ORANGE WATER AND SEWER AUTHORITY

A public, non-profit agency providing water, sewer and reclaimed water services to the Carrboro-Chapel Hill community.

MEMORANDUM

TO: **Human Resources Committee**
Will Raymond, Chair
Michael Hughes
Dana Raborn
John Young
Alan Rimer, (ex-officio)

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: September 30, 2013

SUBJECT: **HUMAN RESOURCES (HR) COMMITTEE MEETING**
THURSDAY, OCTOBER 3, 2013, 5:00 PM, OWASA BOARDROOM

Background

Following the June 13, 2013, Board of Directors' meeting, staff received requests for information related to employee pay from Terri Buckner (Attachment 1) and Michael Hughes (Attachment 2). Additionally, the Board of Directors accepted John Young's August 22, 2013 petition regarding further study of merit-based salary increases and bonuses (Attachment 3). Staff is providing requested information for the Committee's consideration on October 3, 2013. We expect that the Committee will need additional meetings to fully discuss items in Mr. Young's petitions and other related matters.

Objectives for the October 3, 2013 HR Committee Meeting

- Review information provided in agenda items 2 – 4 below.
- Considering the information provided in agenda item 5 below, discuss what level of employee pay increase, if any, may be recommended for Fiscal Year (FY) 2014. Determine if additional information is needed to reach censuses on a recommendation at the October 9, 2013 HR Committee meeting.

Agenda

1) Discuss general scope of the HR Committee
2) Three year history of the following (Attachment 4):
    a. Total dollar amounts distributed for merit increases
    b. Merit increase information segregated into two categories: the amounts awarded to employees making more than the median salary of $54,000 and the amounts awarded to those making less than the median
    c. Information on employees eligible to receive a merit increase who did not receive one

3) Graph of current salaries in comparison to current salary ranges (Attachment 5)

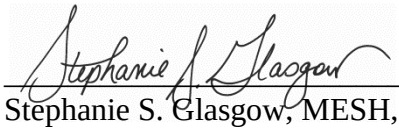
4) Ten year history of pay increases for OWASA and benchmark organizations (Attachment 6)

5) Overview of OWASA's current Cost of Labor and Merit Pay Allocation and Maintenance of the Pay System and Structures (Attachment 7)

6) Discuss Draft Agenda for the October 9, 2013 HR Committee Meeting:

- Seek HR Committee recommendation on employee compensation for FY 2014 that is scheduled to be presented to the OWASA Board for discussion at the October 10, 2013 meeting. Final Board action on this matter could occur at the Board's October 24, 2013 meeting.
- Seek HR Committee recommendation on staff's proposal to reclassify two positions in the Finance and Customer Service Department to achieve greater organizational efficiencies. (The proposal does not increase head count or overall compensation costs). This item will be on the Board's October 10, 2013 agenda for action.
- Discuss agenda and schedule of future HR Committee meetings.

We look forward to the Committee's discussion and guidance.



Stephanie S. Glasgow, MESH, PHR
Director of Human Resources and Safety

Attachments
c: Board of Directors
Robert Epting
Todd Taylor
Mary Darr
Stephen Winters
Dan Przybyl

Stephanie Glasgow

From: Terri Buckner
Sent: Sunday, June 16, 2013 10:07 AM
To: John A. Young; Michael Hughes; Gordon Merklein; Steve Dear; Dana Raborn; Alan Rimer; Ed Kerwin; Will Raymond; Amy Witsil; Stephen Winters; Stephanie Glasgow
Subject: RE: Merit-based salary increases and bonuses

Stephanie,

I'm not sure that I understand all of John's requests, but I'd like to add a request to the list. It's my understanding, which I believe Ed confirmed on Thursday night, that the salary increases we approve each year (2.5% for the past 3 years) are treated as merit increases rather than COLA. Before we begin discussions around future merit-based increases, I would like to know more about how that funding pool has been awarded over the past 3 years, specifically:

1) the dollar amount equal to '2.5%' for each year
2) how many staff members have benefited from the increase each year, organized by those who earn more than the area median ($54,000) and those who earn less and the total dollar increase per person (names not required)
3) how many staff members have not benefited, organized by those who earn more than the area median ($54,000) and those who earn less

I would also like to have a presentation on the review process. Do all managers use the same criteria? What are those criteria and how are the requests from each department reviewed and awarded?

