

City of Alexandria, Virginia

MEMORANDUM

DATE: JUNE 16, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: CONSIDERATION OF REVISIONS TO THE CITY'S EMPLOYEE COMPENSATION PHILOSOPHY

ISSUE: Proposed Revision to the City's Employee Compensation Philosophy.

RECOMMENDATION: That City Council adopt the revised City Employee Compensation Policy as recommended by the City Employee Project Team of over 40 employees representing various City departments and employee labor groups (Attachment 1).

BACKGROUND: The current City Employee Compensation Philosophy adopted by Council in May of 1997 was the first written City Employee Compensation Philosophy policy statement. The policy is intended to provide a broad framework for City Council, City management, employees and the community to guide decisions that affect City employee pay. In June 2006, City Council approved a revision to the Compensation Philosophy which supported the use of 100% of the average of the midpoint salaries of our comparator jurisdictions instead of the 90% of the average of the midpoint salaries as provided in the compensation philosophy adopted in 1997 (Attachment 2).

Council also approved the staff's proposal to conduct a comprehensive review of the compensation philosophy and development of a comparison of both employee pay and benefits with our comparator jurisdictions. The consultant (Watson Wyatt) began work with the City employee Project Team in January 2008 and held a series of meetings to discuss how the City compensation system was structured, to identify best local government pay practices and to compare the City's pay system with the pay systems in our comparator jurisdictions. Among a variety of recommendations made in the resulting June 2009 Report of Findings: Pay for Performance, Position Classification and Compensation, Benefits and Compensation Philosophy for City Human Resources Department, it was determined that the City's current Compensation Philosophy needed to be updated.

DISCUSSION: In its review of the City Employee Compensation Philosophy the City Employee Project Team reviewed: Pay Competitiveness and Comparability, General Salary Adjustments, Pay Scales, and Career Development Increases. Once revisions were agreed to, the revised City Employee Compensation Philosophy was presented to the members of Council's Compensation and Pension Subcommittee (Mayor Eulle and Councilman Smedberg) in April 2009.

Highlights of the Committee's recommendations include:

- 1) Keeping the same five comparator jurisdictions (Arlington County, Fairfax County, Prince William County, Prince George's County and Montgomery County) that were identified in the 1997 Employee Compensation Philosophy;
- 2) Maintaining the market ratio for job comparisons at 100%;
- 3) Benchmarking comparable jobs every two years instead of every five years and identifying established sources for obtaining benchmark data;
- 4) Establishing four criteria for the City Manager to recommend a budget for general salary adjustments;
 - Overall competitive posture of the organization;
 - Market rate adjustments;
 - Comparator organizations in the primary labor market; and
 - Financial affordability
- 5) Tying annual merit increases with "meets" or "exceeds" expectations on the City's performance standards; and
- 6) Adding sections to the Compensation Philosophy on Education and Tuition Assistance and Incentives.

The City's updated City Employee Compensation Philosophy provides a framework for future employee pay practices.

FISCAL IMPACT: The revision of the City's Employee Compensation Philosophy is designed to support the City's objective of paying employees, fairly, competitively and in a fiscally sound manner. Over time, we will need to address the benchmark data to ensure that the City is competitive with its comparator jurisdictions' midpoint pay. We also need to provide adequate education and tuition assistance to prepare our employees for the changing and sometimes complex tasks they perform. Our ability to do so, however, will depend on the economic conditions of the City and assessments of relative budget priorities. Falling too far behind in pay for comparative jobs will make it more difficult it to recruit and retain quality City employees.

ATTACHMENTS:

Attachment 1: Proposed City Employee Compensation Philosophy

Attachment 2: Current City Employee Compensation Philosophy

STAFF:

Cheryl D. Orr, Director of Human Resources

PART C: CITY OF ALEXANDRIA COMPENSATION PHILOSOPHY**REVISED COPY - 06/08/10****Overview**

The statement of compensation philosophy is intended to provide a broad framework for the City Council, management, employees and the citizens in order to understand and guide decisions that affect pay. It is designed to reflect the importance public employees play in the delivery of services and programs to the community; that compensation is a clear measure of that importance; and that there is fair and equitable treatment of all employees, regardless of race, gender, or disability, and in accordance with EEO/AA goals. In addition, the statement establishes the commitment and necessity to maintain comparability with jurisdictions who are most likely to affect recruitment and retention of employees.

