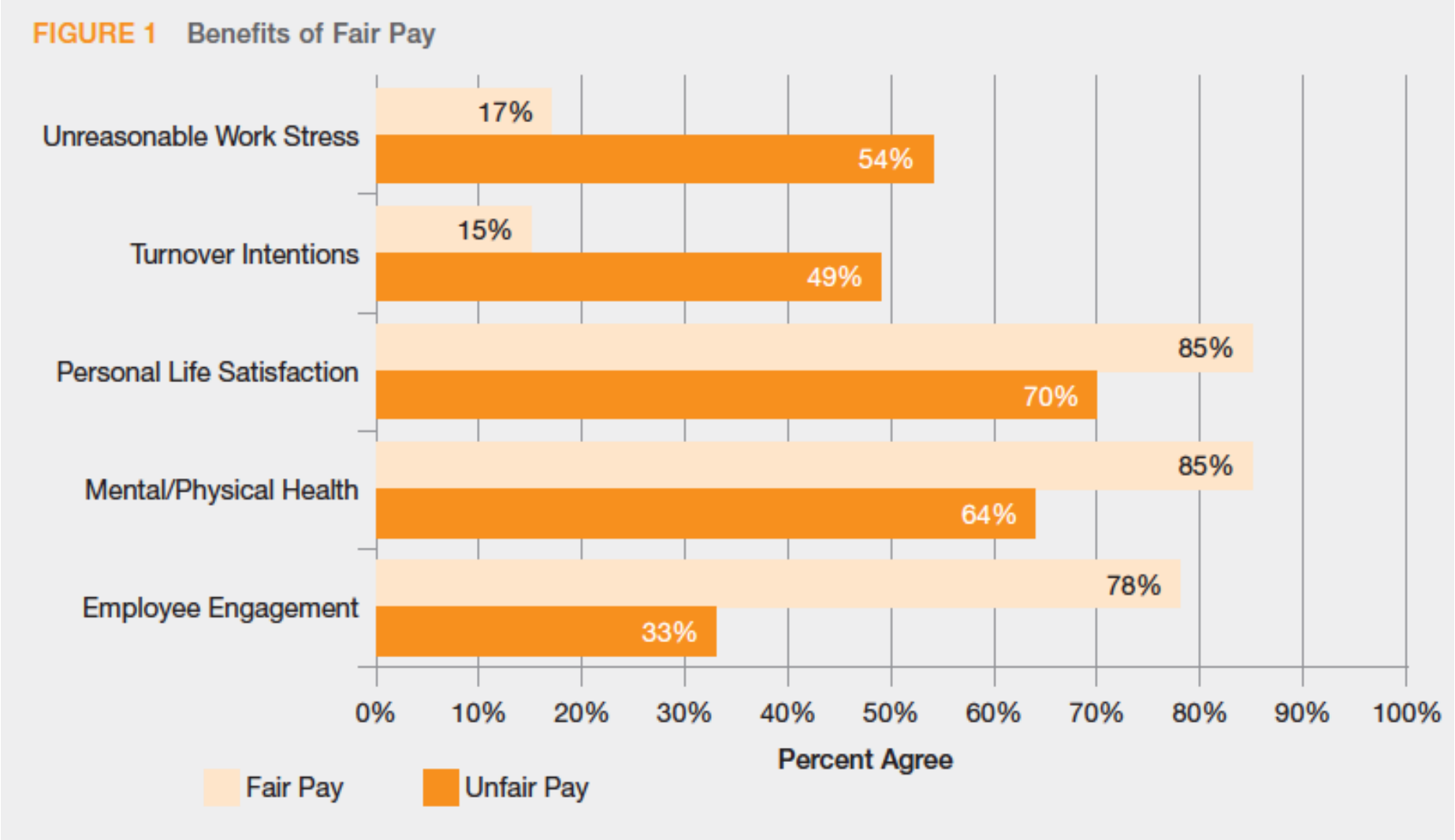
City of Portage: Service Profile

Grouping	Number	Percent of Whole	Cumulative Percent
Greater than 35 Years of Service	2	4.3%	4.3%
30 Years to 35 Years	2	4.3%	8.5%
25 Years to 30 Years	6	12.8%	21.3%
20 Years to 25 Years	2	4.3%	25.5%
15 Years to 20 Years	9	19.1%	44.7%
10 Years to 15 Years	3	6.4%	51.1%
5 Years to 10 Years	6	12.8%	63.8%
Less than 5 Years of Service	17	36.2%	100.0%
Total	47	100%	

Higher Quit Rate = Wage/Benefits Pressure



Benefits of Fair Pay



Source: Rasch & Szypko (2013) WorldatWork Journal, "Perception is Reality: The Importance of Pay Fairness to Employees and Organizations"

4 Essential Policy Questions

- Define Market Comparisons
- Determine Market Placement
- Design Structure (i.e. Plan Type)
- Develop Implementation Plan

POLICY QUESTION #1:
MARKET COMPARISONS

Market Comparisons: Anatomy of a Benchmark

- **Reflective of "Marketplace"**
  - Review Data / Statistics
  - Aligns with recruiting strategy/challenges
    - Local, Regional, Statewide, etc.
- **Sufficient Set of Benchmark Jobs**
  - Jobs having likely matches in the market
  - Fairly stable in job content
  - Representative of different pay and responsibility levels
- **Sufficient Number of Comparable Employers**
  - At least 10 employers, but typically more (+/-20)
  - No single employer should be able to influence the results
- **Data From Relevant Sectors**
  - Public sector matches
  - Private sector matches where private sector data is relevant
    - Data from reliable, valid sources

Sources of Data *

- **Cities:**
  - Baraboo, Columbus, Reedsburg, Sun Prairie, Middleton, Monona, Beaver Dam, Waupun, Verona, Ripon, Fitchburg, Jefferson, Fort Atkinson, Tomah
  - Stoughton, Monroe, Lake Delton, Wisconsin Dells, Sauk City, Prairie du Sac, Berlin
- **Villages:**
  - De Forest, Waunakee
- **Counties:**
  - Columbia, Sauk, Marquette, Adams, Dodge
- **Other**
  - Bureau of Labor Statistics, MRA, SHRM, Towers Watson, CompData

** Review impact of Madison-area communities on the overall data, and incorporate other local communities*

Market Comparisons: City of Portage Summary

- **Number of Benchmarks**
  - 23 Overall Benchmark Jobs
  - Outstanding Sample Size
- **Overall Market Index of 96.2% for Benchmarks**
  - Based on current wage in comparison to market estimate
  - Despite overall position, there is variance position-by-position

