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 15, 2017

SUBJECT: **HUMAN RESOURCES (HR) COMMITTEE MEETING**
TUESDAY, JUNE 21, 2017, 7:00 PM, OWASA BOARDROOM

Agenda

1) Discuss Data Requested at the June 6th HR Committee meeting:

- Number of recent Voluntary Terminations (Attachment 1)
- Spreadsheet of the Pay, Salary Grade and Time in Position for all Employees (E-mailed to Board on June 12, 2017)
- Policy Information from Benchmark Organizations regarding:
  - Number of years' experience needed for an employee to reach pay grade midpoint
  - Other ways their employees can earn above the minimum of their salary range (Attachment 2)
- Examples of actual salary data for individuals after applying Staff's recommendation (Attachment 3)
- Examples of actual salary data for individuals after applying Staff's recommendation extended forward five years (Attachment 3)
- The possibility of adding a performance review rating and increase between "Successful" and "Exceptional" (Attachment 3)

2) Discuss Options for Employee Merit Pay for Fiscal Year 2018

3) Discuss Approach to Advance Employee Compensation Based on Performance

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

Attachments

Purpose

To provide the Human Resource (HR) Committee additional data as requested from the June 6, 2017 meeting.

Based on discussions at the April 27, 2017 and May 11, 2017 Board meetings, staff believes there are two key tasks for the 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?

Background

The HR Committee met on June 6, 2017 and were provided information and a staff recommendation regarding employee merit pay. The agenda for the meeting is located here.

The Committee requested additional information and planned to meet again before the end of June to prepare a recommendation for the full Board.

Information Requested:

1) The number of recent Voluntary Terminations.
2) Spreadsheet (vs. PDF version) of Pay, Salary Grade and Time in Position for all employees.
3) Benchmark organization policy information regarding:
    - Number of years' experience needed for an employee to reach pay grade midpoint.
    - Other ways their employees (to include new hires) can earn above the minimum of their salary range.
4) Examples of actual (vs. average) salary data for individuals before and after applying Staff's COLA and Merit increase recommendation.
5) The same as Number 4 extended for five years.
6) Analysis of the impact on salaries of adding a performance review rating and associated salary increase between "Successful" and "Exceptional."

Information Provided

1) Voluntary Terminations

Data for the last five fiscal years of voluntary terminations is provided in Attachment #1.

2) Current Employee Data

A spreadsheet of Pay, Salary Grade and Time in Position for all employees was e-mailed to the full Board on June 12, 2017 from Stephen Winters.

3) Benchmark Organizations

Our normal benchmark organizations were polled and data was requested from members of the School of Governments' HR listserv. Attachment #2 provides responses received.

4-6) Examples of Salary Data After Applying Staff's Recommendation for COLA and Merit increases.

Attachment #3 includes the following:

Information from the June 6, 2017 Human Resources Committee meeting:

- Graph 1 – For each Salary Grade, graph shows the average salary as a percentage of the midpoint of the respective salary range. Graph 1 shows the "percent-of-midpoint" for salaries as of June 2017 compared to the percent-of-midpoint after apply staff's FY18 recommendation of a 1% COLA and 2.5% Merit increase. Average time-in-position is also shown.
- Graph 2 – Shows the "percent-of-midpoint" for salaries as of June 2017 compared to the percent-of-midpoint after apply staff's FY18 recommendation of a 1% COLA and 2.5% Merit increase for five consecutive years.

New information:

- Graph 3a – Shows similar information as presented in Graphs 1 and 2. However, rather than based on average salaries for an entire Salary Grade, this graphs shows the information for all employees in Salary Grade 610.
- Graph 4a – Shows the same information as presented in Graph 3 for Salary Grade 615.
- Graph 5a – Shows the same information as presented in Graphs 3 and 4 for Salary Grades 621-625.

For Graphs 3a-5a, Merit increases are based on each employee's actual salary. For example, if an employee's salary is $40,000, his or her COLA/Merit increase would be $1,400 ($40,000 * (1% + 2.5%)).

For Graphs 3b-5b, Merit increases are based on the midpoint of the employee's salary range. For example, if an employee's salary is $40,000, but the midpoint of his or her salary range is $50,000, the COLA/Merit increase would be $1,750 ($50,000 * (1% + 2.5%)).

- Graph 3b – Shows the same information presented in Graph 3a with Merit increases calculated based on salary range midpoint.
- Graph 4b – Shows the same information presented in Graph 4a with Merit increases calculated based on salary range midpoint.
- Graph 5b – Shows the same information presented in Graph 5b with Merit increases calculated based on salary range midpoint.

- Table 1 – Shows specific examples of six employees represented in the Graphs 3a-5b. Additionally, Table 1 includes how these examples would be impacted if OWASA were to add a third performance-rating category with a third Merit increase percentage. In these examples, annual Merit increases are based on the employee's actual salary.

Information from prior Board meetings:

- Graph 6 – Scatter graph showing each employees relationship to their salary range minimum, midpoint and maximum.

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 to be effective for the first pay period in November 2017. The Board is scheduled to make a decision about employee pay no later than October 12, 2017 Work Session.

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

Voluntary Terminations
5 Year History

Position	Salary Grade	Date of Voluntary Termination	Length of Service		Total Per Fiscal Year
			Years	Months	
Utility Mechanic I	610	April 4, 2017	18	4	7 in FY17
Utilities Engineer Registered	620	March 17, 2017	5	8	
Administrative Assistant	610	February 13, 2017	13	10	
Utility Mechanic III	615	December 16, 2016	10	11	
Treatment Plant Operator	615	November 17, 2016	2	4	
Utility Mechanic III	613	September 30, 2016	14	0	
Utility Mechanic I	610	July 28, 2016	3	10	
Solids Handler	610	April 21, 2016	23	3	4 in FY16
Treatment Plant Operator	615	April 17, 2016	1	8	
Utility Mechanic I	610	February 11, 2016	5	5	
Utility Mechanic I	610	November 11, 2015	1	11	
Utility Mechanic I	610	May 22, 2015	1	2	5 in FY15
Distribution/Collections Systems Manager	622	February 9, 2015	21	10	
Utility Mechanic I	610	October 10, 2014	1	9	
Treatment Plant Operator	615	August 21, 2014	-	<1	
Administrative Assistant (part-time)	610	August 19, 2014	-	<1	
Administrative Assistant (part-time)	610	June 10, 2014	1	8	13 in FY14
Solids Handling Supervisor	617	April 10, 2014	14	10	
Treatment Plant Operator	615	March 28, 2014	-	7	
Solids Handler	610	March 14, 2014	13	3	
Utility Mechanic I	610	February 21, 2014	1	3	
Customer Service Specialist (part-time)	616	January 31, 2014	5	9	
Utility Mechanic I	610	January 31, 2014	7	3	
Utility Mechanic I	610	January 31, 2014	2	11	
Utility Mechanic I	610	January 17, 2014	2	2	
Laboratory Supervisor	619	January 6, 2014	18	5	
Customer Service and Finance Manager	31	September 27, 2013	5	2	
Utility Mechanic II	10	September 10, 2013	10	1	
Director of Engineering & Planning	39	July 12, 2013	6	11	
Utility Mechanic II	10	May 9, 2013	7	8	5 in FY13
Treatment Plant Operator	16	March 21, 2013	-	4	
Treatment Plant Operator	16	January 11, 2013	12	7	
Utility Mechanic I	9	September 7, 2012	-	4	
Utility Mechanic I	9	August 3, 2012	-	9	