As I said Thursday night, I am very concerned about the wage disparities in the OWASA pay structure. Policy changes based on income, as with the decision on longevity pay, exacerbate an already existing distribution. While that disparity in pay between management positions and blue collar worker positions might reflect the norms of the larger society, I do not believe that OWASA should benchmark against a broken system. We have the opportunity to make some minor corrections through performance-based increases; I hope we take advantage of that opportunity.

Terri

From: John A. Young
Sent: Friday, June 14, 2013 1:24 PM
To: Michael Hughes; Gordon Merklein; Steve Dear; Dana Raborn; Alan Rimer; Ed Kerwin; Will Raymond; Terri Buckner; Amy Witsil; Stephen Winters; Stephanie Glasgow
Subject: Merit-based salary increases and bonuses

Ed, Stephanie, and fellow board members,

In light of last night's discussion on service pay, please consider this request as a future petition. I will introduce it officially at the next board meeting, but wanted to send it while everything is relatively fresh in our minds, for comments and suggestions.

As part of this fall's Board discussion about potential cost of labor and merit adjustments to employee salaries, I petition the staff and HR Committee to provide information and recommendations relative to (1) the appropriate size of this year's pool for salary

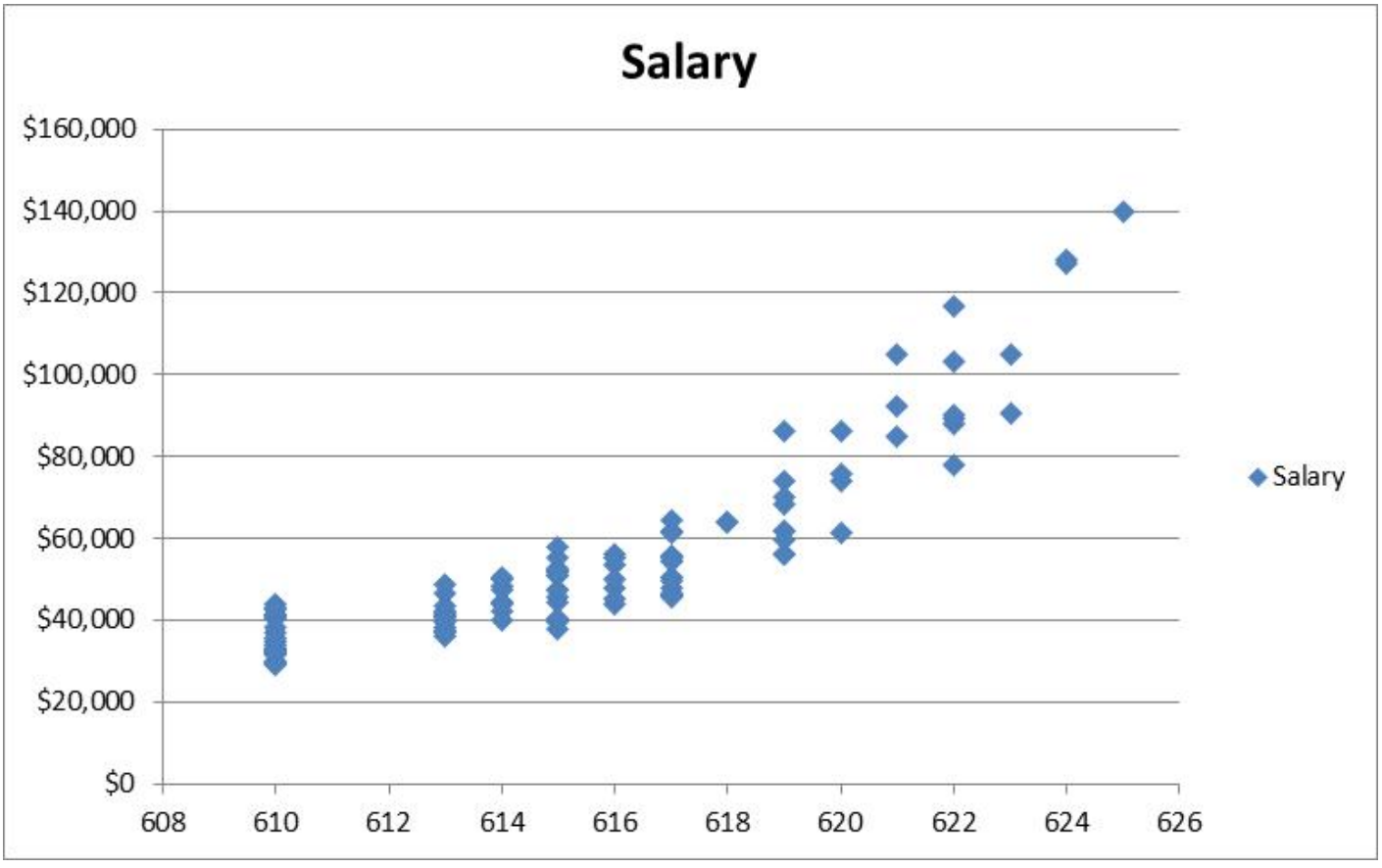
increases, and (2) possibilities for increasing the mix of performance-based components. Please see the attached document for specifics.