City of Portage Benchmark Jobs

- City Administrator
- Finance Director
- City Clerk
- Deputy City Clerk/Adm. Secretary
- Fire Chief
- Manager, Parks & Recreation
- Municipal Services Crewperson
- Police Chief
- Patrol Lieutenant
- Police Secretary
- Director Public Works/City Engineer
- Public Works Superintendent
- Engineer Technician
- Municipal Services Crewperson
- Chief Mechanic
- Assistant Mechanic
- Building & Grounds Mntc
- WWTP Superintendent
- WWTP Operator
- Water Utility Superintendent
- Water System Operator
- Utility Acct Clerk
- Customer Acct Clerk

Pre-Policy Workload

Laying The Groundwork for the Remaining Questions

Steps to Internal Consistency

Job Documentation

- Employees Complete JDQ
- Use Existing Documentation
- Up-to-Date Job Descriptions
- Employer Team

Job Analysis

- FLSA Compliance
- Appropriate Job Titles
- Appropriate Class Specifications
- Job Descriptions

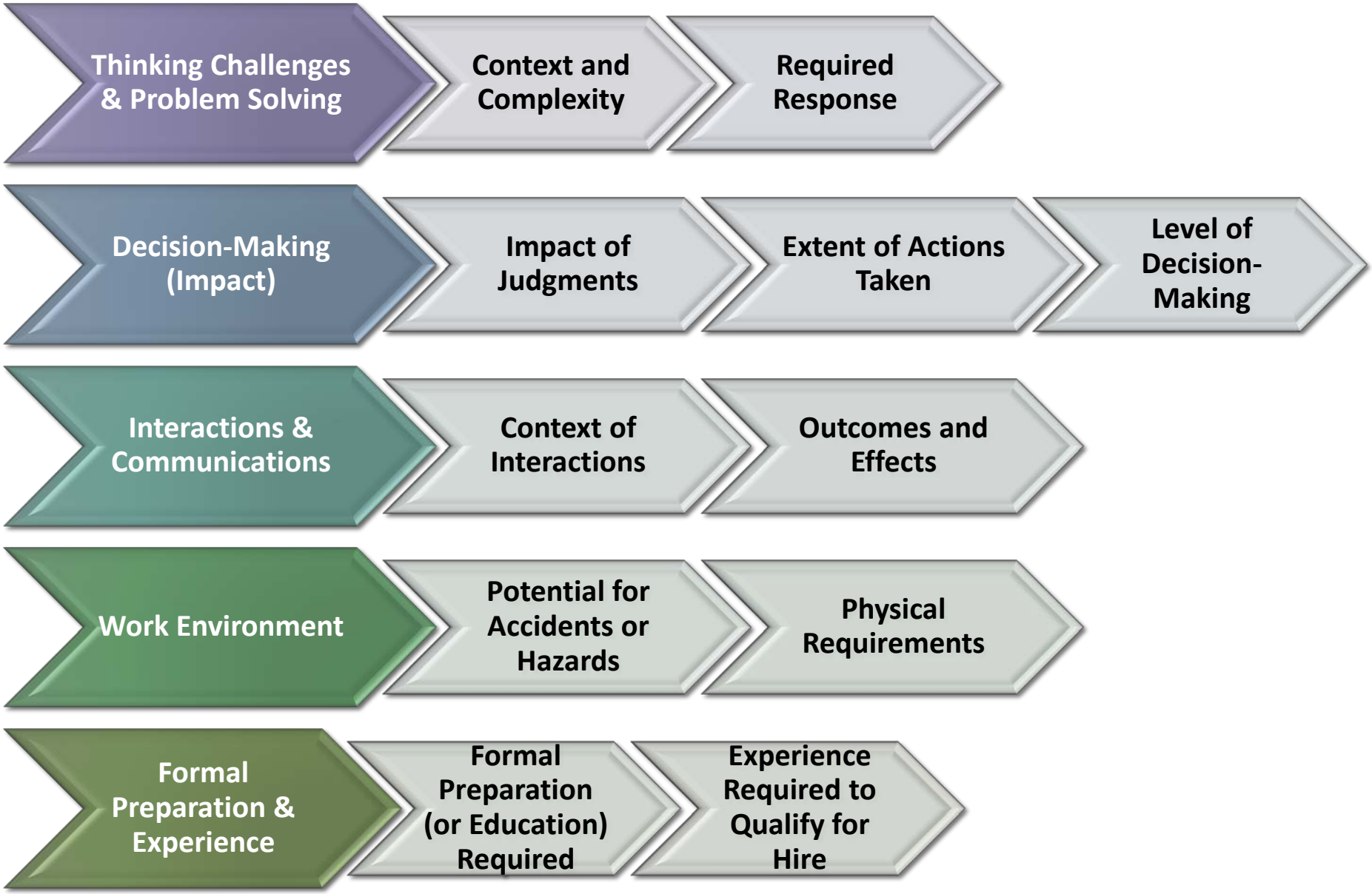
Job Evaluation

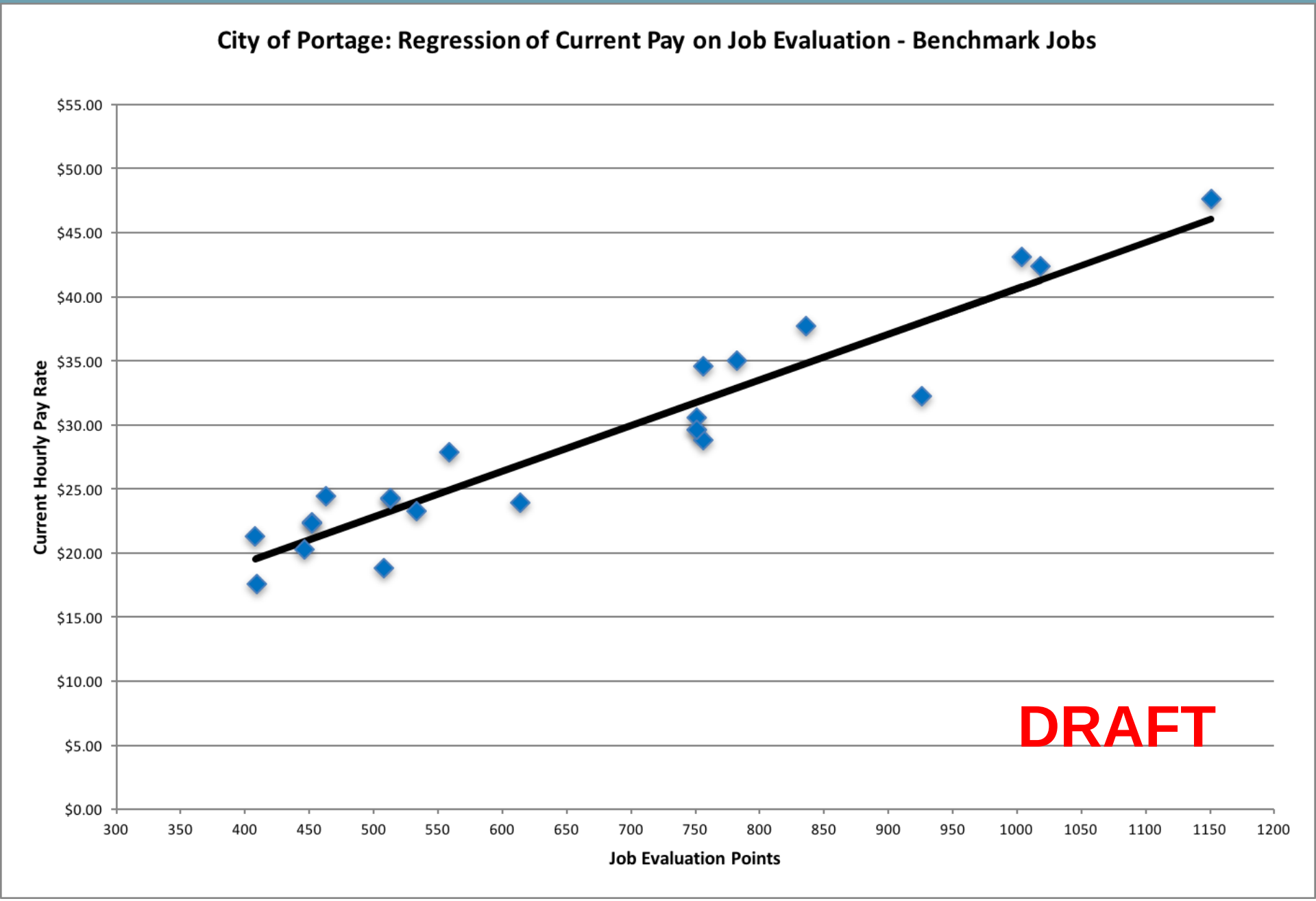
- Objective Analysis
- Developed and tested criteria