Benchmark Information
Compensation Policies and Practices

	The number of years' experience needed for an employee to reach their pay range mid-point?	**Are there other ways employees (to include new hires) can earn above the minimum of their salary range?**
City of King	Development Pay – New hires receive 5 equal annual pay increases that move them from hiring rate to midpoint in 5 years. All other employees receive 1% pay increases. These increases are given the first payroll in March each year.	New hires may be placed above base pay if they have experience, certifications, degrees, etc.
Greenville Utilities Commission	There is no set timeframe for an employee to reach the midpoint.	Approval will be based on the qualifications of the applicant being in excess of the requirements for the class, that there is a shortage of qualified applicants available at the minimum, and that qualified applicants decline employment at the minimum. Upon completion of six months service at the hiring rate, the employee's progress shall be reviewed by the supervisor. Based upon the supervisor's and Department Head's recommendation, and with the approval of the General Manager, the employee may be advanced five percent (5%).
Town of Carrboro	No Policy	No Policy
Town of Chapel Hill	There is no set formula, as it depends on our percent of market rate approved each year. So if an employee starts at the minimum, which is now rare, and we average 3.5% of market rate increases, then 7 years to market or midpoint. This year we are asking for 2.5% of market so it would take longer based on being less.	Chapel Hill no longer starts all our new hires at the bottom. Some do in very front line positions, most are anywhere between minimum and market/midpoint. We have a skills based pay (we call it Pay for Value Added) program in Inspections where Inspectors can earn additional compensation for additional levels of certification that they are now using to help the Town. We also have several Career Progression programs in our Trades areas currently and Police/Fire.

Benchmark Information
Compensation Policies and Practices

Town of Hillsborough	Hillsborough doesn't have a policy in place that spells this out. Generally speaking, if an employee stays in one position for the course of their career, they should expect to reach the maximum of their range after 30 years and therefore, be around the midpoint after 15 years. In application, this varies as high performers progress more rapidly in the ranges than others, employees are promoted or demoted based on various circumstances, and market pressures necessitate hiring someone at a higher rate or adjusting an existing employee's pay for equity or retention purposes. We do not have a formula that we strictly apply.	We base our ranges on market rate and align our positions according to internal equity and market factors. When we determine a starting salary, we first look at the candidate's education, training, skills, and experience relevant to the position and determine where their salary should fall in the range in relation to our current employees. We do not always start new hires out at the minimum. We rarely do (only if they are minimally qualified).
Cape Fear Public Utility	Cape Fear Public Utility started up in 2008. From 2008-2012, there were no salary increases due to economy. In 2013, began receiving small increases and with a compensation and class study helped to increased employee, but not to the level of the mid-point. In 2015, another compensation and class study was done and has assisted in moving employees through the pay grade. Under normal circumstances, with regular market (not every year) and merit increases, it would take most likely 8 or 10 years to reach midpoint.	Our department heads have the authority to offer new hires up to the midpoint of the pay grade if they have high experience and qualifications above the minimum. Anything over that, the Executive Director must approve. Employees that are promoted can get 10% increase or increase to the new pay grade (whichever is higher). We also have an Incentive bonus plan that employee may get an 300, 500, or 700 dollar bonus (based on school hours and study hours (up to 40, 40-70, 80+) one time a year. This is not included in their salary.
Orange County	Orange County does not have a step program or a merit system, so employees hired in the last 4 or 5 years stay where they are hired at within the pay grade. With that said, we completed a salary compression study and are incrementally adjusting the salaries of those affected (July 1, 2016 affected employees received a 12.5% of total compression salary increase and this year, July 1, 2017, I believe the County Manager has proposed an 8.5% of total compression salary increase for those affected). And, we typically give equity adjustments when employees ask and can justify it.	We routinely hire in above the minimum, however there isn't a formula in place at this time.

Benchmark Information
Compensation Policies and Practices

Scotland County	We are slowing working towards a Salary Progression Policy with the focus of employees having a method of moving up within their salary range. Basically, if an employee is in "good standing", meaning "meets standard" on their evaluation and does not have any warnings or disciplinary actions within the last 18 months, they will be eligible for a step-increase every other year. We are going to change our Probationary Period to 1 year as Health and DSS "Career Status" is 1 year as well as Law Enforcement Officers. After the Probationary period is satisfied, they receive a step increase and every other year thereafter. It will take a new employee 13 years to reach Step 9, which is the Mid-Point or Market Rate for that position.	Did not respond
City of Durham	No set time frame	For new Hires, the hiring manager can hire up to 20% of salary range (have to take applicants experience and internal bypassing into consideration). Going above 20% up to mid-point requires Deputy City Manager's approval and anything above mid-point requires City Manger's approval. For internal promotions, we have a 5% increase to pay or to pay band minimum whichever is greater. Anything above 5% requires City Manager's approval.
City of Fayetteville	It depends on the position and the pay the employee receives at hire. At present, performance increases if funded by council, are given on the employee's midpoint in an effort to assist in employees moving to their midpoint.	A regular employee can earn above the minimum of the salary range by receiving performance increases if approved by council each fiscal year. A new hire can receive above the minimum of the pay grade if they are "well qualified" for the position and if approval/review by Human Resources and approved by the City Manager in some circumstances.
Town of Cary	The Town of Cary's merit system is based on performance in which it is difficult to predict when the employee may reach a certain level. There are also market adjustments, in which our pay ranges shift by a certain percentage, that have to be approved by Council which also can effect where an employee	Advancement through a pay range is based entirely on job performance as evaluated by an employee's supervisor. Employees may advance to and remain at Market Rate with Standard ratings. Movement beyond Market Rate is

