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**
Gordon Merklein, Chair
Stephen Dear
Michael Hughes
Dana Raborn
John Young
Alan Rimer, (ex-officio)

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: December 10, 2012

SUBJECT: HUMAN RESOURCES (HR) COMMITTEE MEETING ON MONDAY, DECEMBER 17, 2012 AT 3:00 PM, OWASA BOARDROOM

Agenda

1. **Employee Classification and Compensation Study**
   a. Attachments #1 and #2 provide response to information request regarding Characterization of Benchmark Organizations.
   b. The request for information to include Case Study Examples will be provided at the meeting by Ruth Ann Eledge, CEO and Senior Consultant, and Joyce Powell, Senior Compensation Consultant for The Waters Consulting Group.

Thank you,

Stephanie S. Glasgow, MESH, PHR
Human Resources and Safety Manager

Attachments
c: Board of Directors
Robert Epting

Comparison of Utilities and Localities in the Orange Water and Sewer Authority's Labor Market

as designated in the Waters Consulting Group's final draft report of October 25, 2012

Organization and website address	Distance from Chapel Hill – Carrboro (miles)	Water-related utility enterprises	Population served	Annual revenue (millions)	Positions	Average demand in million gallons per day (MGD)	Water treatment capacity (MGD)	Water treatment plants	Waste-water treatment capacity (MGD)	Wastewater treatment plants	Pipe miles	Pump stations	Jurisdictions served
Greenville Utilities www.guc.com	110	Water, sewer, electric, gas	No data	$34	420	Water: 11.9 Sewer: 10.3	24.5	1	17.5	1	1,099	37	Greenville, 75% of Pitt Co.
Cape Fear Public Utility Authority www.cfpua.org	150	Water, sewer	No data	$67	292	Water: 16.6 Sewer: 15.1	42	2	22.1	3	2,044	141	New Hanover Co., Wilmington, Wrightsville Beach, part of Pender Co.
Cary www.townofcary.org	25	Water, sewer, reclaimed water (RCW)	160,000	$232	1,168	Water: 17.5 Sewer: 14.5 RCW: 0.8	40	1	24.8	2	2,096	45	Cary, Morrisville, RTP South, RDU Airport
Asheville www.ashevillenc.gov/	200	Water, stormwater	83,000	$135	1,153	Water: 21	43.7	3	n/a	n/a	1,661	n/a	Asheville
Charlotte - Mecklenburg Utilities www.charmeck.org	130	Water, sewer	796,000	$296	746	Water: 101 Sewer: 77	242	3	123	5	8,386	79	Mecklenburg Co.; connections to Concord, NC, Union Co., Lancaster Co. and York, SC
Seattle Public Utilities www.seattle.gov	2,800	Water, sewer, stormwater	1.3 million	$668	1,205	Water: 118	300	2	n/a	n/a	3,294	68	Retail: Seattle area, wholesale: 23 suburban utilities and associations
Hampton Roads Sanitation District www.hrsd.com	180	Wastewater collection and treatment	1.6 million	$219	769	Sewer: 151	n/a	n/a	249	13	500+	104	17 counties and cities including Hampton, Newport News, Norfolk, Va. Beach
Washington Suburban Sanitary Commission www.wsscwater.com	300	Water, sewer	1.8 million	$584	1,693	Water: 170 Sewer: 214.5	341	2	243 incl. Dist. of Columbia plant	7	10,900	47	Montgomery and Prince Georges Counties, MD
Orange County www.co.orange.nc.us	n/a	Sewer (Efland area)	134,000	$209	888	0.04	n/a	n/a	n/a	n/a	5	2	Orange Co.
Chapel Hill www.ci.chapel-hill.nc.us/	n/a	Stormwater	57,432	$90.5	697	n/a	n/a	n/a	n/a	n/a	No data	n/a	Chapel Hill
Carrboro www.ci.carrboro.nc.us/	n/a	n/a	19,582	$18.5	155.5	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Carrboro
OWASA www.owasa.org	n/a	Water, sewer, RCW	80,000	$38	130.5	Water: 6.3 Sewer: 7.6 RCW: 0.83	20	1--Carrboro	14.5	1	754	21	Chapel Hill, Carrboro, southeast Orange Co., southwest Durham Co., UNC and UNC Hospitals

Attachment 1

THE WATERS
CONSULTING
GROUP, INC.

MEMORANDUM

TO: Members of the Board of Directors
Orange Water and Sewer Authority (OWASA)

FROM: Ruth Ann Eledge, CEO and Senior Consultant
The Waters Consulting Group, Inc. (WCG)

SUBJECT: Response to Concerns re: Compensation Study Methodology and Recommendations

DATE: December 7, 2012

Board members have raised questions regarding the methodology and findings of the Classification and Compensation Study completed by the Waters Consulting Group, Inc. (WCG). In order to respond to this feedback, Joyce Powell, CCP and Senior Compensation Consultant, and I will be at the Human Resources Committee meeting on December 17, 2012. In preparation for this meeting, I am providing you with our initial written responses to some of the feedback and look forward to presenting additional information, as requested, at the Committee meeting.

Information provided by an OWASA Board Member compares the proposed OWASA pay structures to the City of Durham's structures. While the information is useful as a point of comparison, the methodology of the study conducted by WCG was not based on comparisons of pay ranges but on actual salaries of incumbents in the benchmark organizations. WCG's original proposal to OWASA provided a methodology that focused on a review of job classifications, completion of an internal equity review, and collection of market data to determine actual average incumbent salaries from relevant benchmark organizations. A comparison of OWASA'S proposed structures to one organization does not reflect the competitive market used in the market analysis. The attached memo, already provided to the Board, describes the approach that WCG and OWASA used to identify the benchmark organizations and the collection of the data.

