ORANGE WATER AND SEWER AUTHORITY

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

TO: **Human Resources Committee**
Robert Morgan, Chair
Jeff Danner
Barbara Foushee
Heather Payne
John Young, (ex-officio)

THROUGH: Ed Kerwin

FROM: Stephanie S. Glasgow

DATE: June 2, 2017

SUBJECT: **HUMAN RESOURCES (HR) COMMITTEE MEETING TUESDAY, JUNE 6, 2017, 7:00 PM, OWASA BOARDROOM**

Agenda

1) Discuss Information and Options for Employee Merit Pay for Fiscal Year 2018

2) Discuss Approach To Advance Employee Compensation Based on Performance

Stephanie S. Glasgow, MESH, MPM, PHR, SHRM-CP
Director of Human Resources and Safety

Purpose

Based on discussion at the April 27, 2017 and May 11, 2017 Board meetings, staff believes there are two key tasks for the Human Resources (HR) Committee:

1) What Cost of Labor and Merit Pay increases should be provided to employees in Fiscal Year 2018?

2) What short and/or longer-term approach to advance employee compensation based on performance should be further evaluated?

Approach to Advance Employee Compensation Based on Performance – this information was discussed by the Board on April 27, 2017

The purpose of OWASA's compensation program is to attract, retain and motivate employees by offering pay opportunities commensurate with their position's internal and external value.

At the October 31, 2016 Board Work Session, the Board asked staff to propose a process/approach to address the fact that a majority (~70%) of OWASA employees' pay is below the midpoint of their pay ranges.

While we have existing practices to bring new employees into the organization at the appropriate position within the pay range based on their years of experience and qualifications, current employees receiving annual increases are moving slowly through their pay ranges. This is the basis for the Board's request to consider an approach to advance employees more quickly through their pay ranges based on performance.

Approach to Advance Employee Compensation Based on Performance

Employees would move more quickly through their pay range, and therefore be compensated at the market rate for their job performance, if the spread between their annual merit pay increase and the annual cost of labor increase were greater. Conversely, less differential between the annual merit pay increase and annual cost of labor increase necessarily slows the progression of individual employees through their pay range for their salary grades.

For an employee starting at the minimum of the pay range, the table below shows the pace at which they would advance in the pay range (assuming a performance rating of Successful) under four different pay adjustment scenarios.

Number of Years for Employee Starting at Minimum of Pay Range to Reach Mid-Point of Pay Range	Number of Years for Employee Starting at Minimum of Pay Range to Reach Maximum of Pay Range	Percentage that Annual Merit Pay Increase Exceeds Cost of Labor Adjustment
9	15	2.9%
11	20	2.2%
14	25	1.8%
16	30	1.5%

For example, should the Board decide to target 11 years as the appropriate time-frame for an employee starting at the minimum of the pay range to reach the midpoint, the Board would need to approve an annual merit pay increase that exceeds the cost of labor increase by 2.2% each year.

Should the Board agree to take such an approach, no change to the existing Board-approved Pay Administration Guidelines is needed. Staff would simply provide a cost of labor and merit increase proposal for the Board's consideration as part of the annual budget cycle to meet the Board's target for pay progression.

Information and Options for Cost of Labor and Merit Pay increase for Fiscal Year 2018 – this information was discussed by the Board on May 11, 2017

Pay Administration Guidelines

At the conclusion of an Employee Classification and Pay Study, the OWASA Board adopted on January 10, 2013 the Pay Administration Guidelines which provide recommendations for 1) maintaining a market-based pay structure (Cost of Labor); and 2) implementing employee compensation increases (Cost of Labor and Merit Pay Adjustments).

Cost of Labor Adjustments to OWASA's Pay Structure
Pay structure should be adjusted annually in proportion to movements in the labor market.

"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 (e.g., 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."

Pay range adjustments should be the same percentage as the Cost of Labor per the Pay Administration Guidelines.

Merit Pay Adjustments
Our performance management system provides four overall ratings for employee performance:

- Exceptional (no more than approximately 10% of employees)
- Successful (the majority of employees are rated in this category)
- Needs Improvement
- Unsuccessful

Only employees with Exceptional or Successful performance ratings are to receive an increase (cost of labor and/or merit) in compensation. Regarding increases for employees receiving an Exceptional or Successful rating, the Pay Administration Guidelines state that the amount recommended for merit increases:

"Should be based on data collected through a market review. Data can be collected from benchmark organizations to determine the average budgets to merit pay increases or data from World@Work can be used to determine the acceptable increases that should be allocated." It further states, "It is recommended that employees receiving Exceptional ratings should receive a percent increase of at least twice the level of the increase for a Successful rating."