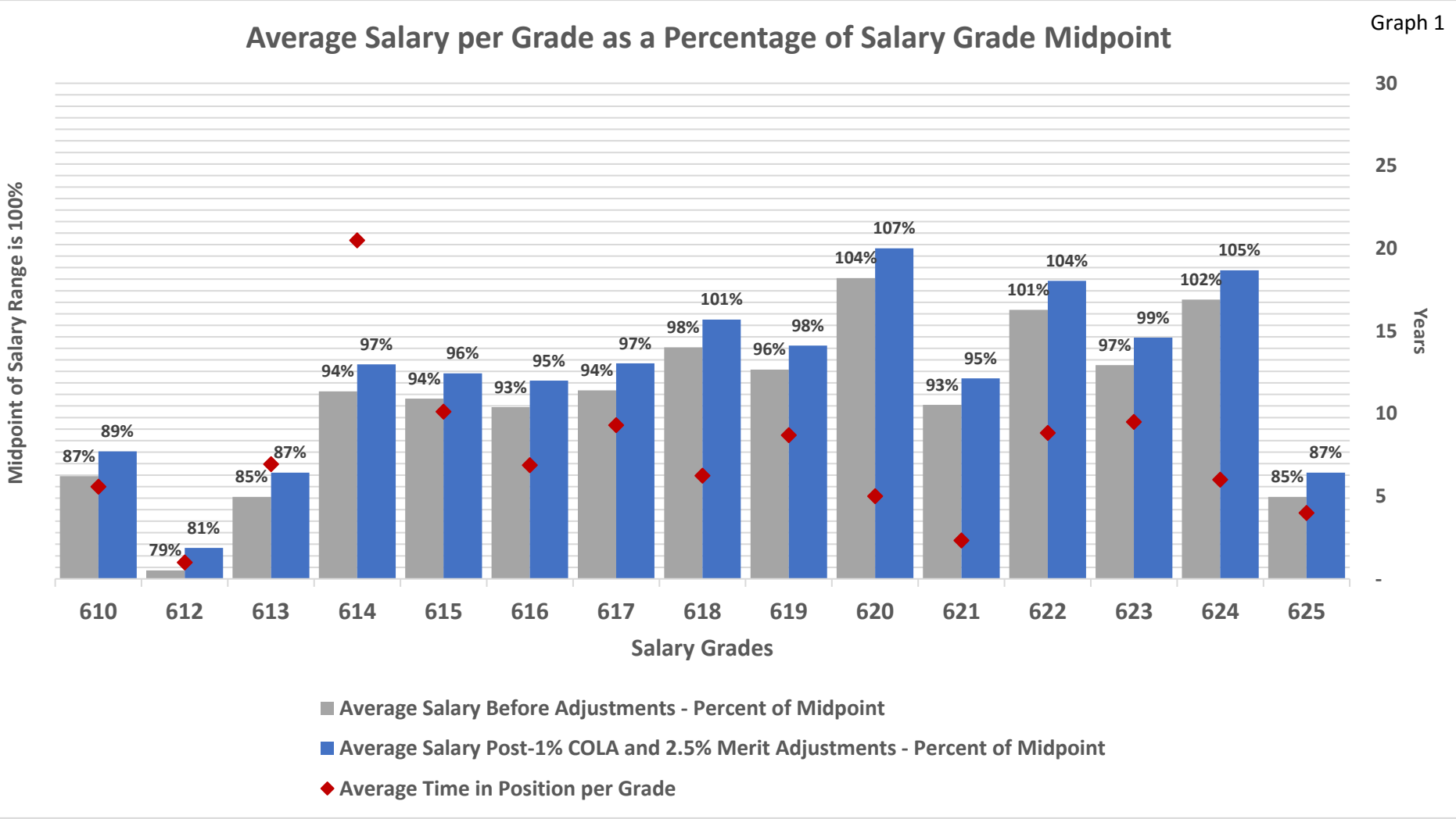
Benchmark Information
Compensation Policies and Practices

	lands in the grade. We also have Class and Pay studies in which ¼ of our positions are reviewed in a four year cycle. Each pay range is divided into four segments. The first segment is called "developmental" because employees in this range segment typically are acquiring many basic job skills, knowledge, and abilities and demonstrating to the Town whether or not they have appropriate work habits and behaviors. With clear communications and with supervisory coaching the employee learns what is expected of him/her. Most employees in this range segment should make rapid progress in meeting standard job expectations. The pay plan is designed to move these employees up to market rate. The market rate is the next segment of the salary range and is intended to reward performance which is consistently standard. Employees whose performance never exceeds Standard will normally be paid at the market rate. The segment of the salary range above the market rate is designated as the "performance segment range" and is reserved for employees who consistently achieve overall performance ratings of Proficient or higher. Employees in this range segment who make steady progress in expanding and demonstrating job competencies will move up through the "performance range". The skills, knowledge, and abilities that employees in this range should acquire and apply to enhance performance are fewer but more complex than those in the developmental and market range segments. The "high performance range segment" is reserved for top performers who consistently receive an Exemplary rating, overall. It includes top-of-grade awards. To ensure the competitiveness of the pay plan in the local market, the Town annually reviews the market competitiveness of the salary schedule. The results of this effort will serve as the basis for the market adjustment, if any, recommended as part of the budget process.	reserved for employees who receive ratings of Proficient or Exemplary. All persons employed in positions contained in the position classification plan shall be employed at the minimum salary for the classification in which they are employed. However, on the recommendation of the department director and with the approval of the Human Resources Consultant, exceptionally well-qualified applicants may be employed above the minimum, not to exceed the Market Rate. An applicant may be employed above the Market rate if approved by the Human Resources Director.

The bars in Graph 1 show the "percent-of-midpoint of salary range" of the average salary for each Salary 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 increase. For example, the average salary of employees in Salary Grade 610 is 87% of Grade 610's midpoint before COLA and Merit increases and 89% of midpoint after COLA and Merit increases.