Job Evaluation ➔ Internal Consistency

- **Definition**
  - Formal process for ordering a set of jobs, ***independent of individual performance,*** into a hierarchy based on the value or worth of jobs in the organization.
- **Evaluations Based on Documentation**
  - Quality of documentation is important
    - Cannot evaluate jobs—or describe jobs—without quality documentation
- **Objective Analysis and Application**
  - Internal review and adjustments
- **Appeals Following Adoption**
  - Based on changes during study or error in rating

CDC Job Evaluation Factors




City of Portage: Regression of Current Pay on Job Evaluation - Benchmark Jobs
Current Hourly Pay Rate
$55.00
$50.00
$45.00
$40.00
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$30.00
$25.00
$20.00
$15.00
$10.00
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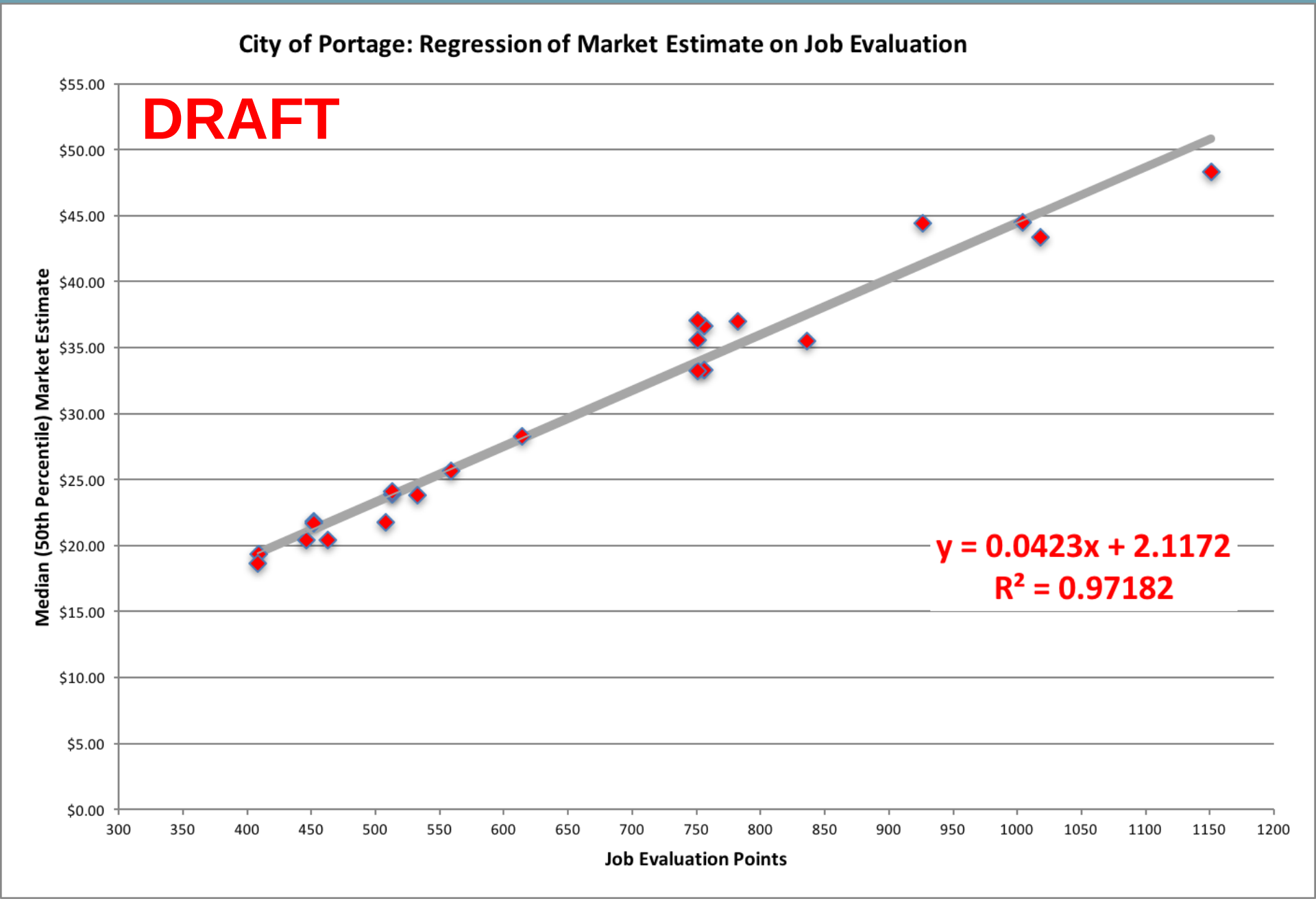
1150
1200
Job Evaluation Points
DRAFT