Market Analysis

Based on the most recent World@Work survey data available for the calendar year 2017, Cost of Labor increases are projected to be from 1.1% to 2.5% and Merit Pay increases are projected to be from 2.7% to 3.2%. (See Attachment #1 for World@Work survey data.)

The following table shows planned employee compensation increases for local entities.

Entity	Merit	Cost of Labor/Living
City of Durham	4%	N/A
Town of Cary	Last year funded up to 4% and will most likely do the same.	N/A
Town of Hillsborough	3.25% Average (0 – 4.67%)	N/A
Cape Fear Public Utility	Proposed 3%	Proposed 1%
Town of Chapel Hill	N/A	Proposed 2.5% Adjusting 40 positions based on a recent market survey.
Town of Carrboro	N/A	Proposed 3%
Orange County	Proposed One-time $500, $750 or $1,000 Bonus Based on Performance	Proposed 2%
Greenville Utilities	Proposed 1.5%	Proposed 1.7%

Staff Recommendation

Based on the market data provided, the Board's discussion on April 27th, and in accordance with our Pay Administration Guidelines, on May 11, 2017 Staff recommended the Board consider the following:

1. Approve a 1.0% Cost of Labor increase for all eligible employees who earn a Successful or Exceptional rating on their October 2017 annual performance review and implement the same percentage increase to salary ranges in the Schedule of Employee Classification and Authorized Compensation effective October 31, 2017.
2. Employees rated as Successful in the October 2017 annual performance review shall receive a Merit pay increase of 2.5% effective October 31, 2017.
3. Employees rated as Exceptional in their October 2017 annual performance review shall receive a Merit Pay increase of 5.0% effective October 31, 2017.

Implementing the recommendation above would result in the following:

- Employees receiving a Successful performance rating would receive a total wage increase of 3.5%.
- Employees receiving an Exceptional performance rating would receive a total wage increase of 6.0%.
- Employees receiving a Needs Improvement or Unsuccessful performance rating are not eligible for an increase.

	Components of Employee Pay Adjustments	World@Work	Staff Recommended Adjustment for Successful Rating	Staff Recommended Adjustment for Exceptional Rating
	Cost of Labor	1.1 – 2.5%	1.0%	1.0%
+	Merit Pay	2.7% - 3.2%	2.5%	5.0%
=	Total Pay Increase		3.5%	6.0%
	Approximate Budget Impact		$290,000	

The calculations above are based on current employee wage rates and assume no more than 10% of the workforce will receive a rating of Exceptional.

At the May 11, 2017 Board Work Session, the Board:

1. Requested the HR Committee to meet and put forth a recommendation to the full Board regarding employee merit pay for FY 2018 and an approach to advance employee compensation based on performance;

2. Agreed to increase the proposed FY 2018 budget for employee compensation from an overall increase of 3% to 3.5% (total budgeted increase approximately $290,000);
3. Requested a report showing the "average salary of each pay grade" and how that "average" compares to the midpoint of the corresponding pay range; and
4. Requested to review the information from the report in item three above assuming staff's recommendation is implemented.

Attachment #2 illustrates the information requested in items three and four above.

Attachment #3 shows the "average salary of each pay grade" and how that "average" compares to the midpoint of the corresponding pay range as of June 2017 and the same information after five years of annual 1% Cost of Labor adjustments and 2.5% Merit adjustments as well as the average time in position for each pay grade. As you can see, after five years of this approach to salary adjustments, employees would have progressed fairly significantly through their salary ranges.

Staff Recommendation

Staff believes the most important and time-sensitive task for the HR Committee is to make a recommendation at the Board's September 14, 2017 Work Session on the Cost of Labor and Merit Pay increase for employees in Fiscal Year 2018. The Board is currently scheduled to make a decision about employee pay no later than the October 12, 2017 Work Session. If approved, pay range adjustments and pay increases normally go into effect the first pay period in November.

Staff's recommendation for Cost of Labor and Merit Pay increase is unchanged from May 11, 2017.