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

Graph 1

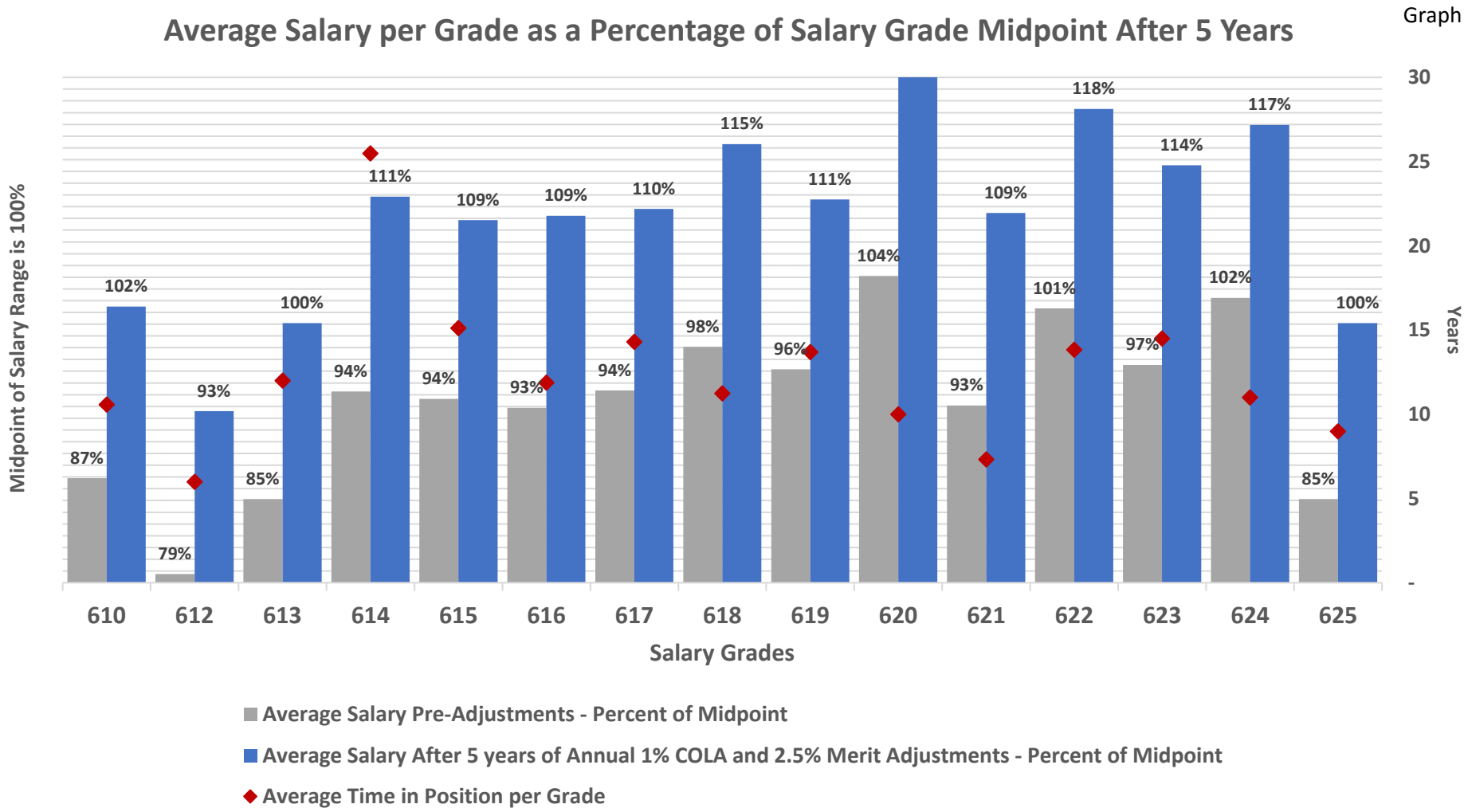


Assumptions:

- All employees receive a "Successful" performance rating each year
- No employee is paid in excess of the maximum of their respective salary range

Graph 2 shows the same information depicted in Graph 1 if five years of 1% COLA and 2.5% Merit increases were applied. As you can see, after five years of this approach to salary increases, employees would have progressed fairly significantly through their salary ranges.

Graph 2



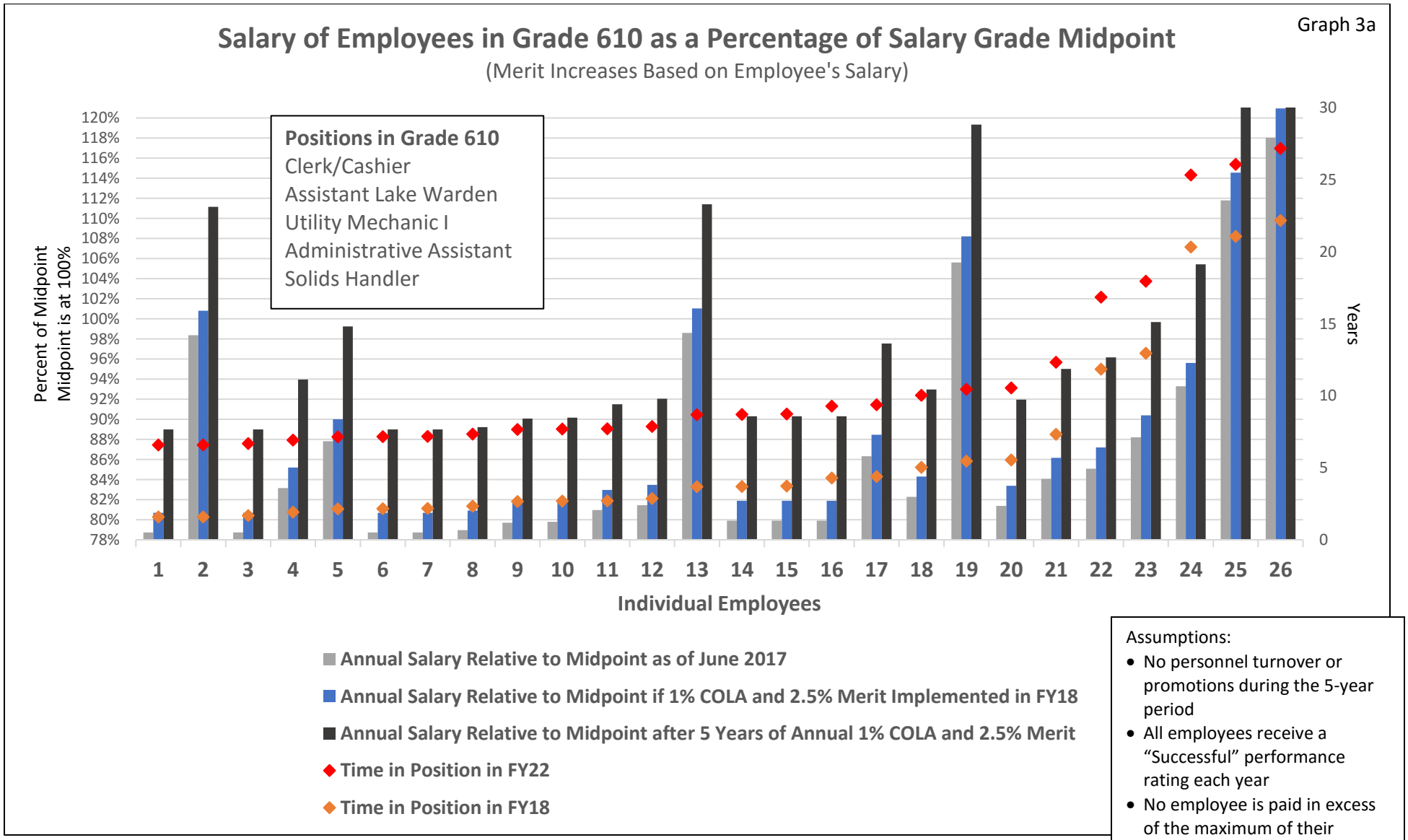
Assumptions:

- 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

The bars in Graph 3 show the "percent-of-midpoint of salary range" of each employee in Salary Grade 610. 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 increase in FY18. The black bars show this information after applying a 1% COLA and 2.5% Merit increase for five consecutive years (FY18-22). (Examples are shown in Table 1 on page 9.)