POLICY QUESTION #2:
MARKET PLACEMENT

Market Placement: Questions to Consider

- **Where does the City of Portage want to position itself in its labor markets?**
  - What are the organizational priorities?
  - High? Low? Average (or 50th Percentile)?
  - Will average/50th percentile place the City in the competitive position it desires to be in?
- **Data Weighting & Comparable Usage**
  - Depends on recruitment/retention experience
- **Benefits**
  - Do benefits matter? Yes; health insurance is key
  - Balance between competitive wages and benefits.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DRAFT
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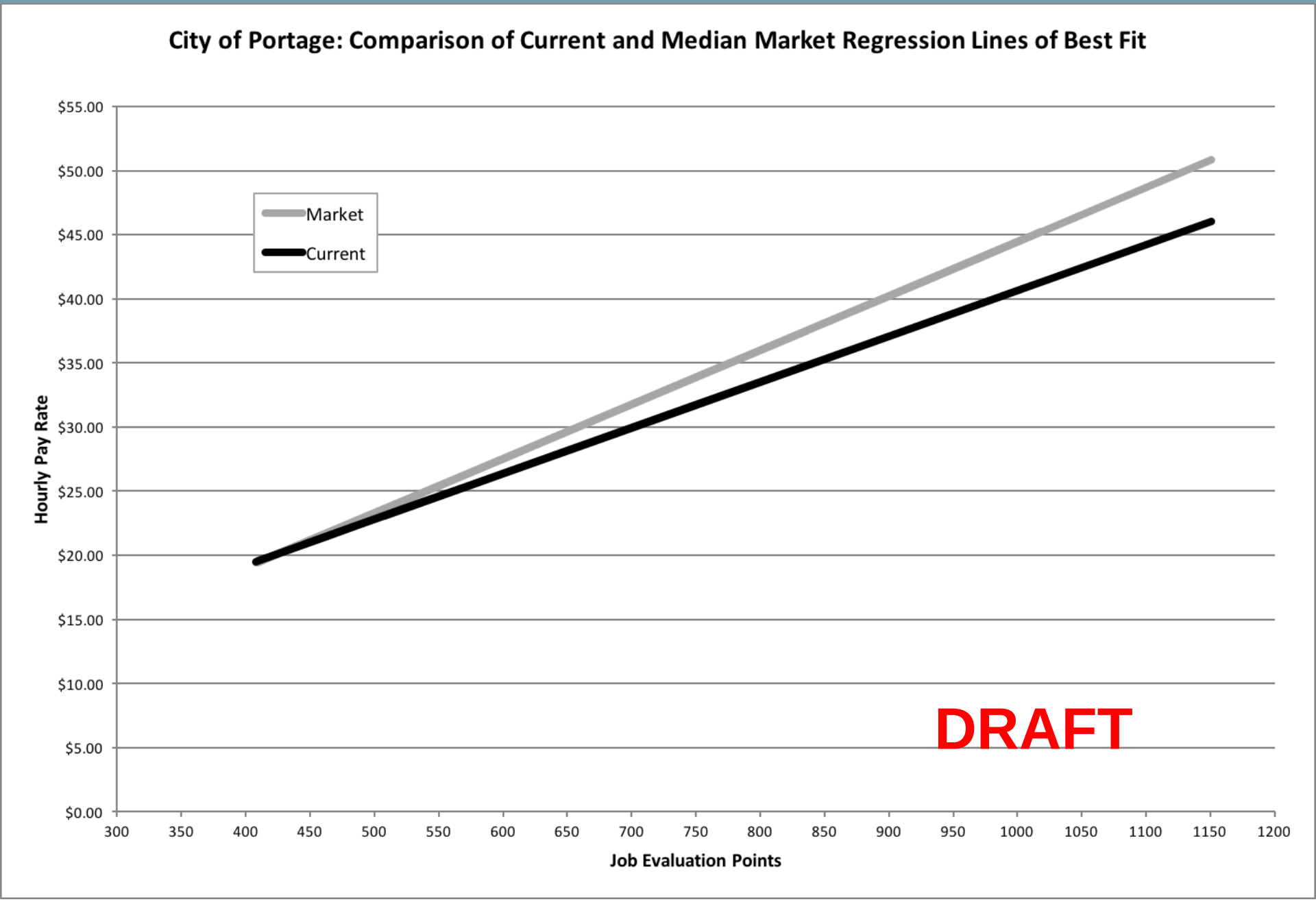
Job Evaluation Points
y = 0.0423x + 2.1172
R² = 0.97182


City of Portage: Comparison of Current and Median Market Regression Lines of Best Fit
Market
Current
Hourly Pay Rate
$55.00
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
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$10.00
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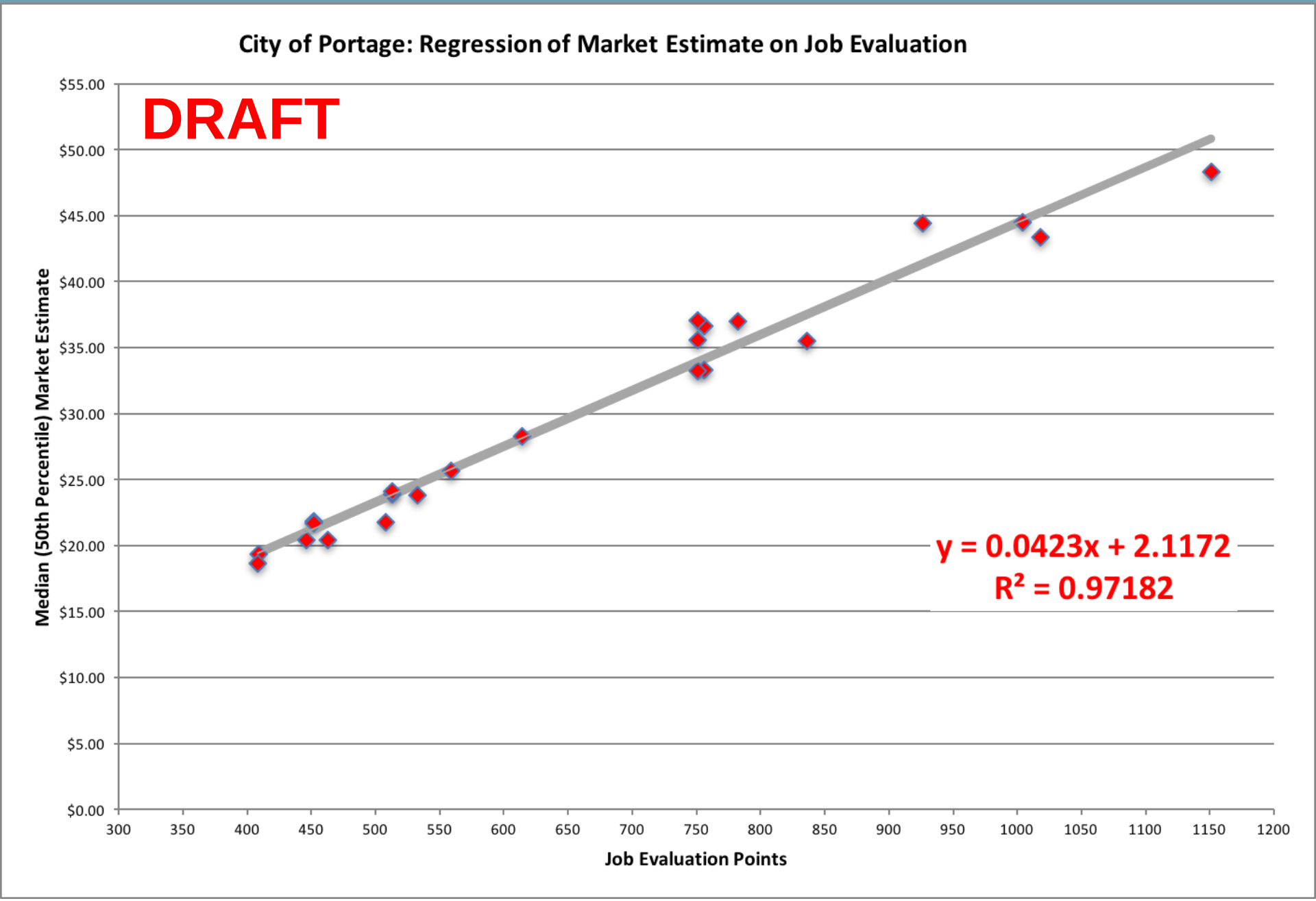
Job Evaluation Points
DRAFT

