

Long-Term Compensation Strategy

Background

The City is a service organization, as reflected by the fact that salaries and benefits account for 71% of the 2019-2020 General Fund budget. The City's employees are the means by which basic municipal services are delivered and Council policy directives are implemented.

The primary objectives of this compensation strategy are to build both flexibility and predictability into the City's human resources systems. Forces such as the regional economy and labor market are outside of local control. Nevertheless, it is in the City's best interest to anticipate, when possible, factors that drive compensation decisions.

This budget policy outlines the philosophy and assumptions underlying the City's compensation strategy.

Compensation Strategy

- For all employee groups, total compensation includes base pay, steps (for represented employees), performance pay (for non-represented employees), and other compensation.
- Approved full and part-time positions represent valuable labor potential. Therefore, vacant positions must be carefully reviewed before they are filled.
- When a healthy economic climate exists, the City's goal is to remain competitive at the mid-point of the comparable market for each position.
- When identifying appropriate comparable cities for conducting a market analysis, the City chooses organizations based primarily on the following criteria: full service cities, population (20,000-100,000), Puget Sound location (King County and south Snohomish County, excluding Pierce, Thurston, and Kitsap Counties), number of employees (150-750), and number of job matches.
- When possible, increases in pay will be tied to exceeding defined performance standards.
- Employees must share in the cost of their health care benefits.
- Compensation decisions (including labor negotiations) will be made using the best data available.

The City's philosophy strives to create a balance between fair and equitable pay for employees and exercising fiscal prudence given the City's heavy reliance on property taxes, which are limited by state law to 1% annual growth plus an allowance for new construction.

As a general rule, the City's policy is to make sure that every job is classified and employees are fairly compensated when compared either internally or externally. It is also the City's policy to ensure that salaries are benchmarked to the midpoint of the defined market. An employee's salary may be fixed at 5% less than the midpoint of the market to allow for those who may require significant on-the-job training to be hired at an entry level. In extraordinary circumstances, such as to attract or retain valued employees, the City Manager has latitude to set salary outside the established range.

Competitive Compensation for the Non-Union Workforce

Compensation recognition awards and/or increases may occur for one or more of the following reasons:

- I. Incentive to recognize work quality and/or quantity, either for exceptional performance, customer service, creating efficiencies, or team performance.

Budget Policies

2. The temporary addition of substantial responsibilities (such as temporary assignment or extra duty).
3. Special achievement.

Salary increases may occur as a condition of satisfactory completion of a probationary period. Starting salaries are set at an amount that does not exceed the midpoint of the defined market.

Salary adjustments resulting from performance and annual compensation guidelines must be approved by the Human Resources Director, Finance Director and City Manager.

Performance Awards/Merit Pay

Funds are set aside for performance awards as part of the appropriation made by the City Council for all non-represented employees. The Human Resources Director, Finance Director and City Manager will approve performance awards to reward behaviors and performance consistent with the mission of the department and the City's vision. Performance awards will follow the guidelines set forth below:

1. Non-represented employees can earn up to a 3.0% performance award in their first year, a 3.5% performance award in their second year, a 4.0% performance award in their third year, a 4.5% performance award in their fourth year, and a 5.0% performance award in their fifth and subsequent years based on an "exceptional" rating (directors are capped at 4.0%).
2. Performance awards are considered on an annual basis.

Budget Policies for 2019-2020

- The collective bargaining agreements with Fire, AFSCME, and Police (Commissioned and Support) end on December 31, 2018, December 31, 2019, and December 31, 2020 respectively. Given the City's projected operating deficits in 2019-2020, the City's ability to pay will be a major factor in negotiations, absent voter approval of a levy lid lift in November 2018.
- Review each position vacancy for the potential of attrition or work redesign.
- Analyze personnel forecasting, benchmarking and reporting (e.g. indirect pay costs, employee demographics, tenure, turnover rate, salary spreads, total compensation reports for all employees, and health benefit cost trends).
- Maintain the City's commitment to high standards of employee performance evaluation by continuing to track and report employee performance.

2019-2020 Budget Impact

Collective bargaining ratified by the City Council will determine the budget impact.