The diamonds show the average time-in-position of the employees within each pay grade as of FY18 and FY22.

Graph 3a

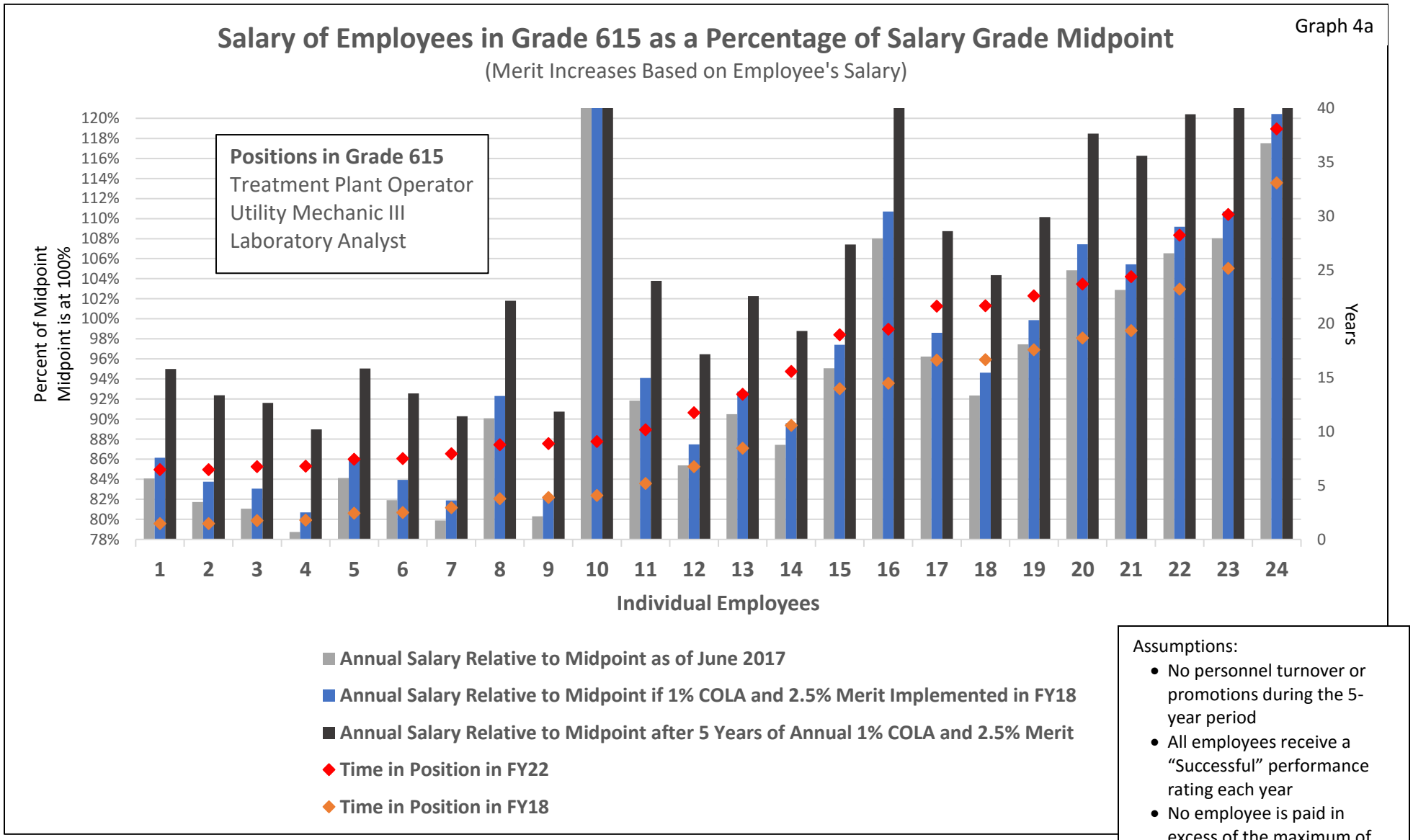


Assumptions:

- 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

Graph 4 shows the same information as Graph 3 for Salary Grade 615. (Examples are shown in Table 1 on page 9.)