POLICY QUESTION #3:
PAY STRUCTURE & ADMINISTRATION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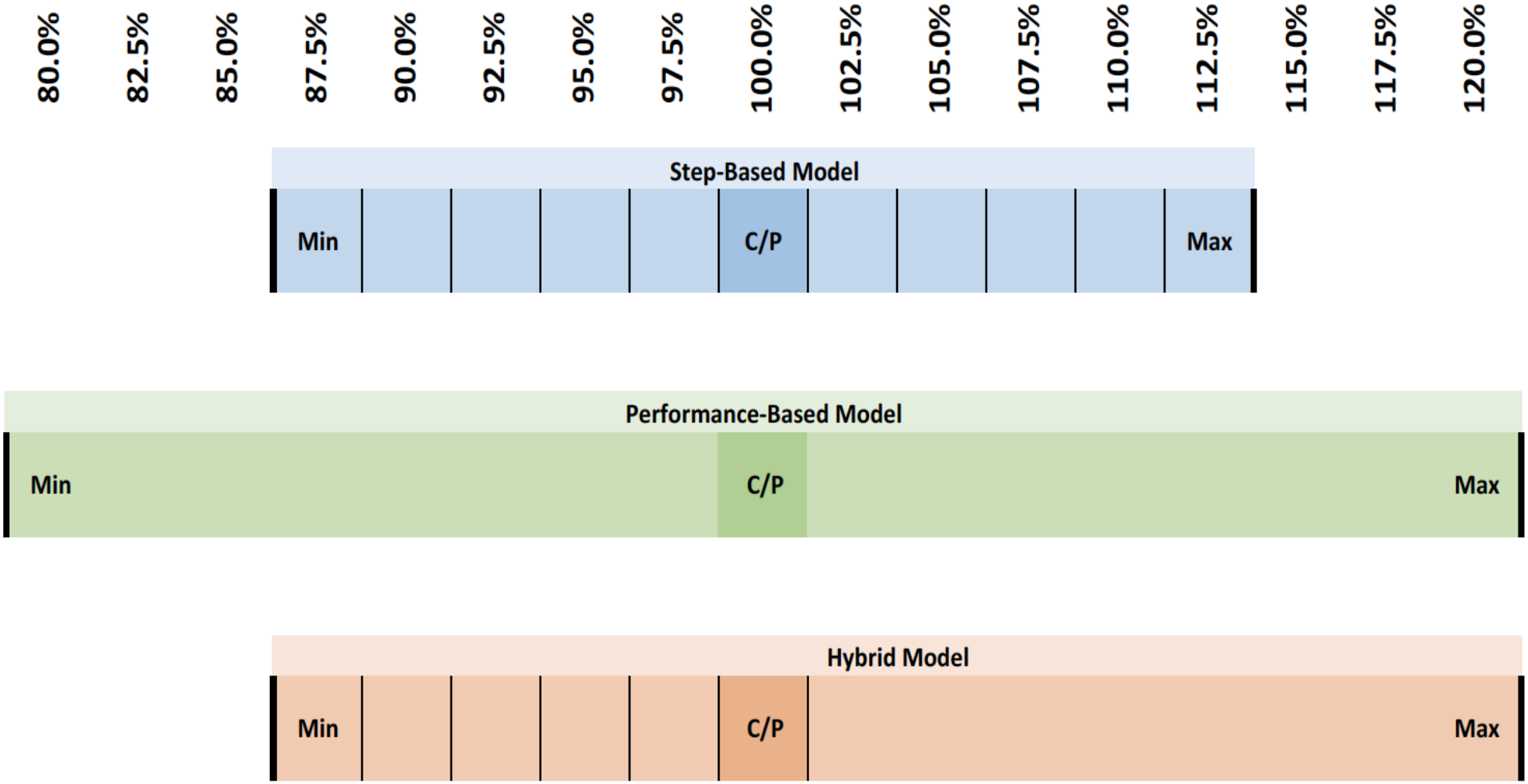
Creating Pay Grades

- **Range Intervals**
  - Each pay grade in the proposed matrix will have point intervals
    - Grades A – D = 25 points between grades
    - Grades E – Q = 50 points between grades
- **Assigning Classifications to Grades**
  - Each job is assigned to a grade level based on its job evaluation score
  - Extenuating circumstances (e.g. market conditions, internal compression) may require adjustment
  - Grade design includes overlap between ranges
- **Interpreting the Equation for the Pay Line**
  - Slope
    - .0423 is the line slope (i.e. every point = $.0423) & +$2.1172 is the y-axis intercept
  - Correlation Coefficient
    - 0.97182 which can be interpreted as job evaluation system explains 97% of the variance in market pay for the benchmarks
    - This is a high coefficient, and provides a solid foundation for designing a pay plan.
  - The Control Point (C/P) of each grade can then be calculated

Example of How We Use the Line Data

- **Create Control Points for Each Grade**
  - Market equivalent for the jobs in that grade
  - Linked to market data
  - Middle value for each grade is used to calculate Control Point
- **Example:**
  - Job evaluation score = 722
  - Allocated to Grade L (700-749 pts.)
  - Middle value is 724.5 pts
- **Applying the Regression Line Equation (i.e. Pay Line)**
  - ($.0423 X 724.5 pts) + $2.1172 = $32.76
    - May vary due to rounding differences between Excel formulas and Excel graphing features (Actually $32.79)
  - Becomes the Grade L Control Point (Step 6)
  - Repeat for each grade