Perhaps we should allow Gordon to lead this as a farewell gift? End of June due date, of course.

Thanks,
John

Excerpt from Michael Hughes' memo to the Board
on 06-13-2013 regarding Longevity Pay

I would recommend that Staff update the first graph with the current and proposed FY 2014 Option 3B salaries in two separate charts, and superimpose the results on the pay ranges adopted as a result of the 2013 Employee Classification and Compensation Study to allow the impact to be assessed before the Board discusses this Agenda item.



Petition for Further Study of Merit-Based Salary Increases and Bonuses

Draft, June 14, 2013

I petition the staff and HR Committee to provide information and recommendations relative to these compensation questions:

Part 1: Size of this year's pool for cost-of-labor and merit salary increases

1. How do employees' current salaries, including service pay adjustments, compare to the ranges and medians in the recently approved salary structure? (Same as Michael's request.) Are OWASA's current salaries, or some groups of salaries, too generous relative to "the market for labor" as represented by the salary structure?
2. How do employees' salary increases over the past 10 years compare to those of local benchmarks organizations and "the market for labor?" (An extension of Michael's analysis.)
3. What are the cost-of-labor and merit increases other benchmark organizations are implementing or expect to implement for the current year?
4. Informed by items 1-3 above and the importance of managing OWASA's cost of service, what is the recommended pool for the current year?

Part 2: Possibilities for revising the compensation system to increase the mix of performance-based components