Graph 4a

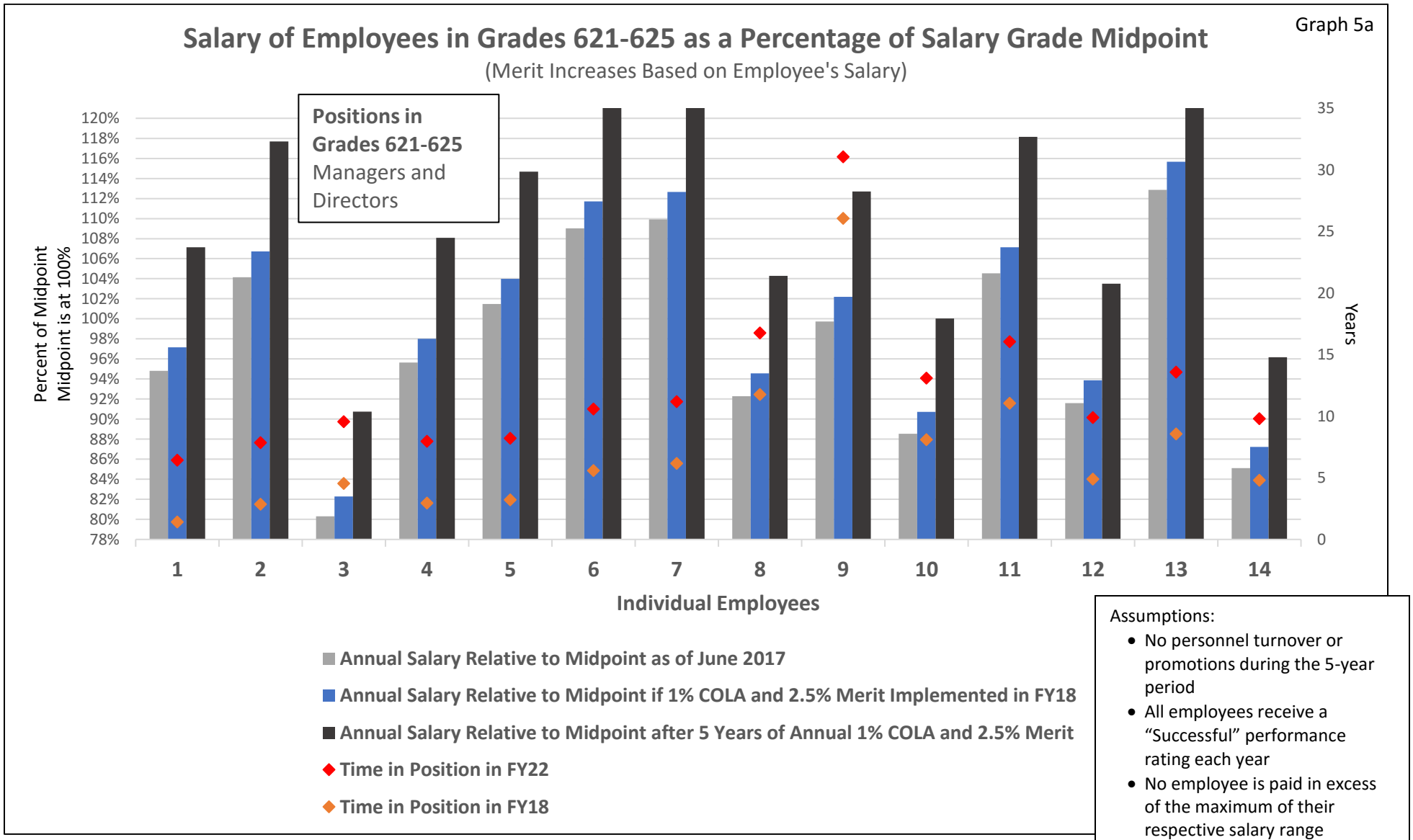


Assumptions:

- 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

Graph 5 shows the same information as Graphs 3 and 4 for Salary Grades 621-625. (Examples are shown in Table 1 on page 9.)

Graph 5a

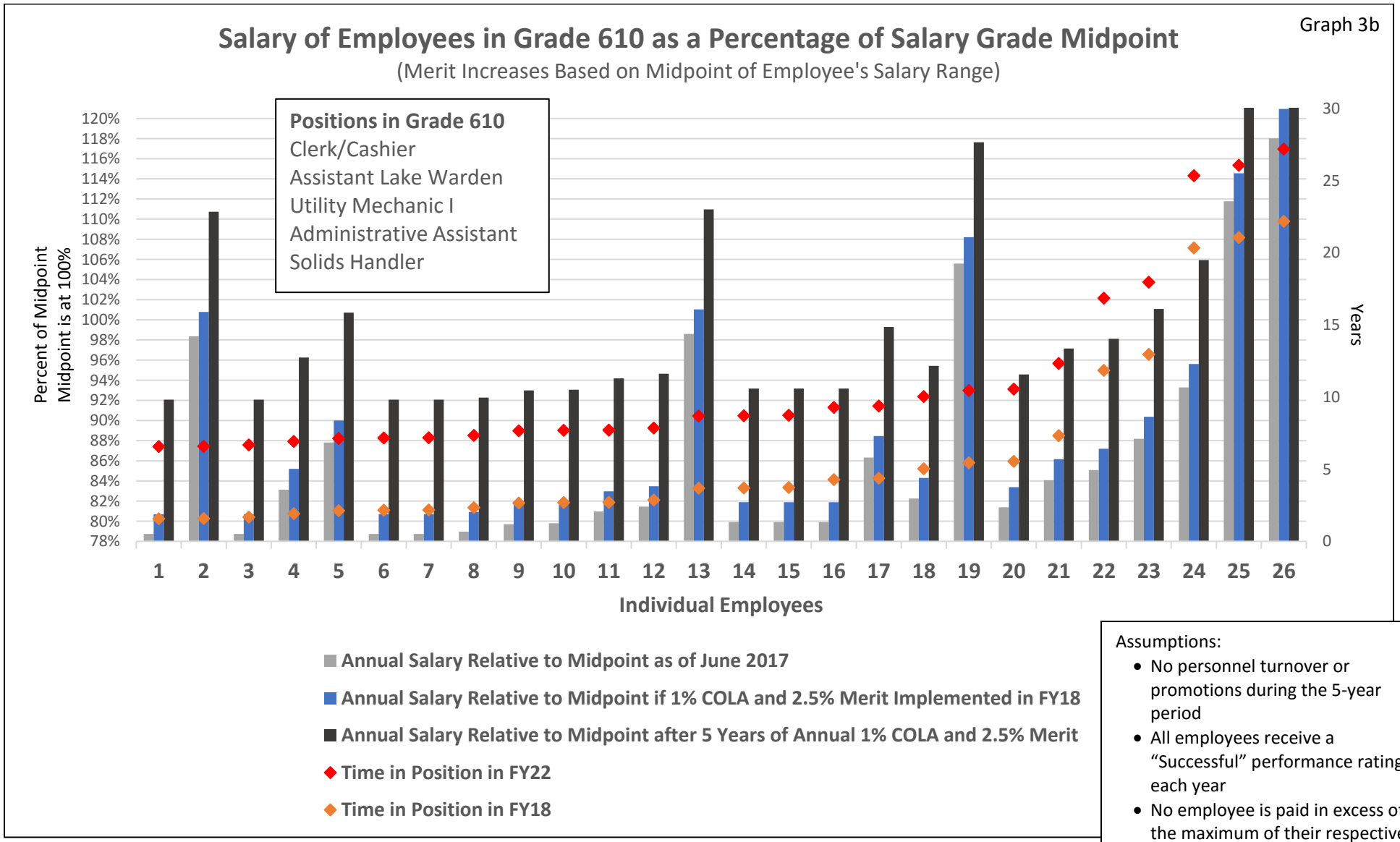


Assumptions:

- 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

Graph 6 shows the same information as Graph 3 except Merit increases are based on the midpoint of the employee's salary range rather than the employee's actual salary. Using this approach to calculating Merit increases provides slightly larger raises for employees whose pay is below the midpoint of their salary range, and slightly smaller raises to those whose pay is above the midpoint. (Examples are shown in Table 1 on page 9.)