Regarding short and/or longer-term approaches to advance employee compensation based on performance, staff believes this is worthy of additional consideration by the HR Committee and full Board. However, there are many important factors to consider and we don't believe there are any easy answers to how this might best be done. As a result, we believe the most important action the Board can take to allow employees to move more quickly through the pay range based on performance is to increase the spread between the annual Cost of Labor and annual Merit Pay increase.

Attachment 1

WORLD AT WORK SALARY SURVEY DATA

	2016				2017 projected			
	COLA	**Merit**	**Other**	**Total** [4]	**COLA**	**Merit**	**Other**	**Total** [4]
	(Percent)				(Percent)			
1-499 Employees, $30M-$100M revenue								
All Industries								
National	1.7	3.1	0.9	3.2	2.4	3.2	1.4	3.3
Southern [1]	2.3	3.2	0.8	3.2	2.5	3.2	2.1	3.6
NC	*	3.2	-	2.9	*	*	*	7.4
Public Administration [2]								
National	-	*	-	*	-	*	-	*
Southern [1]	-	*	-	*	-	*	-	*
NC	-	-	-	-	-	-	-	-
Utilities [3]								
National	*	2.9	*	4.2	-	-	-	-
Southern [1]	-	*	-	*	-	-	-	-
NC	-	*	-	*	-	-	-	-
All Size Employees, All Size Revenue								
All Industries								
National	1.4	2.7	0.9	3.0	1.6	2.9	0.8	3.1
Southern [1]	1.2	2.7	0.8	2.9	1.4	2.9	0.8	3.1
NC	1.5	2.8	0.7	3.0	1.6	2.8	0.8	3.1
Public Administration [2]								
National	1.5	2.8	2.1	3.3	1.3	2.9	0.8	3.1
Southern [1]	1.4	2.7	1.2	3.2	1.1	3.0	0.9	3.2
NC	*	2.8	*	2.9	-	2.7	*	2.8
Utilities [3]								
National	1.8	2.7	0.9	2.9	2.2	3.0	0.5	3.2
Southern [1]	1.7	2.7	0.4	2.8	1.8	3.0	0.4	3.2
NC	*	2.9	-	2.9	*	2.9	-	2.6

(-) No responses for this category

(*) Less than 5 responses for this category

[1] Southern includes these states: AL, AR, FL, GA, LA, MS, NC, OK, SC, TN, TX

[2] Public Administration includes cities, states, port authorities, retirement systems, airport authorities, etc.

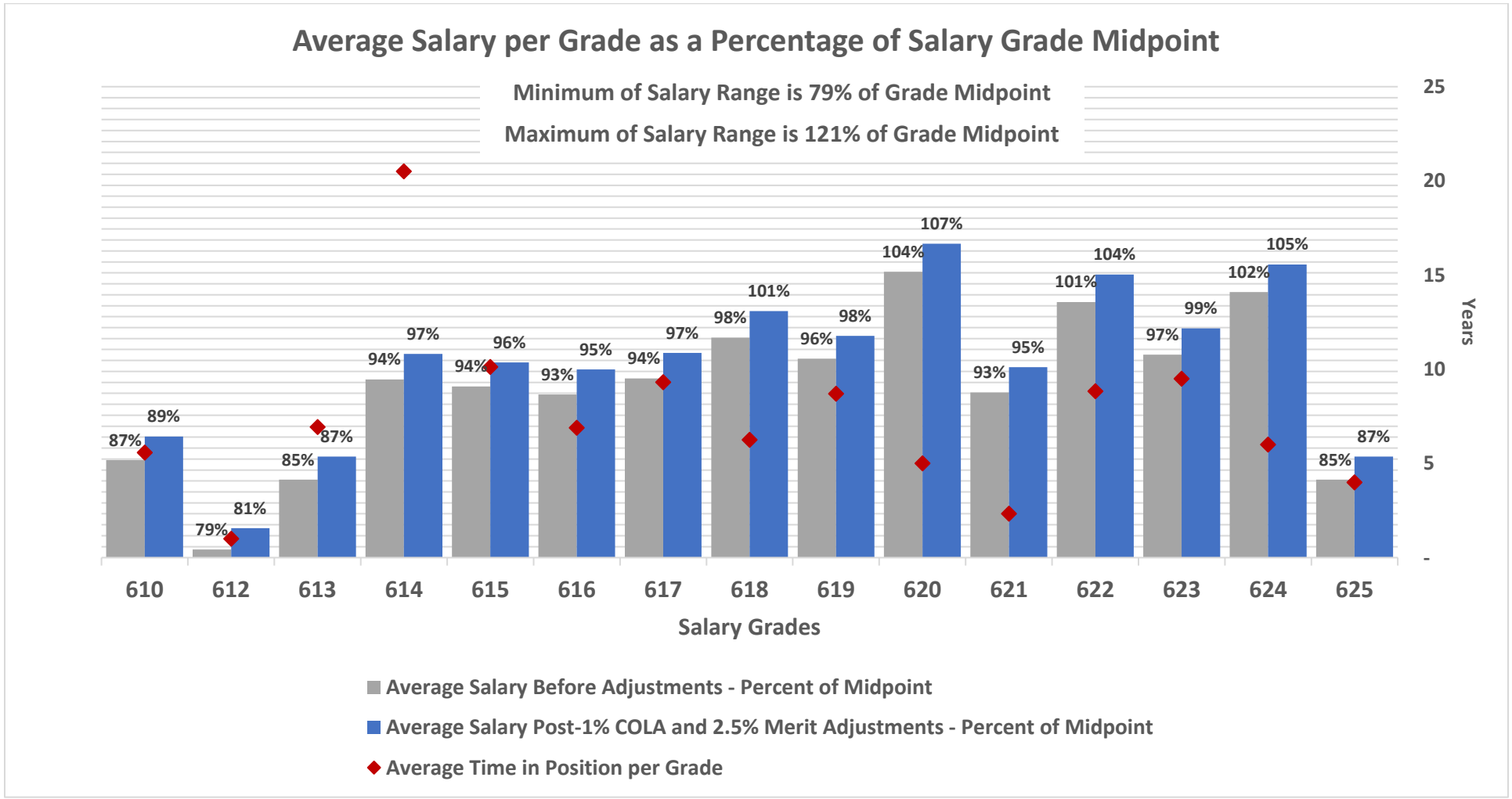
[3] Utilities include organizations such as Alliant Energy, Black Hills Corp, City Utilities of Springfield, MO, Entergy, NY Power Authority,