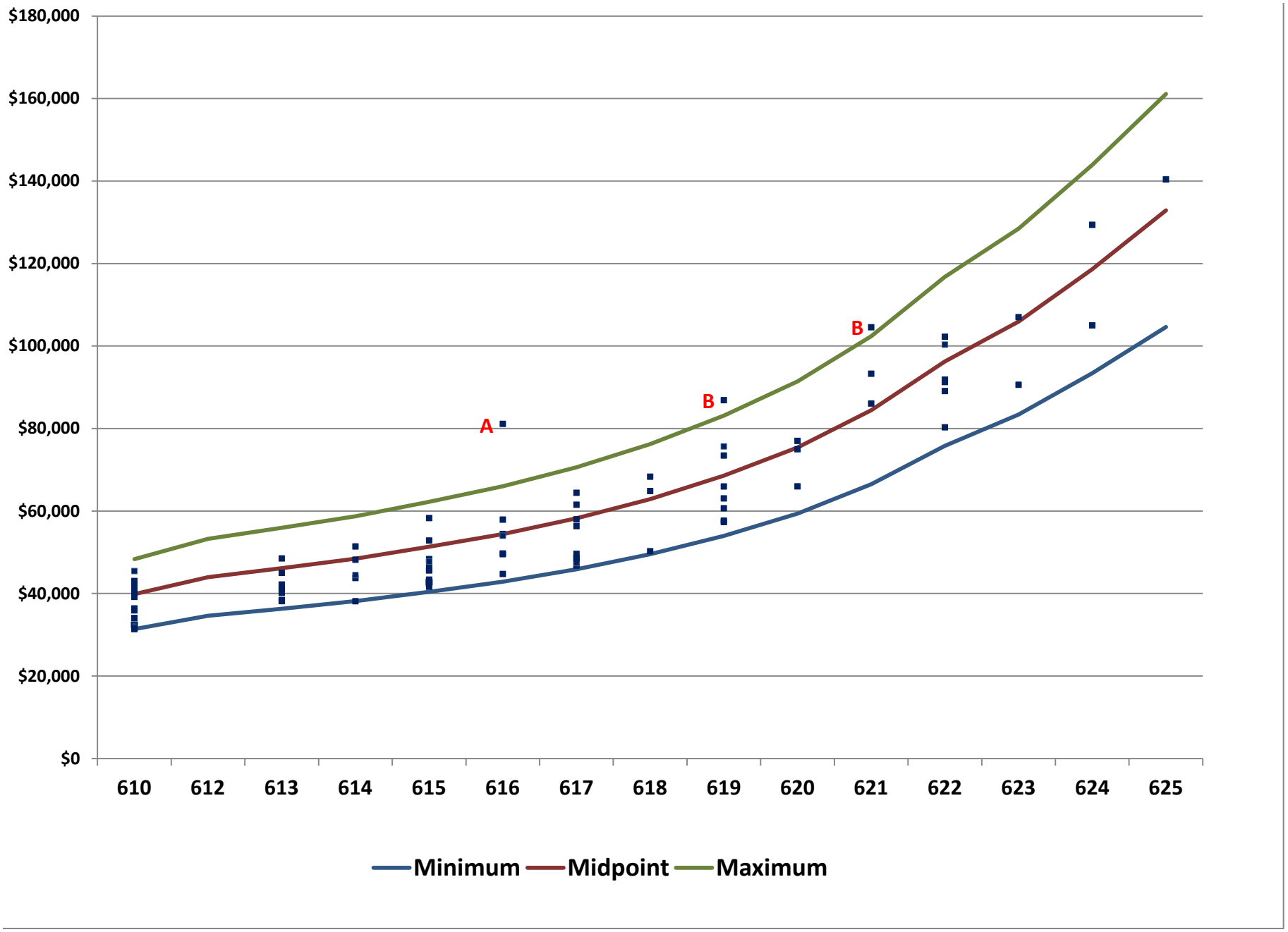
1. Should OWASA provide a fixed cost-of-labor salary increase for all employees, which is a policy detail we approved during the compensation system project? Or is it preferable to allocate the cost-of-labor component based on merit?

   Note: OWASA's compensation policy also says annual cost-of-labor increases in the market will drive annual adjustments to the salary structure, i.e., the min and max for each job grade. I think this is widely supported. It means that if the salary of any employee with satisfactory performance lies below the min, she/he would automatically receive an increase to at least the new min, under either scenario in this item 1
2. Should OWASA begin a merit-based bonus program, i.e., annual or quarterly variable compensation that complements a fixed salary?
3. If so, what is the best structure for a merit-based bonus program? What is the ideal target payout amount, in $ or % of salary? Is there a min or a max? Does it vary by job grade? How would managers determine the individual amounts paid?
4. If so, what is the best way to "fund" and transition to a merit-based bonus program?
   a. Redeploy a portion or all of the upcoming pool(s) for salary increases,
   b. Trim salaries by a fixed % and redistribute it as merit bonuses,
   c. Trim current salaries by a fixed $ and redistribute,
   d. Increase OWASA's budget, or
   e. Some mix of the preceding options or some other formula, for example, a formula that varies by job grade, exempt vs. non-exempt, years of service, etc.

OWASA MERIT INCREASES
3 YEAR HISTORY

Year	Average Merit Increase	Dollar Amount Distributed	Number of Employees that Received an Increase		Eligible Employees Not Receiving Merit Increase (performance related)	
			Number of Employees Annual Base Salary Greater than $54,000	Number of Employees Annual Base Salary Less than $54,000	Number of Employees Annual Base Salary Greater than $54,000	Number of Employees Annual Base Salary Less than $54,000
2012	2.5%	$167,332	36	81	0	0
2011	2.5%	$155,099	27	82	0	0
2010	2.5%	$148,648	30	88	0	1

Current Salaries in Comparison to Current Salary Ranges



Note:

A = Compensation was frozen until market data establishes a higher maximum for the position.

B = Salary ranges were increased for two employees to accomodate the one time pay increase for the elimination of service pay.