Graph 3b

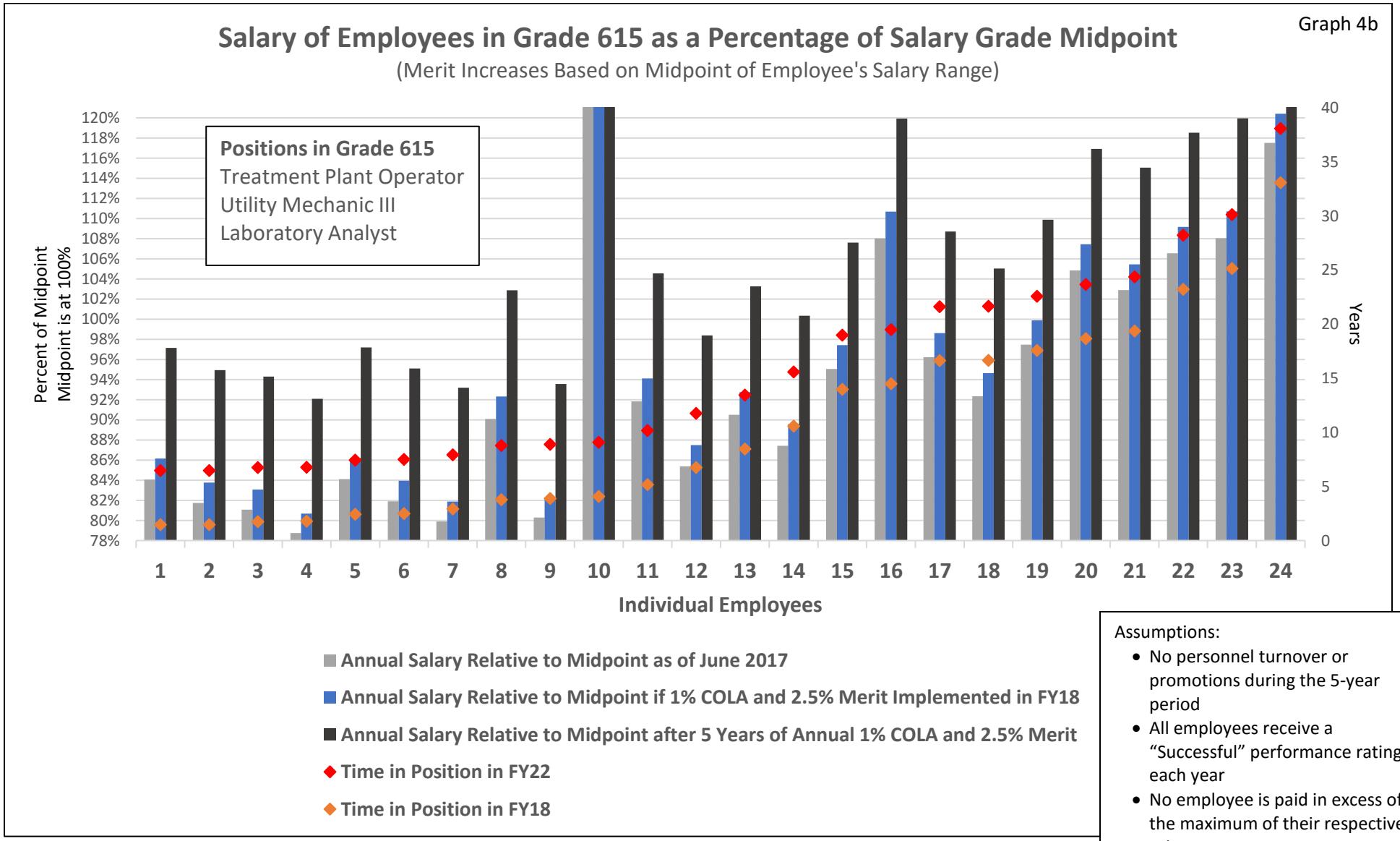


Assumptions:

- 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

Graph 7 shows the same information as Graph 4 except Merit increases are based on the midpoint of the employee's salary range rather than the employee's actual salary. (Examples are shown in Table 1 on page 9.)

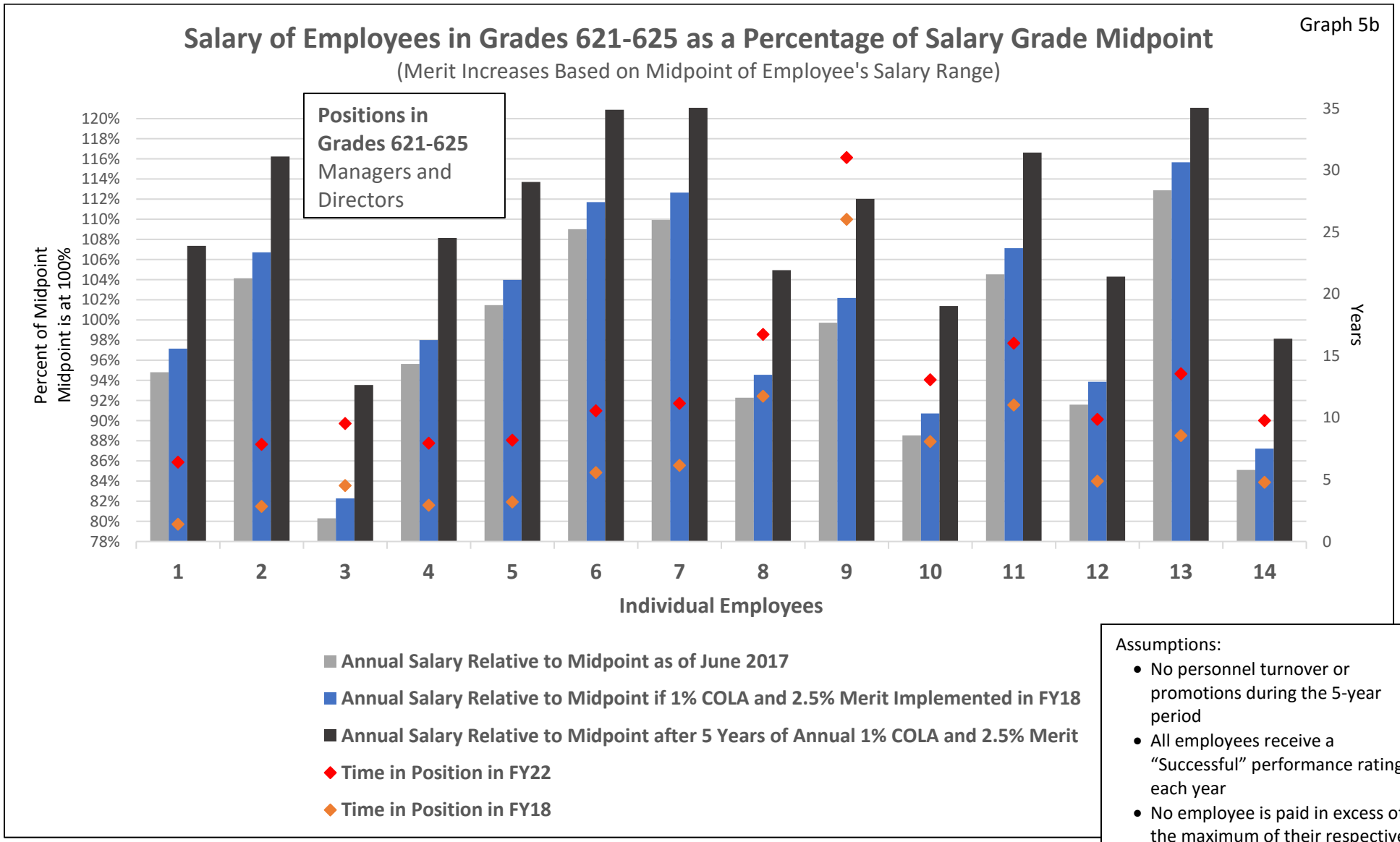
Graph 4b



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

Graph 8 shows the same information as Graph 5 except raises are based on the midpoint of the employee's salary range rather than the employee's actual salary.