4 The "Total Increase" is the increase for each year but it includes all types of increases. Therefore, it is not a straight average of the three "Types of Increase." The Total Increase will be an average of all increases across the three options listed (COLA, Merit, Other). When a Total Increase indicates an average that is higher than any of the three options, it means there are organizations that are giving multiple increases and the Total Increase is calculated using all increases provided by that organization.

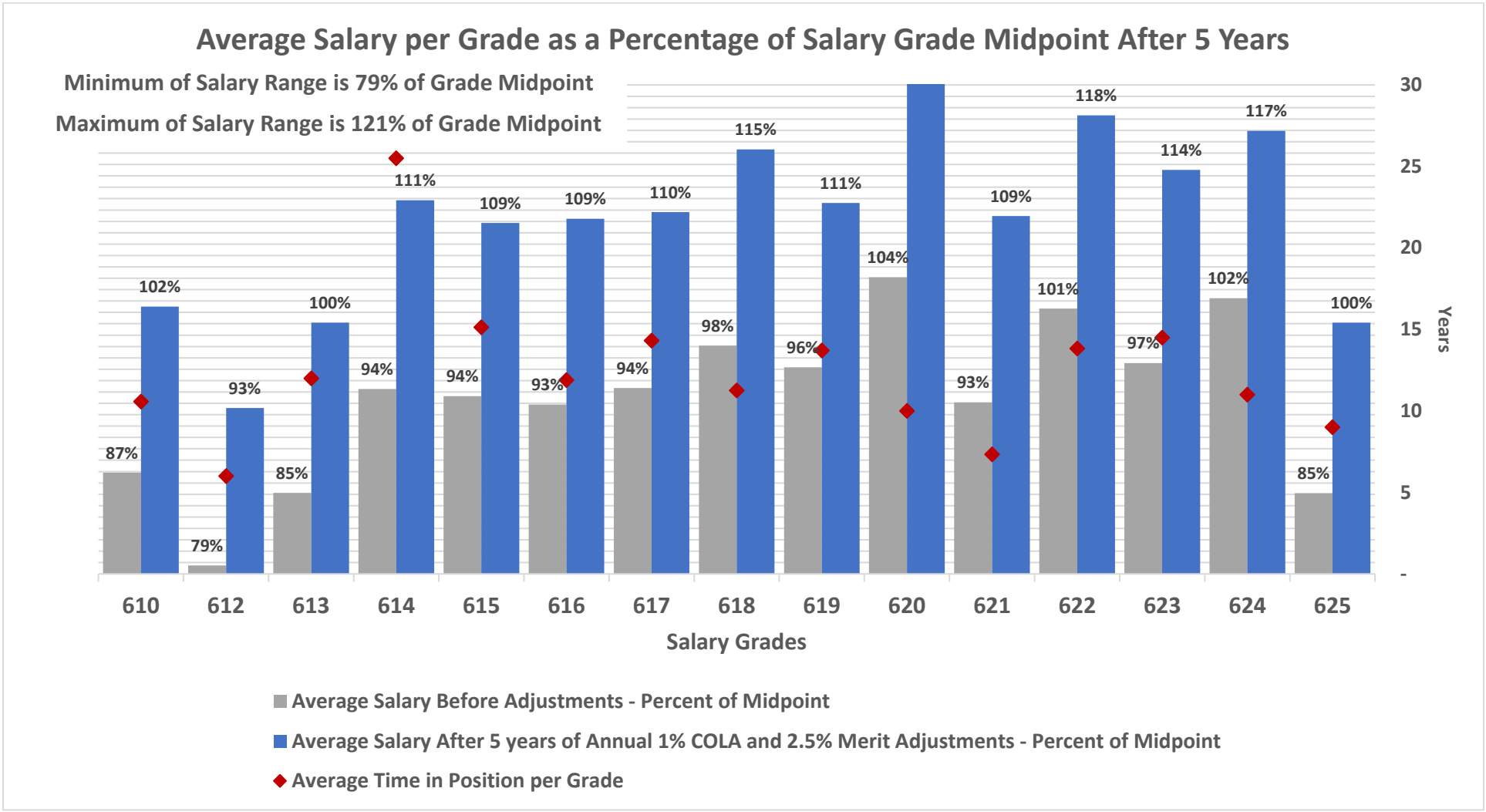
The bars in graph show the "percent-of-midpoint of salary range" of the average salary for each pay grade. The gray bars show this information based on salaries as of June 2017. The blue bars show this information after applying a 1% COLA and 2.5% Merit adjustment.