Sample Pay Structures



CITY OF PORTAGE
RECOMMENDED 2018 WAGE STRUCTURE: OPEN RANGE PLAN

	80.00% Min.		100.00% C/P		120.00% Max.
S	$42.32	→	$52.90	→	$63.48
R	$38.93	→	$48.66	→	$58.39
Q	$35.54	→	$44.43	→	$53.32
P	$33.01	→	$41.26	→	$49.51
O	$31.31	→	$39.14	→	$46.97
N	$29.62	→	$37.02	→	$44.42
M	$27.93	→	$34.91	→	$41.89
L	$26.23	→	$32.79	→	$39.35
K	$24.54	→	$30.67	→	$36.80
J	$22.85	→	$28.56	→	$34.27
I	$21.15	→	$26.44	→	$31.73
H	$19.46	→	$24.32	→	$29.18
G	$17.77	→	$22.21	→	$26.65
F	$16.07	→	$20.09	→	$24.11
E	$14.80	→	$18.50	→	$22.20
D	$13.95	→	$17.44	→	$20.93
C	$12.92	→	$16.15	→	$19.38
B	$11.96	→	$14.95	→	$17.94
A	$11.07	→	$13.84	→	$16.61

SAMPLE Merit Pay Matrix

	SALARY IN RELATION TO RANGE ----------12 MONTH REVIEW----------			
	Zone 1	**Zone 2**		**Zone 3**
Performance Rating	**1st Quartile**	**2nd Quartile Below / At Midpoint**	**3rd Quartile Above Midpoint**	**4th Quartile**
Unacceptable	0.0%	0.0%	0.0%	0.0%
Needs Improvement	0.0%	0.0%	0.0%	0.0%
Meets Expectations	4.0%	3.0%	2.0%	1.0%
Exceeds Expectations	4.5%	3.5%	2.5%	1.5%
Substantially Exceeds Expectations	5.0%	4.0%	3.0%	2.5%

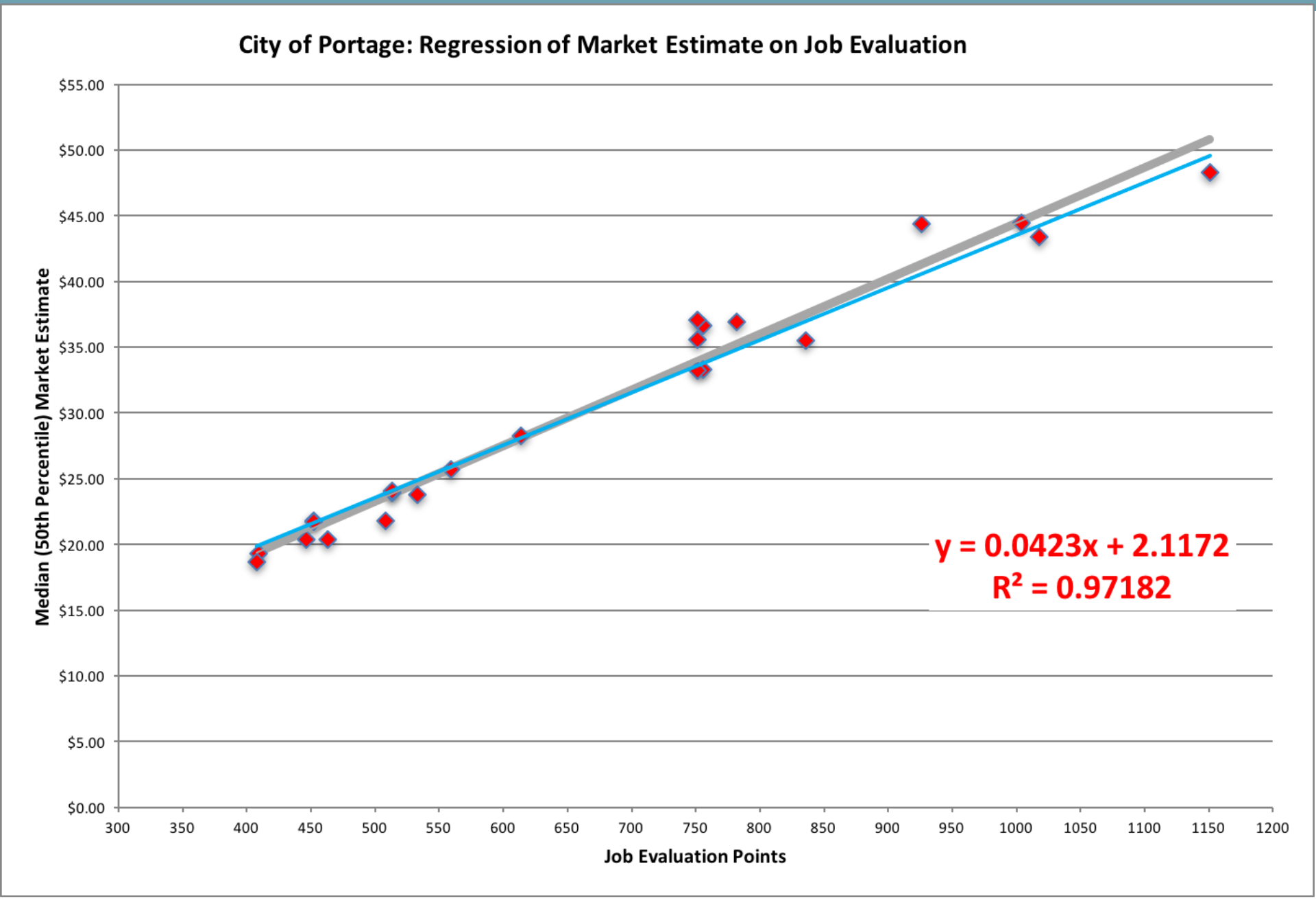
Why Pay Greater Than "Market" Rate (i.e. Control Point)?

- **Structural Philosophy (Example)**
  - ***1st Quartile:*** Target range for recruitment; Minimally qualified; Less-experienced promotions
  - ***2nd/3rd Quartile:*** Target range for market competitiveness; possible entry rate for seasoned, well-qualified workers
  - ***4th Quartile:*** Allows employer to be competitive with the upper end of the market; premium for "institutional knowledge" and continued performance
- **Structure Design**
  - The range of pay (e.g. 80% to 120%) is designed to make the employer competitive across the entire measured market, in addition to incentivizing performance.
- **Competitive Needs**
  - If the employer were to stop the range at the Control Point then it only would be competitive with the lower half of the market.
- **Longer "Shelf-Life"**
  - Having the range reflect the breadth of the measured market will keep the employer competitive for some time without having to re-measure the market annually.