Graph 8

Table 1 below shows examples of the information presented in Graphs 3-8 for individual employees.

Salary Grade	Record Number from Graphs	Current Salary	% MP	FY18 Salary-Merit raises based on actual salary (1)	% MP (1)	FY18 Salary-Merit raises based on range midpoint (1)	% MP (1)	FY22 Salary-Merit raises based on actual salary (1)	% MP (1)	FY22 Salary-Merit raises based on range midpoint (1)	% MP (1)	3 Performance-based Merit Categories S S+ E FY22 Salary-Merit raises based on actual salary (2)	% MP (2)
610	1	33,621	79%	34,798	81%	35,130	81%	39,931	89%	41,321	92%	41,890	93%
610	19	45,091	106%	46,669	108%	46,600	108%	53,554	119%	52,791	118%	54,418	121%
615	1	46,251	84%	47,870	86%	48,196	87%	54,932	95%	56,171	97%	57,626	100%
615	16	59,426	108%	61,506	111%	61,371	110%	70,113	121%	69,346	120%	70,113	121%
621-625	2	94,245	104%	97,544	107%	97,444	107%	111,934	118%	110,563	116%	115,333	121%
621-625	3	72,666	80%	75,210	82%	75,865	83%	86,305	91%	88,985	94%	90,538	95%

Table 1

Notes regarding Table 1:

% MP Employee's salary as a percent of Salary Grade midpoint (midpoint is 100%).

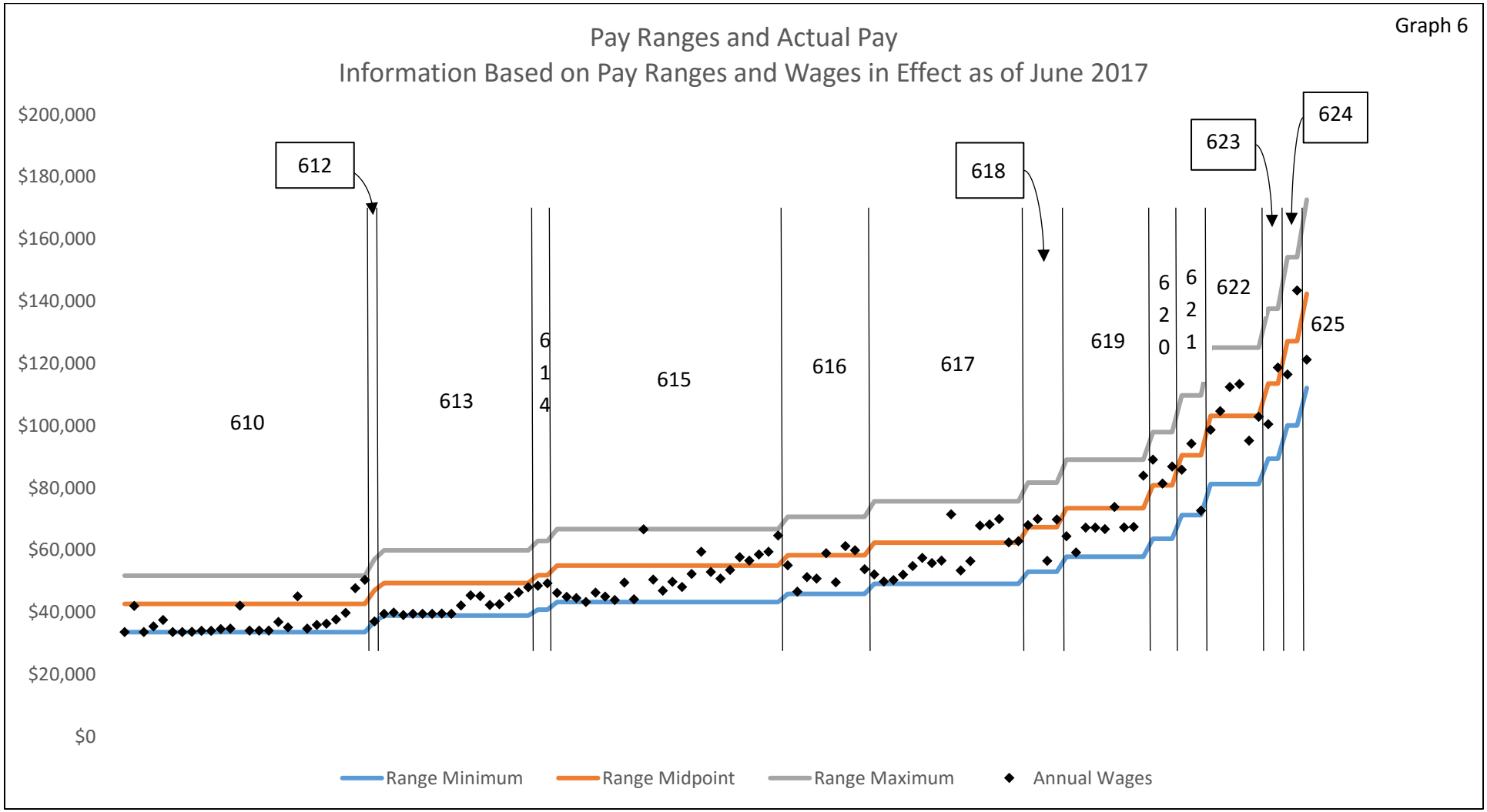
(1) Salary increases are based on staff recommendation of 1% COLA and 2.5% Merit. Merit assumes all employees earn a Successful (S) performance rating.

(2) Current Pay Administration Guidelines stipulate that employees earning a performance rating of Exceptional (E) shall receive a Merit adjustment of twice the amount received by those earning a rating of Successful (S). The scenario marked (2) assumes a 3rd performance rating Successful Plus (S+). Merit increases shown under this scenario are 2.5% 3.75% and 5% for S, S+ and E, respectively. Annual Merit increases are based on the employee's actual salary.

To illustrate the impact on salaries of employees earning different performance-ratings over the five year period, we assigned the six employee examples listed the following performance-ratings and Merit increases (in addition to a 1% annual COLA adjustment):

- FY18 – Exceptional (5%)
- FY19 – Successful (2.5%)
- FY20 – Successful Plus (3.75%)
- FY21 – Successful (2.5%)
- FY22 – Successful Plus (3.75%)

Graph 6


Pay Ranges and Actual Pay
Information Based on Pay Ranges and Wages in Effect as of June 2017
$200,000
$180,000
$160,000
$140,000
$120,000
$100,000
$80,000
$60,000
$40,000
$20,000
$0
610
612
613
614
615
616
617
618
619
620
621
622
623
624
625
Range Minimum
Range Midpoint
Range Maximum
Annual Wages