For example, the average salary of employees in Salary Grade 610 is 87% of Grade 610's midpoint before COLA and Merit adjustments and 89% of midpoint after the adjustments.

The red diamonds show the average time-in-position of the employees within each pay grade.



Graph shows the same information depicted in Attachment 2 if five years of 1% COLA and 2.5% Merit adjustments were applied.



As you can see, after five years of this approach to salary adjustments, employees would have progressed fairly significantly through their salary ranges. Actual annual increases in salary expense for the organization would be between $243,000 and $255,000.

Assumptions:

- No personnel turnover or promotions during the 5-year period
- All employees receive a “Successful” performance rating each year
- No employee is paid in excess of the maximum of their respective salary range

OWASA
Salary Grade Information
June 2017

Salary Grade	Annual Gross as of June 2017	Time in Position	Minimum Salary	Maximum Salary
610	33,621	0.6	33,621	51,777
610	42,000	0.6	33,621	51,777
610	33,621	0.7	33,621	51,777
610	35,500	0.9	33,621	51,777
610	37,500	1.1	33,621	51,777
610	33,621	1.2	33,621	51,777
610	33,621	1.2	33,621	51,777
610	33,715	1.3	33,621	51,777
610	34,031	1.7	33,621	51,777
610	34,069	1.7	33,621	51,777
610	34,572	1.7	33,621	51,777
610	34,779	1.9	33,621	51,777
610	42,098	2.7	33,621	51,777
610	34,118	2.7	33,621	51,777
610	34,118	2.7	33,621	51,777
610	34,118	3.3	33,621	51,777
610	36,856	3.4	33,621	51,777
610	35,127	4.0	33,621	51,777
610	45,091	4.5	33,621	51,777
610	34,746	4.6	33,621	51,777
610	35,900	6.3	33,621	51,777
610	36,331	10.9	33,621	51,777
610	37,660	12.0	33,621	51,777
610	39,837	19.3	33,621	51,777
610	47,731	20.1	33,621	51,777
610	50,396	21.2	33,621	51,777
612	37,068	0.8	37,068	57,084
613	39,495	0.7	38,920	59,937
613	39,886	0.9	38,920	59,937
613	39,126	0.9	38,920	59,937
613	39,495	1.3	38,920	59,937
613	39,495	1.3	38,920	59,937
613	39,495	1.6	38,920	59,937
613	39,600	1.9	38,920	59,937
613	39,495	2.5	38,920	59,937
613	42,187	4.4	38,920	59,937
613	45,463	6.0	38,920	59,937
613	45,192	6.4	38,920	59,937
613	42,315	6.4	38,920	59,937
613	42,612	6.4	38,920	59,937
613	44,864	16.8	38,920	59,937
613	46,385	19.7	38,920	59,937

