

MEMORANDUM

Tues., July 24, 2007

To: Finance and Personnel Committee Members

From: Barry J. Zalben, Manager
Legislative Reference Bureau

Re: **File #070551, Revised Management Pay Plan**

Overview

Common Council File Number 070551, an ordinance relating to implementation of a revised management pay plan, prepared by the Department of Employee Relations is designed, according to the department, "...to attract and retain qualified talent, increase managerial accountability, and shift the emphasis for determining pay from time on the job to employee contributions."

The management pay plan proposed by the DER takes management employees in salary grades 4 to 19 and classifies these employees as professional, managerial, or leadership employees, and then creates broad salary grades for those 3 types of employees by placing various existing salary grades into the new grades, as follow:

Professional:

P1: Current SGs 4, 5, 6

P2: Current SGs 7, 8, 9

P3: Current SGs 10, 11, 12

Managerial:

M1: Current SGs 4, 5, 6

M2: Current SGs 7, 8, 9

M3: Current SGs 10, 11, 12

M4: Current SGs 13, 14, 15

Leadership:

L1: Current SGs 12, 13, 14

L2: Current SGs 15 & 16

L3: Current SGs 17 & 18

L4: Current SG 19

Employees placed in these new grades will receive a 3.1% step increase on their anniversary date, up to step 7 of the new grade; thereafter, employees will progress at increments of 1.5% up to the maximum of the range. **The summary impact of this component is that affected employees above the 7th step of their pay range will need to work twice as many years to reach the top of their pay range.**

The plan also proposes 2 types of lump sum non-base building awards which may be granted annually: professional designation or certification (\$700), and exceptional achievement (up to \$1,400—only for employees in the open portion of a salary range).

Finally, the plan proposes to improve the process for salary adjustments for promotions and transfers, and in some instances to increase the amount of adjustment, now set at a minimum of 3%, to 5% or 7%.

Analysis

It is not the purpose of this memo to attempt to evaluate the proposed revised management pay plan in terms of attracting future employees to city employment; rather, this memo will address the plan in terms of potential impact on current management employees and other city employees who might be transferring into management positions/salary grades.

The assessment presented here is based upon data prepared by the Department of Employee Relations, dated June 27, 2007, which lists the number of management employees at each current salary grade and pay step. The total number of management employees impacted by the proposed plan is 645; it includes all employees in salary grades 4 to 19, excluding Common Council members.

Because of the wide salary bands proposed by this ordinance, (for example, salary grades 4, 5, and 6 are placed in one new grade), the plan does not adjust the maximum salaries of any employee who is in a salary grade which is at the top of a new grade, and who is currently at the maximum of their grade. Eighty-one employees fall into this category: 42 in salary grade 6, 20 in salary grade 9, 13 in salary grade 12, and 6 in salary grade 15.

One of the key points of the proposed plan is the deceleration of employees' salaries within the new grades; any current employee who is the seventh step of his or her grade will not advance one step (3.1%) annually on their anniversary; instead, an adjustment of 1.5% is proposed. This deceleration impacts 212 current employees who are in steps 7 – 11 of their current grades:

Salary Grade 4 – 32 positions

- 5 – 18
- 6 – 38
- 7 – 33
- 8 – 19
- 9 – 19
- 10 – 10
- 11 – 11
- 12 – 15
- 13 – 8
- 14 – 7
- 15 – 2

Another aspect of the proposed plan is that an employee whose current salary equals or exceeds the seventh step of the new plan will also be subject to deceleration of future salary adjustments, even if their salary in their current grade is less than the seventh step in the new grade. This is possible because the seventh step of the new wide salary ranges is based on the first step of the lowest salary grade in the new grade. For example, step 1 of M1, a grade which includes current salary grades 4, 5, and 6, starts at the current step 1 of salary grade 4. Therefore, a number of current employees in salary grades 5, 6, 8, 9, 11, 12, and 15, whose current step is below the seventh step will not automatically advance to the seventh step because of placement in the new grades; they, too, will be subject to deceleration—a total of 41 employees:

Salary Grade 5 - 5 positions

- 6 – 13
- 8 – 3
- 9 – 3
- 11 – 2
- 12 – 5
- 15 – 3

Deceleration of salary adjustments can obviously impact an employee's pension, which is based on one's 3 highest salary years. As will be noted later in this memo, this is not offset by lump sum payment for certifications or exceptional achievements, even when these payments occur in an employee's 3 highest salary years.

The proposed plan provides lump sum non-base building monetary awards for professional certifications and exceptional achievements.

Seven hundred dollars is provided for a certification relating to a current position; the Department of Employee Relations estimates that perhaps up to 10% of management employees might receive this lump sum in any year. A sum of up to \$1,400 as determined by the department head, is provide for exceptional achievement for any employee past the seventh step of the new salary grade;

Employee Relations has stated that no more than 30% of management employees may receive this payment in a given year. Both of these sums are pensionable.

These 2 lump sums, however, do not alter the basic provisions of the proposed plan, in that employees face a slow down in salary advancement once they attain the seventh step of their salary grades. A certification payment is indeed likely to occur only once; an exceptional achievement may occur more than once, but is unlikely to occur year after year. The proposition that these sums are pensionable does little to alter an employee's pension, even if the employee has 35 years of service and the lump sum is in an employee's last 3 years; a one time \$700 payment increases an employee's monthly pension by \$13.60; a payment of up to \$1,400 for exceptional achievement may increase an employee's monthly pension by up to \$27.20.