Pay-for-Performance Requirements

- **Centralized Decision-Making**
  - Authority granted to central decision maker to administer
  - Consistent administrative support
  - Manager/supervisor accountability
- **Performance Measurement & Evaluation**
  - Forms need to be developed, maintained, and relevant
  - Reliable measures of performance need to be developed and communicated with employees
  - A clear, organization-wide commitment to defining baseline expectations, as well as the criteria for exceeding those expectations
  - Skilled, trained, and committed managers and supervisors
  - Auditing and re-training (and then more re-training)
- **Strong, Consistent Commitment and Support**
  - Political support from the governing body
  - Commitment from management to doing it right
  - Can’t be a fad
  - Adequate funding

MADISON-AREA IMPACT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Q	$34.50	→	$43.12	→	$51.74
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F	$16.08	→	$20.10	→	$24.12
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D	$14.08	→	$17.60	→	$21.12
C	$13.04	→	$16.30	→	$19.56
B	$12.07	→	$15.09	→	$18.11
A	$11.18	→	$13.97	→	$16.76

RECOMMENDATIONS & NEXT STEPS

Observations / Recommendations

- **Marketplace:**
  - Overall, the benchmark midpoints are at 96.2% of the market, although there will be fluctuations for individual positions
- **Placement:**
  - Recommendation for 50th Percentile / Average as the “anchor” for the pay plan
    - Half of the market pays more, half pays less
    - Revisit, if necessary, in the future
- **Structure:**
  - Recommend adopting an “open-range” plan, which is an extension of the philosophy for employees in the non-union schedule
  - Recommend that employees progress through the structure on an annual basis, presuming that performance is at an acceptable level
    - The methodology for movement is still open for discussion.
      - Does one size fit all?
- **Implementation:**
  - While the implementation cost is relatively small (+/-$15K), what adjustments will be made for individual employees in 2018?

Appeals Overview

Criteria	• Error in Classification/Documentation • Substantial Changes to Job
Pre-Appeal	• Following Adoption • Typically a Two-Week Window
Information Sharing	• Rating Levels Only, Provided Non-Disclosure is On-File • Ratings Only for Classification in Question
Formal Appeal	• Typically Another Two-Week Window • Must Meet the Criteria for an Appeal
Review	• Supervisor & Management Review to Verify Merits of Appeal • Carlson Dettmann Reviews for Content & Meets with Employer
Recommendation	• Recommendations Provided for Action by the Employer

An Employee Appeal Does NOT Apply To …

- **Adopted Pay Structure**
  - Wage schedule
  - Number of steps
- **Established Market Comparisons**
  - Benchmark employers AND jobs
- **Implementation Strategy**
  - Placement in the structure
  - Plan for movement through the structure
- **Any Other Policy Decision**
  - Red circled employees, etc.
  - Weighting of the data (i.e. public/private mix)

MAINTAINING THE STRUCTURE

Maintain the Plan Philosophy

- **Documentation**
  - Require documentation of all jobs
- **Market**
  - Maintain consistency with the selected market and market comparisons
- **Position/Job Placement**
  - Place jobs in the structure based on job evaluation, solid market data, or legitimate compression issues (within reason)
- **Progression**
  - Allow employees to move through the structure as originally intended
    - Failure to do so can cause compression or create morale problems

Annual Review of the Pay Structure

- **Considerations**
  - Market conditions or other changes in the cost-of-living
- **Ability To Pay**
  - Must be balanced with the organization's "ability to pay" for any resulting changes in base salary costs.
    - Contrasted with an "unwillingness to pay"
  - More-and-more, organizations are having to prioritize
- **Market Competitiveness**
  - Without structural adjustment, an organization loses its market edge

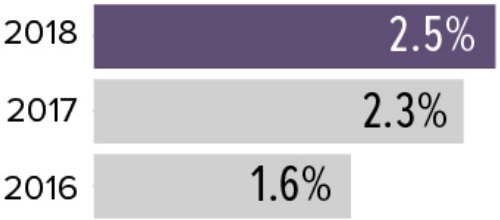
2018 Forecast: ERI Estimates

2018 U.S. SALARY AND ECONOMIC FORECAST

(% annual change)

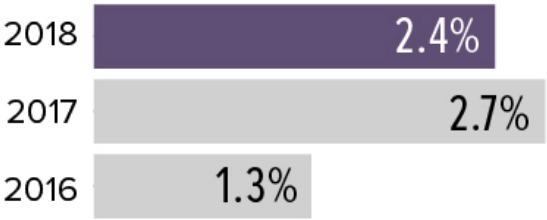
Salary Budget Increase

Gross Domestic Product



Unemployment Rate

Consumer Price Increase



Source: ERI Economic Research Institute.

WorldatWork Surveyed Increases ©

FIGURE 25 **10-Year Perspective: Salary Budget and Structure Increases**

	Salary Budget Increases										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 projected
Nonexempt Hourly Nonunion	3.8%	3.8%	2.3%	2.4%	2.7%	2.8%	2.9%	2.9%	2.9%	3.0%	3.1%
Nonexempt Salaried	3.8%	3.8%	2.1%	2.4%	2.8%	2.9%	2.9%	3.0%	3.0%	2.9%	3.0%
Exempt Salaried	3.9%	3.9%	2.2%	2.5%	2.8%	2.9%	2.9%	3.0%	3.0%	3.0%	3.1%
Officers/Executives	4.1%	4.0%	2.0%	2.5%	2.8%	2.8%	2.9%	3.0%	3.0%	3.0%	3.1%
All	**3.9%**	**3.9%**	**2.2%**	**2.5%**	**2.8%**	**2.8%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**	**3.1%**

	Salary Structure Increases										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 projected
Nonexempt Hourly Nonunion	2.5%	2.5%	1.5%	1.1%	1.4%	1.7%	1.8%	1.9%	1.8%	1.9%	2.1%
Nonexempt Salaried	2.6%	2.5%	1.5%	1.3%	1.5%	2.1%	1.9%	1.9%	2.0%	1.9%	2.1%
Exempt Salaried	2.6%	2.5%	1.5%	1.2%	1.5%	1.7%	1.9%	1.9%	2.0%	2.0%	2.1%
Officers/Executives	2.6%	2.6%	1.4%	1.2%	1.4%	1.7%	1.9%	1.9%	1.9%	2.0%	2.1%
All	**2.6%**	**2.5%**	**1.5%**	**1.2%**	**1.4%**	**1.7%**	**1.9%**	**1.9%**	**1.9%**	**1.9%**	**2.1%**