Competitiveness and Comparability

The intent of the compensation philosophy is to maintain a competitive compensation program in order to attract, retain, and motivate qualified employees. To that end, the following principles govern compensation programs:

- Pay programs are intended to be competitive at a minimum with the average pay of comparator organizations in the primary labor market. The primary labor market is currently defined as the Counties of Arlington, Fairfax, Prince William, Montgomery and Prince George's.
- From time-to-time, the City may recommend that other comparators should be used (e.g., Commonwealth of Virginia, agencies of the Federal government, or private sector employers or industry groups) where information from the primary labor market is considered insufficient to attract/retain specific positions or classification groups.
- In all instances, for benchmark jobs, information for an assessment of pay competitiveness will be ascertained through reliably published compensation survey data.
- Every two years, the City will conduct a market study of benchmark positions to determine the competitive posture of the organization, and propose a plan of action. The City may determine if a classification needs review in the interim

If an average salary falls below market averages to the extent that attracting and retaining qualified employees may be jeopardized, the City will propose action necessary to align the position or classification with the competitive marketplace for implementation in the next fiscal year or sooner, if financially feasible.

PART C: CITY OF ALEXANDRIA COMPENSATION PHILOSOPHY

General Salary Adjustments

Annually, the City Manager will recommend a budget for general salary adjustments that is based upon:

- Overall competitive posture of the organization
- Market rate adjustments
- Comparator organizations in the primary labor market
- Financial affordability

Pay Scales

The City will promulgate pay scales for all employees that will provide information on salary increases that an employee may expect from year-to-year if performing satisfactorily. In the public safety classifications, the pay scale schedules will differ from the general employee classifications.

For City employees, the annual increases in base salaries from year to year will be based on meeting established performance standards. In all cases, employees will know performance expectations to advance in-grade, career development opportunities to advance to another grade.

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The specific schedules will be competitive at 100% of the average pay levels for the relevant labor market, and will be adjusted whenever necessary to maintain market competitiveness.

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Salary increases from the pay scale are a function of performance-merit. Such increases are a recognition of performance that meets and exceeds expectations. Merit increases are not automatic.

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PART C: CITY OF ALEXANDRIA COMPENSATION PHILOSOPHY

All employees should be made aware that such increases are a recognition of performance that meets and exceeds expectations. Performance standards and supervisory evaluations should stress that merit increases are not automatic.

Career Development Increases

The City will develop a structure to provide salary increases to recognize the attainment of career levels and developmental milestones that assure that the City's career positions are paid comparable with those in the primary labor market. Such a structure enables existing employees in career jobs within the City to receive pay increases in addition to merit, and enables the City to target its pay to those employees who grow in skill and capability.

Education and Tuition Assistance

An objective of compensation is to encourage and support advanced study, education and degree attainment for job-related courses and programs. The City will prepare and disseminate procedures for applying for and receiving education and tuition assistance, including the academic grades or measures necessary for an employee to be reimbursed and the type of course work that is authorized. The amount to be budgeted for this program will be the average of the budgets for the primary comparator jurisdictions. (*A.R. 6-16, EMPLOYEE EDUCATIONAL TUITION ASSISTANCE PROGRAM, was recently updated.*)

Incentives

It is also the intent of the compensation philosophy to provide financial incentives for extraordinary and exemplary performance in two categories. First, with the recommendation of the City Manager and the approval of the City Council, an employee may be given a taxable cash award ranging from \$1000 to \$10,000. Such awards are to be given only in those instances where performance or contributions are deemed unique, truly extraordinary, and significantly beneficial to the City.

Second, there should be a program for rewarding employees at any time who demonstrate exemplary performance significantly beyond job expectations. Taxable cash awards in this category may be given to a maximum of \$500, with typical awards being between \$100 and \$250. The City Manager should recommend a specific budget allocation to be made available for awards in this category, with procedures for determining selection of incentive awards.

In either category, these awards are one-time cash awards and should not be considered increases in base salary or benefits.

Exceptions

Nothing in this compensation philosophy statement should be construed as a required benefit in the event that the City experiences a decline in revenue or revenue growth lower than the projected increase in expenses. "Revenue" is currently defined as the two largest components of operating revenue: the real property tax base and the projected total personal property tax base.

City of Alexandria Compensation Philosophy

The City of Alexandria's Compensation Philosophy was recommended by the Council Committee on the Watson Wyatt Report during the FY 1998 budget deliberations. The final Compensation Philosophy was adopted by City Council on May 27, 1997. The City is currently reviewing the employee compensation philosophy as part of a consultant study of employee classification and pay systems and is likely to revise the current philosophy during FY 2009.