TEN YEAR HISTORY OF SALARY INCREASES FOR OWASA AND BENCHMARK ORGANIZATIONS

(Data not provided by Columbus Water Works)

Fiscal Year	OWASA	Town of Carrboro	Town of Chapel Hill	City of Durham	Charlotte/ Mecklenburg County	Orange County	Town of Cary	Cape Fear Public Utility	City of Raleigh	Asheville-Buncombe Municipal	Seattle Public Utilities	Hampton Roads Sanitary District	Washington Suburban Sanitary	Greenville Utilities	Water and Sewer of Cabarrus County
2014	TBD	1.9% COLA	2% COLA	2% Merit	2% Merit	2% COLA	3% Merit	2% Merit 1% Market Adjustment	3% Merit	3% COLA	Next increase 1/1/14 - TBD	4.4% Merit 1.7% Bonus	2-5% Merit 2% COLA	None	2% COLA
2013	2.5% Merit	2% COLA	2% COLA	2% Merit	3% Merit	2% COLA	3% Merit	2% Merit 1% Market Adjustment	$1,000 Merit	2% COLA	3.30% COLA	2.3% COLA 4.4% Merit	None	2.5% Merit/ Market Adjustment	3.% COLA
2012	2.5% Merit	$750-$1250 Lump Sum depending on performance	3% COLA	2% Merit	Employees received 1% one-time payment	None	3% Merit	None	$500 Bonus one-time payment	None	1.8% COLA	4.4% Merit	None	1.5% Merit	None
2011	2.5% Merit	$455 increase	$800 one-time bonus	None	2% Merit	None	3% Merit	None	0-2% Merit	None	0.6% COLA	4.4% Merit	None	None	None
2010	None	None	$800 one-time bonus	0-3% Merit	None	None	2.5% Merit	None	0-4% Merit	None	2% COLA	4.1% COLA 4.4% Merit	3.5% COLA	None	None
2009	3.7% Merit	2%-4.5% Merit	None	0-6% Merit	3.5% Merit	1-2% Merit 2.25% COLA	Information not provided	None	0-6.5% Merit	Information not provided	4.5% COLA	2.5% COLA 4.4% Merit	3.75% COLA	None	3% Market Adjustment 0-6% Merit
2008	4.0% Merit	3.5%-5.5% Merit	3% COLA	0-4% Merit	3.7% Merit	1-2% Merit 3% COLA	Information not provided	None	0-6.5% Merit	Information not provided	3.8% COLA	3.4% COLA 4.4% Merit	3.5% COLA	4.5% Merit/ Market Adjustment	2.5% Market Adjustment
2007	3.8% Merit	3.5%-5.5% Merit	4% COLA	2% Merit	3% Merit	4% COLA	Information not provided	Did not exist until 2008	0-6.5% Merit	Information not provided	3.4% COLA	3.4% COLA 4.4% Merit	2% COLA	4.5% Merit/ Market Adjustment	2% Market Adjustment
2006	3.5% Merit	3.5%-5.5% Merit	3% COLA	None	3% Merit	4% Merit	Information not provided	Did not exist until 2008	0-6.5% Merit	Information not provided	2.3% COLA	3.3% COLA 4.4% Merit	2% COLA	4.5% Merit/ Market Adjustment	0-7% Merit
2005	4.0% Merit	2% COLA 1%-2% Merit	3.78% COLA	2% COLA	3% Merit	2% COLA	Information not provided	Did not exist until 2008	0-6% Merit	Information not provided	2.5% COLA	1.9% COLA 4.4% Merit	4% COLA	4.5% Merit/ Market Adjustment	Information not provided

SALARY BUDGET INCREASE BY TYPE OF INCREASE
NATIONAL DATA
Information provided by Water's Consulting Group using World at Work Data

Type of Increase	Actual 2010		Actual 2011		Actual 2012		Projected 2013	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
General Increase/COLA	1.4%	1.0%	1.5%	1.9%	1.2%	0.0%	1.5%	1.5%
Merit Increase	2.3%	2.5%	2.6%	3.0%	2.6%	3.0%	2.8%	3.0%
Other Increase	0.9%	0.5%	0.9%	0.5%	0.7%	0.5%	0.7%	0.5%
Total Increase	**2.5%**	**2.7%**	**2.8%**	**3.0%**	**2.8%**	**3.0%**	**3.0%**	**3.0%**

SALARY BUDGET INCREASE BY EMPLOYEE GROUP
NATIONAL DATA (ZEROS INCLUDED)

