

DATE: FEBRUARY 13, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #4: UPDATE ON THE PRELIMINARY WATSON WYATT STUDY OPTIONS FOR CITY EMPLOYEE CLASSIFICATION AND COMPENSATION AND PERFORMANCE MANAGEMENT

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Attached is the preliminary report from the consultant Watson Wyatt, representing work done with the City Employee Project Advisory Team. The City Employee Project Advisory Team included employees representing Departments from across the City. The Team has explored an array of classification, compensation and pay for performance issues while making recommendations as to what should be addressed in order to restore confidence in the City's classification compensation and employee evaluation systems. The report includes a proposed revised Compensation Philosophy, a more detailed example of a competency based classification system and a summary of other recommendations.

The City Employee Project Advisory Team has worked collaboratively with Watson Wyatt to review the City's Compensation and Classification and pay system processes. Since January 2008, the Project Team has met with Watson Wyatt 10 times. In October 2008, an update report was submitted to members of City Council on the results of the City employee interviews and focus groups conducted by Watson Wyatt. These meetings have been used to explore an array of classification, compensation and pay for performance options as presented by the consultant. The classification system recommended by Watson Wyatt is based on job families, roles and levels. This combination of factors is the basis for a modern job classification system. Once a classification system is in place, the next step is to determine market pricing for the jobs identified in the City, and ultimately develop a compensation structure (which includes salary ranges).

The report identifies in detail areas of opportunity for the City to address in four areas: benchmarking jobs against the market (which includes identifying comparator jurisdictions), pay scales as they relate to the regional competitive market, an updated classification system and promotional pay. The report further identifies areas of opportunity for an enhanced performance management system, which includes exploration of a pay for performance system, and a

recommendation to explore ways in which the City can reward high performers. Throughout our discussion we have assumed that public safety employees would continue to be on a step pay scale. Currently, we are also looking at an array of different pay scale options for general employees. The report recommends that the City explore pay compression issues in public safety. Due to a hierarchal structure in public safety, often promotions of employees cause pay compression situations when newly promoted public safety employees' salaries are as much or more than employees who have been in that rank for several years.

Finally, the report presents a priority list of activities and a timeline for completion. Completion of these activities would result in updated City compensation, classification systems. Implementation of recommendations will entail a carefully planned, phased in approach over several years.

The next steps in this process will be to meet with the Employee Project Advisory Team for final review and comment on the Preliminary report. This will be followed by submission to the senior management team and the City Council's Compensation and Pension Subcommittee so that the report can be commented on, finalized and submitted to Council. We expect to schedule another work session with the City Council in late spring to review the final recommendations.