



April 10th, 2025

TO: Mayor and City Council

FROM: City Clerk/Treasurer Chamberlin

RE: Proposed Compensation Structure and Payroll Budgeting Process Update

Background

The City currently develops its payroll budget by reviewing individual employee wages, applying cost-of-living adjustments (COLA), and considering supervisor-recommended merit or promotional increases on a case-by-case basis. While this approach allows for flexibility, it relies heavily on discretionary decision-making and individualized review at the Council level.

Purpose of Proposed Changes

The purpose of this proposal is to transition the City to a structured compensation system that is based on positions rather than individuals. Under this model, each position will be assigned a defined pay scale with established starting wage ranges. Starting wage placement will be determined based on experience and qualifications using a consistent methodology, and payroll budgeting will align with full-time equivalent (FTE) positions instead of individual employee wages. This approach also clarifies the roles of the City Council and administration by allowing the Council to focus on policy and budget approval, while administration is responsible for implementation.

Key Issues with Current Approach

While the current system has allowed for flexibility, it can result in inconsistencies in compensation decisions due to the lack of standardized criteria. This variability may create challenges in ensuring fairness and can increase the City's exposure to legal and perception risks if compensation decisions are questioned. Additionally, the current process places the Council in a position of reviewing individual employee wages, which can blur the line between policy-making and administrative responsibilities. From a budgeting standpoint, evaluating payroll at the individual level also creates inefficiencies and makes long-term forecasting more difficult.

Proposed Compensation Structure

The proposed system establishes starting wage pay scales by position, with each position having three to five defined steps that represent increasing levels of experience, proficiency, and qualifications. Starting placement within a pay scale will be determined using an equivalent experience model, where directly applicable experience is credited fully and somewhat applicable experience may be credited at a reduced value.

The City of Sidney is an equal opportunity employer and provider.

Proposed Payroll Budgeting Process

Under the proposed model, payroll budgeting will be based on the number of authorized FTE positions within each department and the associated pay ranges, rather than individual employee wages. The City Council will annually review to approve a COLA percentage and a maximum merit increase percentage, which will be applied consistently across the organization. Administration will be responsible for applying these increases within the approved parameters based on documented performance evaluations and established criteria.

Long-Term Liability and Financial Sustainability Considerations

The transition to a structured compensation system provides important long-term benefits related to both organizational liability and financial sustainability. By reducing reliance on discretionary, individualized wage decisions and implementing a consistent, position-based framework, the City improves its ability to demonstrate that compensation decisions are based on objective, job-related criteria. This enhances transparency and strengthens the City's ability to defend its practices if questioned.

The proposed system also addresses Council concerns regarding the rate of wage growth. Under the current approach, discretionary adjustments can lead to uneven or accelerated increases that are difficult to track and forecast. By establishing defined pay ranges, structured step progression, and controlled merit parameters, the City introduces clear mechanisms to manage wage growth. These controls ensure that increases occur in a predictable and measured manner, aligned with budget capacity and long-term financial planning.

At the same time, the system maintains flexibility by allowing performance-based increases within an established framework. This balance enables the City to recognize employee contributions while maintaining consistency, equity, and fiscal responsibility.

Conclusion

The proposed compensation and payroll budgeting model aligns the City's practices with widely accepted public-sector standards. It improves consistency, transparency, and financial control, while reducing long-term liability and supporting sustainable wage growth. This approach positions the City for stronger governance and more effective long-term planning.