Employee Group	Actual 2010		Actual 2011		Actual 2012		Projected 2013	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly	2.4%	2.7%	2.7%	3.0%	2.9%	3.0%	2.9%	3.0%
Nonexempt Salaries	2.4%	2.7%	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%
Exempt Salaries	2.5%	2.7%	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%
Officers/Executives	**2.5%**	**2.7%**	**2.8%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**
All	**2.5%**	**2.7%**	**2.8%**	**3.0%**	**2.9%**	**3.0%**	**3.0%**	**3.0%**

SALARY BUDGET INCREASE BY EMPLOYEE GROUP
NATIONAL DATA (ZEROS EXCLUDED)

Employee Group	Actual 2010		Actual 2011		Actual 2012		Projected 2013	
	Mean	Median	Mean	Median	Mean	Median	Mean	Median
Nonexempt Hourly	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%
Nonexempt Salaries	2.8%	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.0%
Exempt Salaries	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.0%
Officers/Executives	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.1%**	**3.0%**	**3.2%**	**3.0%**
All	**2.9%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.0%**	**3.1%**	**3.0%**

AVERAGE SALARY ADJUSTMENTS BY STATE

Information provided by Water's Consulting Group using World at Work Data

State	Actual 2011		Actual 2012		Projected 2013	
	Mean	Median	Mean	Median	Mean	Median
Alabama	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
Arizona	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
California	2.9%	3.0%	2.9%	3.0%	3.1%	3.0%
Colorado	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
Florida	2.8%	3.0%	2.8%	3.0%	2.9%	3.0%
Illinois	2.9%	3.0%	2.8%	3.0%	3.0%	3.0%
Indiana	2.9%	3.0%	2.8%	3.0%	3.0%	3.0%
Kansas	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
Louisiana	2.8%	3.0%	2.9%	3.0%	3.1%	3.0%
Minnesota	2.7%	3.0%	2.8%	3.0%	2.9%	3.0%
Missouri	2.8%	3.0%	2.8%	3.0%	2.9%	3.0%
Nebraska	2.7%	3.0%	2.8%	3.0%	3.0%	3.0%
New Mexico	2.8%	3.0%	2.8%	3.0%	2.9%	3.0%
New York	2.9%	3.0%	2.8%	3.0%	3.0%	3.0%
North Carolina	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
Ohio	2.8%	3.0%	2.8%	3.0%	2.9%	3.0%
Oklahoma	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%
Pennsylvania	2.8%	3.0%	2.9%	3.0%	3.0%	3.0%
South Carolina	2.8%	3.0%	2.8%	3.0%	3.0%	3.0%
Texas	2.9%	3.0%	2.9%	3.0%	3.0%	3.0%
Virginia	2.8%	3.0%	2.7%	3.0%	3.0%	3.0%
Washington	2.9%	3.0%	2.9%	3.0%	3.0%	3.0%

AVERAGE SALARY STRUCTURE ADJUSTMENTS BY EMPLOYEE GROUP
NATIONAL DATA
Information provided by Water's Consulting Group using World at Work Data

Employee Group	Actual 2010	Actual 2011	Actual 2012	Projected 2013
Nonexempt Hourly	1.1%	1.4%	1.7%	1.9%
Nonexempt Salaried	1.3%	1.5%	2.1%	2.1%
Exempt Salaried	1.2%	1.5%	1.7%	2.0%
Officers/Executives	1.2%	1.4%	1.7%	2.0%
All Groups Average	**1.2%**	**1.5%**	**1.8%**	**2.0%**

AVERAGE SALARY STRUCTURE ADJUSTMENTS BY EMPLOYEE GROUP
REGIONAL DATA

Central Region		
Employee Group	Actual 2012	Projected 2013
Nonexempt Hourly	1.7%	2.0%
Nonexempt Salaried	2.4%	2.1%
Exempt Salaried	1.7%	2.0%
Officers/Executives	1.7%	2.1%
All Groups Average	**1.9%**	**2.1%**

Eastern Region		
Employee Group	Actual 2012	Projected 2013
Nonexempt Hourly	1.7%	1.9%
Nonexempt Salaried	1.7%	2.1%
Exempt Salaried	1.7%	2.0%
Officers/Executives	1.7%	2.0%
All Groups Average	**1.7%**	**2.0%**

Southern Region		
Employee Group	Actual 2012	Projected 2013
Nonexempt Hourly	1.6%	2.0%
Nonexempt Salaried	2.5%	2.1%
Exempt Salaried	1.7%	2.1%
Officers/Executives	1.6%	2.1%
All Groups Average	**1.9%**	**2.1%**