Overview

The statement of compensation philosophy is intended to provide a broad framework for the City Council, management, employees and the citizens in order to understand and guide decisions that affect City employee compensation. It is designed to reflect the important role that public employees play in the delivery of services and programs to this community; the fair and equitable treatment of all employees, regardless of race, gender, or disability; and adherence to EEO/AA goals. In addition, this philosophy establishes the commitment and necessity to maintain comparability with jurisdictions who are most likely to affect recruitment and retention of employees.

Competitiveness and Comparability

The intent of the compensation philosophy is to maintain a competitive compensation program in order to attract, retain and motivate qualified employees. To that end, the following principles govern compensation programs:

- Pay programs are intended to be competitive at a minimum with the minimum, mid-point and maximum salaries, with emphasis on the mid-point, of comparator organizations in the primary labor market. The primary labor market is currently defined as the Washington Metropolitan area Counties of Arlington, Fairfax, Prince William, Montgomery and Prince George's.
- The City Manager may recommend that other comparators should be used (e.g., Commonwealth of Virginia, agencies of the Federal government, or private sector employers or industry groups) where information from the primary labor market is considered insufficient to attract and retain specific positions or classification groups.
- The City will use benchmark jobs to obtain information on minimum, mid-point and maximum salary for an assessment of pay competitiveness through reliably published compensation survey data.
- At least every five years, the City Manager will request the Personnel Department to conduct a market study of benchmark positions to determine the competitive posture of the organization, and propose a plan of action, if needed, to bring any classes or classification series into competitive alignment and/or to address employee retention and turnover as needed. At any time the City Manager determines that any job classification needs to be reviewed more frequently than once every five years, necessary action may be taken to address the market position of such job.
- If a mid-point salary analysis shows that a position falls below market averages to the extent that attracting and retaining qualified employees may be jeopardized, the City Manager will propose action necessary to align the class with the competitive labor market for implementation at the next fiscal year or sooner, if financially feasible.

City of Alexandria Compensation Philosophy

General Salary Adjustments

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- Overall competitive posture of the organization.
- Cost-of-living changes, as determined by the CPI-U-DC (Consumer Price Index-Urban-for the Washington Metropolitan Area, published bi-monthly by the U.S. Department of Labor, Bureau of Labor Statistics).
- Comparator organizations in the primary labor market.
- Financial affordability.

Pay Scales

The City Manager will promulgate four pay scales that include steps, one for general City employees, and one each for Police, Fire and Sheriff. The pay scales will provide information on salary increases within a particular grade that an employee may expect from year-to-year if performing satisfactorily.

For all employees, the percentage increases in the salary schedule from year-to-year will not be the same amount every year in a particular grade, but will have some variability to reflect length of service and base salaries. To attract and retain employees in the early years of service, while base salaries are still relatively low, the percentage increase may be higher than for more senior employees, who are performing satisfactorily, and gaining more experience and providing even greater value to the City, but have a higher base salary. However, in all cases, employees will know the number of years necessary to reach maximum pay in a particular grade, performance expectations to advance in-grade, and career development opportunities to advance to another grade.

The specific pay scales will be competitive with the minimum, mid-point and maximum salaries for the primary labor market, and will be adjusted whenever necessary to maintain market competitiveness.

Pay Scale Progression

Salary increases from the pay scale are a function of satisfactory performance and are based on merit. All employees should be made aware that such increases are a recognition of performance that meets or exceeds expectations. Performance standards and supervisory evaluations should stress that merit increases are **not** automatic.

Career Development Increases

The City Manager will direct the Personnel Department to develop a structure to provide salary increases to recognize the attainment of career levels and developmental milestones that assure that the City's career positions are paid comparably with those in the primary labor market. Such a structure enables existing employees in career ladder programs within the City to receive pay increases in addition to merit, and enables the City to target its pay to those employees who grow in skill and capability to meet increased job responsibilities.

City of Alexandria Compensation Philosophy

Education and Tuition Assistance

An objective in the compensation philosophy is to encourage and support advanced study, education and degree attainment for job-related courses and programs. The City Manager will direct the Personnel Department to prepare and disseminate procedures for applying for and receiving education and tuition assistance, including the academic grades or measures necessary for an employee to be reimbursed and the type of course work that is authorized.

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It is also the intent of the compensation philosophy to provide significant financial incentives for extraordinary and exemplary performance in two categories. First, with the recommendation of the City Manager and the approval of the City Council, an employee may be given a taxable cash award ranging from \$1,000 to \$10,000. Such awards are to be given only in those instances where performance or contributions are deemed unique, truly extraordinary, and significantly beneficial to the City.

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