OWASA
Salary Grade Information
June 2017

Salary Grade	Annual Gross as of June 2017	Time in Position	Minimum Salary	Maximum Salary
613	48,050	27.2	38,920	59,937
614	48,528	6.4	40,867	62,935
614	49,324	33.2	40,867	62,935
615	46,251	0.5	43,318	66,710
615	44,967	0.5	43,318	66,710
615	44,599	0.7	43,318	66,710
615	43,318	0.8	43,318	66,710
615	46,276	1.4	43,318	66,710
615	45,061	1.5	43,318	66,710
615	43,958	1.9	43,318	66,710
615	49,556	2.8	43,318	66,710
615	44,174	2.9	43,318	66,710
615	66,696	3.1	43,318	66,710
615	50,524	4.2	43,318	66,710
615	46,969	5.7	43,318	66,710
615	49,788	7.5	43,318	66,710
615	48,096	9.6	43,318	66,710
615	52,295	13.0	43,318	66,710
615	59,426	13.5	43,318	66,710
615	52,940	15.6	43,318	66,710
615	50,802	15.7	43,318	66,710
615	53,619	16.6	43,318	66,710
615	57,679	17.7	43,318	66,710
615	56,604	18.4	43,318	66,710
615	58,613	22.2	43,318	66,710
615	59,432	24.1	43,318	66,710
615	64,647	32.1	43,318	66,710
616	55,125	1.2	45,918	70,714
616	46,652	1.5	45,918	70,714
616	51,301	3.2	45,918	70,714
616	50,857	3.2	45,918	70,714
616	58,970	4.8	45,918	70,714
616	49,616	5.2	45,918	70,714
616	61,243	5.6	45,918	70,714
616	59,906	15.5	45,918	70,714
616	53,863	16.9	45,918	70,714
617	52,170	1.6	49,132	75,663
617	49,858	3.1	49,132	75,663
617	50,374	4.2	49,132	75,663
617	52,093	4.6	49,132	75,663
617	54,886	4.6	49,132	75,663
617	57,451	4.6	49,132	75,663

OWASA
Salary Grade Information
June 2017

Salary Grade	Annual Gross as of June 2017	Time in Position	Minimum Salary	Maximum Salary
617	55,835	6.8	49,132	75,663
617	56,616	7.5	49,132	75,663
617	71,453	8.6	49,132	75,663
617	53,430	10.3	49,132	75,663
617	56,458	10.5	49,132	75,663
617	67,818	10.7	49,132	75,663
617	68,242	11.2	49,132	75,663
617	70,012	14.0	49,132	75,663
617	62,485	17.0	49,132	75,663
617	62,824	20.4	49,132	75,663
618	68,000	0.5	53,063	81,716
618	70,000	0.5	53,063	81,716
618	56,546	4.6	53,063	81,716
618	69,829	17.9	53,063	81,716
619	64,416	1.8	57,839	89,070
619	59,225	2.0	57,839	89,070
619	67,203	2.6	57,839	89,070
619	67,203	3.1	57,839	89,070
619	66,710	3.4	57,839	89,070
619	73,869	9.9	57,839	89,070
619	67,288	9.9	57,839	89,070
619	67,440	12.8	57,839	89,070
619	83,914	17.5	57,839	89,070
619	89,070	19.7	57,839	89,070
620	81,384	1.6	63,622	97,978
620	86,834	7.3	63,622	97,978
621	85,806	0.4	71,257	109,735
621	94,245	1.9	71,257	109,735
621	72,666	3.5	71,257	109,735
622	98,664	1.9	81,232	125,098
622	104,689	2.2	81,232	125,098
622	112,462	4.6	81,232	125,098
622	113,409	5.2	81,232	125,098
622	95,204	10.8	81,232	125,098
622	102,880	25.1	81,232	125,098
623	100,495	7.1	89,385	137,651
623	118,679	10.0	89,385	137,651
624	116,463	3.9	100,110	154,170
624	143,507	7.6	100,110	154,170
625	121,197	3.8	112,123	172,671