The methodology of the study was completed using generally accepted compensation principles and practices. Based on WCG's experience and expertise, it is not our recommendation for OWASA to use a methodology that is based on structure comparisons. There are multiple justifications for not using this approach that can be discussed further at the Human Resources Committee meeting.

Another issue that has been raised is the inclusion of data from Seattle Public Utilities (SPU), particularly for management level positions. This organization was included as a benchmark employer, supported by the Authority management's interest in including "best in class/service" utilities. While it is recognized that the geographic location and size of the organization should be taken into consideration during the analysis of data collected from SPU, both size and location were adjusted through the use of the geographic adjustment to reflect differences in regional cost of labor and the review of individual matches to ensure comparability.

As an example, a review of the matches utilized from SPU for OWASA management level positions shows that there were seven management level positions matched by SPU. Of those eight matches, one was discarded that did not meet WCG's standard for matching and the other seven were included. Of the seven management matches utilized:

• Director of Engineering and Planning	third highest salary of six total matches
• Director of Information Technology	fourth highest salary of nine total matches
• Director of Planning and Development	fifth highest salary of eight total matches
• Distribution and Collection Systems Manager	highest salary of six total matches
• Finance and Customer Service Director	third highest salary of ten total matches
• General Manager	second highest salary of three total matches

Based on this analysis and our review of the overall market data, it does not appear that the matches provided by CPU had a detrimental impact on the overall analysis, but in fact reinforces the overall data collected in the review.

It is our intent to provide a more detailed review of how the market data was used to create the proposed structures during the next Human Resources Committee meeting. We will highlight the four positions identified in the request for a "case study" of specific job titles from grades 621 and higher. Our objective is to show how this compensation system was developed, and that it is a "systematic" approach based on sound compensation principles. It is also our intent to solicit feedback on further issues and options for resolution.

Joyce and I look forward to our opportunity to meet with the Committee, as our goal is to have a successful completion of the study with support from the Board of Directors.

R. Eledge
(Electronic Signature)

cc: Ed Kerwin
Stephanie S. Glasgow

Rational for Selection of Benchmark Organizations and Proposed Merit Increase Level

Selection of comparable organizations for use in a comprehensive compensation study is a key decision by the organization. The Waters Consulting Group (WCG) consultants and the Orange Water and Sewer Authority's (OWASA) Executive Team worked together to develop a comprehensive list of employers to be included in the market survey. The final list of survey participants are based on a balance of the following principles. In other words, the list of participants includes employers that represent the following criteria. For those employers that are outside of OWASA's geographic area, a geographic differential, based on Economic Research Institute (ERI) national index, was included in the analysis to recognize regional differences in cost of labor and cost of living.

- Employer size and complexity – As a rule, the more similar employers are in size and complexity, the greater the likelihood that comparable positions exist within both organizations. Specifically, organizations of a size and complexity similar to that of the Authority are more likely to have organizational structure and positions similar to that of OWASA than are organizations significantly smaller or larger in size. Three specific indicators of size and complexity include population served, budget size, and number of employees. While no employer will "match" OWASA's specific indicators, a sample of organizations that are within an acceptable range of size should be included as benchmark organizations.

- Geographic proximity – The geographic proximity of potential survey employers should also be used in identifying an organization's labor market. This factor is particularly important because it identifies those employers that directly compete with OWASA to recruit and retain personnel. Furthermore, by selecting employers within reasonably close geographic proximity, the resulting labor market is most likely to be reflective of the region's cost of living, growth rate, and other demographic characteristics. The proposed list of benchmark organizations should also include local private sector employers since some positions within OWASA may be hired from the same applicant pool. In some cases, employers outside of the geographic region will be contacted as these employers may compete for the same pool of candidates.

- Nature of services provided – The type and scope of services provided should also be used to set an organization's labor market. Logically, employers who provide similar products and services are more likely to compete with one another for talent and are most likely to have comparable positions and similar organizational structures. Employers that provide similar services but are larger or smaller than OWASA may be selected as benchmark organization for data collected but each

job match should be reviewed to ensure comparability in scope of duties and responsibilities.

- Excellence and Quality Service- OWASA is benchmarking its services and organizational approaches with other utilities that are recognized as having high, quality service delivery levels. These organizations will be included as benchmark organizations as their approach in providing a Total Compensation package to their employees will be important in determining best practices in compensation.

Using these guiding principles, the list of employers utilized for data collection was developed with the objective of having a group of organizations that represent all of the stated criteria. WCG presented an initial list of benchmark organizations for consideration with the understanding that feedback from the OASA Executive Team would be used to finalize a list of benchmark organizations that provide data representative of all the stated criteria. As survey responses were received, each match was reviewed to determine the appropriateness of the match by WCG's Senior Compensation Consultant to require an "apples to apples" comparison, ensuring that generally accepted compensation practices were met. In this manner, data from all employers was evaluated to determine its applicability, removing individual matches (based on the respondents' job descriptions and organizational charts) if the scope of duties and responsibilities were not comparable.

There has been a specific question regarding the participation from the City of Durham. Durham was initially identified as a benchmark organization but was unable to participate at the time the survey data was requested. Staff from the City of Durham has generally been responsive to other requests for data from WCG, however the timing of this particular study presented issues with their participation.

WCG was also asked to review data to provide guidance in an appropriate level of budget for merit increases. The attached chart provides data compiled from the national compensation association's professional organization WorldAtWork. This data documents trends in salary and structure adjustments for calendar years 2012 and 2013. Based on WCG's review of the data, it is our opinion that the supporting documentation provides various cuts of the data that support the proposed 2.5% merit budget recommended for OWASA for fiscal year 2013.