CDC: 2016/2017

© Public Sector Annual Wage Increase Survey

WI Public Sector Structural Increase in 2016

Employee Group	n	Average
Non-Exempt (Non-Union)	153	1.41%
Exempt (Non-Union)	155	1.43%
Union – General	34	1.29%
Union – Teachers	17	1.59%
Union – Police	116	1.89%
Union – Fire	43	1.64%
Union – Transit	10	1.45%
All Groups		**1.54%**

WI Public Sector Structural Increase in 2017

Employee Group	n	Average
Non-Exempt (Non-Union)	65	1.53%
Exempt (Non-Union)	65	1.58%
Union - General	15	1.39%
Union – Teachers	7	1.66%
Union – Police	76	1.78%
Union – Fire	27	1.81%
Union – Transit	8	1.50%
All Groups		**1.63%**

NOTE: 2017/18 Survey Currently in the Field

Periodically Measure the Marketplace

- **Purpose**
  - Identify competitive positions
  - Allows for strategic conversations with key stakeholders
    - e.g. recruitment/retention difficulties, recent/planned organizational changes, workforce shifts, etc.
- **Review Elements**
  - Reassess the benchmark positions
    - Determine new benchmarks, if necessary
  - Established marketplace
    - Assess if expanded/contracted marketplace is necessary
- **Review Cycle**
  - Hot Market = +/-3 Years
  - Normal Market = +/-5 Years
  - Possibly more frequently for “hot positions”

Employee Performance

- **All Structure Types**
  - Expectation should be that an employee meet the expectations of the job in order to progress through the structure
    - Even in situations where variable pay-for-performance is not a key component
- **Compensation vs. Other Elements**
  - Pay is only one component—although a critical one—of the employer-employee relationship
    - Benefits, Workplace Culture, Work/Life Balance, etc.
  - Most public-sector performance pay policies aren't designed for large performance incentives
    - Tendency to be more incremental
    - Ongoing debate about pay as a motivator (Dan Pink, Dan Ariely, etc.)

The Washington Post

On Leadership

What companies get wrong about motivating their people

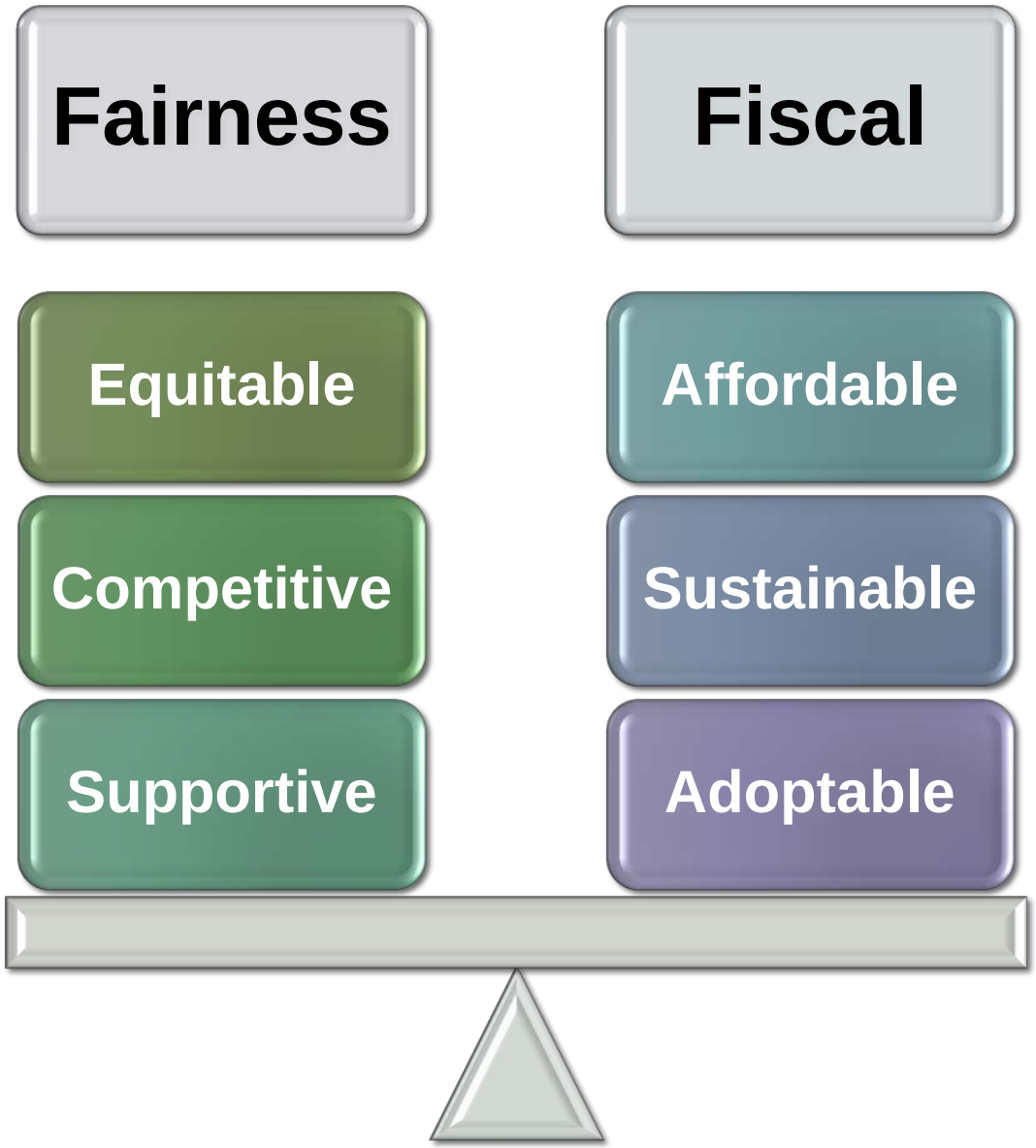
By Jena McGregor November 25, 2016

A few years ago, behavioral economist Dan Ariely conducted a study at a semiconductor factory of Intel's in Israel. Workers were given either a $30 bonus, a pizza voucher or a complimentary text message from the boss at the end of the first workday of the week as an incentive to meet targets. (A separate control group received nothing.) Pizza, interestingly, was the best motivator on the first day, but over the course of a week the compliment had the best overall effect, even better than the cash. "When I get the money, I'm interested, when I'm not getting the money, I'm not so interested," Ariely said in a recent interview. "Even relatively small bonuses can reframe to people how they think about work."

Classification Review

- **Jobs Change**
  - e.g. Technology; Restructuring; Legislation/Regulation; etc.
- **Employee Request**
  - Substantial and demonstrated change in duties
  - Clearly documented
  - Typically to coincide with the budget process.
- **Management Request**
  - All newly created or revised positions should be analyzed for proper placement in the pay structure.

Final Analysis: Delicate Balancing Act



QUESTIONS

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