



CITY COUNCIL CONSIDERATION ITEM

CITY OF FAIR OAKS RANCH, TEXAS

AGENDA TOPIC: Consideration and possible action approving a resolution approving the implementation methodology and pay plan structure as part of the City's Comprehensive Compensation and Benefits Study

DATE: August 7, 2025

DEPARTMENT: Human Resources

PRESENTED BY: Joanna Merrill, PSHRA-SCP, Director of Human Resources & Communications

INTRODUCTION/BACKGROUND:

As part of the City's FY 2024-25 Comprehensive Compensation and Benefits Study (the Study), Evergreen Solutions, LLC conducted a detailed market analysis based on newly adopted benchmark organizations and approved 50th percentile market placement. The study assessed Fair Oaks Ranch's external competitiveness, internal equity, position classification, and overarching compensation philosophy.

Staff and Evergreen now present the next set of strategic decisions for City Council's consideration and possible action.

- Selection of an Implementation Methodology
- Selection of a Pay Plan Structure

In alignment with the study's findings and City Council's market placement decision on July 3, staff requests formal approval of both an Implementation Methodology and a Pay Plan Structure to support the finalization of the updated compensation plan. The Implementation Methodology determines how employees will be placed on the new pay plan. The Plan Structure determines how employees will progress through the pay plan based on tenure and performance.

Option 1: Bring to Minimum plus 1 Step	
What does this mean? <ul style="list-style-type: none">• Brings employees below their range minimum up to the minimum, then adds one step to reduce compression.	
Advantages	Disadvantages
<ul style="list-style-type: none">• Ensure employees are placed at least in a base progression• Slightly minimizes classification or range compression• Least expensive of all the options	<ul style="list-style-type: none">• Does not fully address existing compression• Can cause additional compression at grade minimum and during recruitment
Secondary Decisions: 1A: 2.5% Progression between Steps (20) 1B: 1.5% Progression between Steps (30) 1C: Open Range	

Option 2: Hybrid Parity	
What does this mean? <ul style="list-style-type: none"> This option will realign employees along their salary range based on a compilation of their “hybrid years.” A hybrid year would give full credit to an employee for each year they have been serving in their current classification and one-half credit (recommended but could be adjusted) for the time they have spent in any other classification. 	
Advantages	Disadvantages
<ul style="list-style-type: none"> Credits employees for time in classification Addresses compression based on time in classification Adjusts for placement based on the actual market conditions instead of bringing employees to the bottom as in Option 1, or inheriting legacy placement options as in Option 3 	<ul style="list-style-type: none"> Can erase performance gains Does not account for outside experience
Secondary Decisions: 2A: 2.5% Progression between Steps (20) 2B: 1.5% Progression between Steps (30) 2C: Open Range	

Option 3: Compa Ratio plus 1 Step	
What does this mean? <ul style="list-style-type: none"> This option will realign employees in their recommended salary ranges by maintaining the relationship to the midpoint (below, at, or above) that they have currently and then rounded to the nearest step plus the addition of 1 additional step for progression. 	
Advantages	Disadvantages
<ul style="list-style-type: none"> Maintains the relationships between employee salaries that currently exist Can reward previous experience (to the extent it is awarded now) Maintains performance gains 	<ul style="list-style-type: none"> Does not correct compression Does not account for experience Most expensive of all the options
Secondary Decisions: 3A: 2.5% Progression between Steps (20) 3B: 1.5% Progression between Steps (30) 3C: Open Range	

Secondary Decisions	
Why are these important? <ul style="list-style-type: none"> The choices between selection of a step range of 2.5%, 1.5%, or an Open Range structure will directly influence how the City manages salary growth, internal equity, and long-term budget sustainability. 	
2.5% Progression between Steps (20)	
Advantages	Disadvantages
<ul style="list-style-type: none"> Offers more noticeable year-over-year salary increases Helps employees reach midpoint and maximum ranges sooner Can improve short-term retention and recruitment and morale for some employees 	<ul style="list-style-type: none"> Increases budgetary impact, especially if implemented broadly Reduces time in range, causing potential for employees to top out more quickly Limits flexibility to implement performance-based pay progression
1.5% Progression between Steps (30)	
Advantages	Disadvantages
<ul style="list-style-type: none"> Provides controlled, gradual salary progression based on pay for performance (SAP Item 5.1.6: Phase 2) Extends longevity within the pay range (fewer employees top out quickly) Eases budget pressure over time Promotes internal equity and consistency 	<ul style="list-style-type: none"> Slower financial growth for some employees compared to 2.5% progression depending on performance May require more frequent evaluation due to the smaller step increments to ensure continued market alignment
Open Range	
Advantages	Disadvantages
<ul style="list-style-type: none"> Allows greater flexibility in individual salary decisions Provides room for performance-based increases without rigid step structure Can adapt to evolving workforce needs and changing market conditions 	<ul style="list-style-type: none"> Requires a strong, consistently applied performance evaluation system Increases potential risk of pay inequity or perceived favoritism without proper controls May be more difficult to communicate transparency and administer consistently across departments May complicate budgeting and salary forecasting May create payroll administration complications in future enterprise resource planning (ERP) systems

Staff recommends adoption of the Minimum plus 1 Step implementation strategy, a step-based pay structure, and a 1.5% progression rate between steps. These selections will guide final modeling and cost estimates, which will be presented to the City Council for approval during final budget adoption.

POLICY ANALYSIS/BENEFIT(S) TO CITIZENS:

- Advances Strategic Action Plan Goal 5.1.1: Evaluate and Update Compensation and Benefit Plans Inclusive of Public Safety.
- Advances Phase 2 of Strategic Action Plan Goal 5.1.6: Review and Update Performance Evaluation Processes.
- Promotes transparency, consistency, and fairness within the City's compensation plans.
- Supports sustainable staffing and long-term workforce development.

LONGTERM FINANCIAL & BUDGETARY IMPACT:

- The proposed FY 2025-26 budget includes a 4.5% total compensation adjustment, inclusive of an average 2.5% merit increase assumption.
- The table below reflects the consultant's base cost estimations compared to the FY 2024-25 budget. The "Difference from Proposed Budget" columns indicate the estimated cost above the proposed FY 2025-26 budget to implement the base proposal plus an estimated 2.5% average merit.
- Final costs may vary slightly depending on classification placement, compression adjustments, and actual performance ratings.

	2.5% Step (20)	Diff from Proposed Budget*	1.5% Step (30)	Diff from Proposed Budget*	Open @ 2.5%	Diff from Proposed Budget*	Open @ 1.5%	Diff from Proposed Budget*
Bring to Min. Plus 1 Step	\$313,964	\$206,210	\$219,859	\$109,753	\$130,438	\$18,096	\$107,822	(\$5,086)
Hybrid Parity	\$518,307	\$417,971	\$293,653	\$185,391	\$419,130	\$314,006	\$218,746	\$108,611
Compa Ratio Plus 1 Step	\$770,808	\$668,242	\$575,981	\$469,908	\$565,109	\$463,634	\$451,644	\$347,332

*Includes estimated merit adjustments

Recommended methodology cost estimation highlighted in red

LEGAL ANALYSIS:

Resolution approved by legal.

RECOMMENDATION/PROPOSED MOTION:

I move to approve a resolution adopting Option 1B as the methodology implementation, plan structure, and progression strategy for the City's compensation plan.