Western Region		
Employee Group	Actual 2012	Projected 2013
Nonexempt Hourly	1.6%	2.0%
Nonexempt Salaried	2.4%	2.1%
Exempt Salaried	1.6%	2.1%
Officers/Executives	1.6%	2.1%
All Groups Average	**1.8%**	**2.1%**

Excerpt from The Waters Consulting Group, Inc. Final Report Employee Classification and Compensation Study - January 10, 2013

MAINTENANCE OF THE PAY SYSTEM AND STRUCTURES

During the normal budget process, the Human Resources and Safety Manager is responsible for developing recommendations regarding structure adjustments. As these recommendations reflect the compensation policy of OWASA, the final budget allocations will rest with OWASA Board of Directors, and should be made in the context of the total financial outlook for OWASA.

When determining the adjustments to make, OWASA will need to consider the impact of these adjustments on the salary structure and individual salaries. WCG has recommended and OWASA

has adopted a market-competitive position for implementation in 2012 of approximately 100% of the designated market's average. This approach to establishing market competitiveness will provide OWASA will the ability to attract and maintain a competent, high performing workforce while still recognizing its responsibility as stewards of ratepayer dollars. OWASA will need to allocate the required amounts in upcoming budget years to maintain or improve its market position in anticipation of market movements. Changes to the definition of OWASA's targeted competitive position will affect how much of the budget must be allocated to maintain a specific competitive position. The structure, if maintained, will keep the market position at 100% of the market average (actual average salaries of the survey cities/organizations compared to the mid-point of OWASA's salary ranges), providing the ability to maintain a competitive workforce.

Market Movement

The market is dynamic. Therefore, once the pay structure has been developed using market data, OWASA should allocate funds sufficient to maintain the same relationship to the market as it changes. Salary surveys should be conducted on a regular schedule to assess market changes. Guidelines for conducting salary surveys are defined in the next section "Salary Survey Data Collection and Analysis." The percentage allocated for future adjustments to the pay structure will be based on movement of salaries in the market. For example, if salaries have increased on average by two percent (i.e., Cost of Labor equals two percent), the salary structure would need to be adjusted upward by two percent, to maintain OWASA's position relative to the market. This would be accomplished by moving the entire structure by two percent. If the pay structure moves, all employees' salaries in the structure should move a minimum of the same amount to avoid compression. Every five to seven years, a full market review (similar to this project) should be conducted.

Financial Status

One of the functions of the budget process is to consider the competing priorities for limited fiscal resources. Once these factors are evaluated, it may be determined that OWASA's current financial status cannot support the total cost. Conversely, in a positive financial condition, OWASA may

consider increasing the percentage allocated for the above factors. Clearly, OWASA's financial condition will affect both structure adjustments and individual salaries.

Other Policy Considerations

It is recommended employees be paid no less than the minimum of the pay grades established for their position. It is also recommended that increases do not allow employees' salaries to exceed the maximum of the pay range for their position. Employee pay should always be maintained within their assigned range.

STANDARDS FOR SALARY SURVEY DATA COLLECTION AND ANALYSIS

As mentioned previously, salary surveys should be conducted every two years to gather current labor market information. Reliable labor market information can be used by OWASA for a variety of purposes including: pricing jobs, determining competitive position, identifying trends, measuring market movement, diagnosing compensation challenges, monitoring internal equity, and defending current pay practices. OWASA has chosen benchmark cities/organizations that should be used for all future market data collection. As an alternative, OWASA may choose to use published survey data to determine average labor movement. WorldAtWork publishes annual market movement and can be regionalized for use by OWASA.

Competitive Labor Market

A labor market is generally the identified group of employers with which OWASA most likely competes for qualified employees. The survey data collected by OWASA should continue to be representative of the competitive labor market. Factors that have been considered in selecting organizations for survey purposes include the following:

- Competition of jobs;
- Commonality of positions;
- Geographic proximity; and
- Nature of services provided.

The survey entities and benchmark positions selected should remain consistent year to year to be able to obtain an accurate market movement.

Data Collection

It is recommended that OWASA survey its selected benchmark cities/organizations every two years to determine average overall structure movement by its competitors to guide recommendations for future structure adjustments.