Finally, the proposed plan does not address a situation which has been on-going since 1997, that management employees have received a smaller cost of living adjustment compared to employees covered by collective bargaining agreements. In terms of real dollars, an April 2007 document provided by the department titled "Pay Compression Analysis – Management Pay Plan" (copy attached), states the following on page one:

"Impact: Employee earning \$50,000 as of 1997... In 2006 that salary for a Manager is \$63,615 and for a DC 48 employee is \$66,707."

The document also includes a chart with data illustrating this point.

Also attached for reference is a chart prepared by the Legislative Reference Bureau comparing annual salary adjustments for various categories of city employees, 1991 – 2006.

bjz.revised mgt pay plan. ccf070551

Pay Compression Analysis - Management Pay Plan
 Prepared by: Maria Monteagudo
 April 2007

Issues

1. Is there systemic pay compression between the salaries of bargaining unit employees and their management counterparts?
 - Analysis of pay relationship between feeder job classification and management positions
 - + Is there enough incentive given the promotion formula?
 - + Is the earning potential significant?
 - Analysis of pay relationship between professional/technical employees and their direct supervisors.
 - + Long term employees making more money than a new supervisor.

COLA INCREASES - HISTORY

	1999	2000	2001	2002	2003	2004	2005	2006
Mgmt	2.5	2.5	2.5	3.0	2.5	2.5	2.5	2.1
DC 48	3	3.25	2.5	3.0	3.0	3.0	3.0	3.0

1999: 2.5% adjusted to 3% effective PP1 of 2001 not retroactive.

2000: 2.5% adjusted to 3.25% effective PP1 of 2001 not retroactive.

2002: Managers earning over \$50,000 as of PP 26 of 2001 remained at 01 rates for the first half of 2002.

2004: Salary Grades 11-19 were frozen at 03 rates until PP 1 of 2005.

2006: Managers earning over \$90,000 as of pp 26 of 2005 were frozen.

Impact: Employee earning \$50,000 salary as of 1997

In 2006 that salary for a Manager is \$63,615 and for a DC 48 employee is \$66,707.

PAY COMPRESSION ANALYSIS

Job Feeder Analysis

Comparison between the maximum rates of pay of positions that feed into management positions and the maximum rates of pay of those management positions. The analysis looks at incentive that employees holding positions in bargaining have to want to be promoted into management positions.

Problem areas:

- (1) Plumbing Inspector to Plumbing Asst Sup
Max to Max spread 6% (63.2 union 67.5 mgmt)
Overlap between max of union and min of management 31% (63.2 union 48.2 mgmt)

- (2) Urban Forestry Tech to Sanitation Sup
Max to Max 7% (55.3 union 59.4 mgmt)
Overlap between max of union and min of management is 30% (55.3 union 42.4 mgmt)

- (3) Property Appr Senior to Sup Assesor Asst
Max to Max 15% (69.7 union 81.8 mgmt)
Overlap between max of union and min of management is 19% (69.7 union 58.4 mgmt)

Reporting Relationships

Comparisons between the max rates of pay between union positions and the minimum rates of pay for the immediate supervisors. The analysis looks at the pay compression that exists when long term employee in professional/technical positions report to relatively new supervisors hired from the outside.

Problem areas:

- (1) TEAM Positions
Plan Examiner III 78.9 Plan Examiner Asst Sup 48.2
Civil Engi IV 82.5 Management Civil Engi 70.7
Senior Planner 60.8 Principal Planner 51.4

- (2) Non-engineering Related Positions
Bldg Const Insp II 62.2 Code Enf Asst Sup 48.2
Water Dist Repair Wrkr 50.9 Water Dist Repair Sup I 42.4
Field Service Mech 47.3 Fleet Rep Sup I 39.8

Fire Equip Dispatcher 47.3 Fire Dispatch Sup 42.4

Findings:

Pay Compression problems do exist within certain pockets of the Management Pay Plan when considering professional/technical positions in the bargaining unit held by long term employees. Other problems exist when assessing the incentive that bargaining unit employees have to want to progress to management positions when the pay adjustment received is not significant although the long term earning potential is adequate.

The Management Pay Plan needs added flexibility in:

- * Attracting new managers at rates of pay that are competitive – more discretion in appt rates;
- * Providing enough differential with rates of pay of subordinate employees – policy establishing what the adequate pay differential between employee and manager should be;
- Providing for a significant salary incentive to alleviate loss of seniority, protection, OT, special pay practices, reduced retirement benefits. –at least 5% of the salary received prior to promotion.

Legislative Reference Bureau, March 2007

The following table indicates the annual adjustment of salary from 1991 through 2006:

Salary Adjustments – Various Categories of City Employees, 1991 – 2006

Source: Department of Employee Relations

	Management	Police	Fire	D.C. 48
1991	3.5%	3.5%	3.5%	3.5%
1992	3.5%	3.5%	3.5%	3.5%
1993	2.5%	3.5%	3.5%	2.5%
1994	2.5%	3.5%	3.5%	2.5%
1995	3.0%	3.0%	3.0%	3.0%
1996	3.0%	3.0%	3.0%	3.0%
1997	2.75%	3.5%	3.5%	2.75%
1998	2.75%	3.25%	3.0%	2.75%
1999	2.5%	3.25%	3.0%	3.0%
2000	3.25%	3.25%	3.25%	3.25%
2001	2.5%	3.25%	3.25%	2.5%
2002	3.0% ¹	3.25%	3.25%	3.0%
2003	2.5%	3.0%	3.0%	3.0%
2004	2.5% ²	3.0%	3.0%	3.0%
2005	2.5% ³	3.0%	3.0%	3.0%

¹ Those management salary grade pay steps that exceed \$50,000 annually as of Pay Period 26, 2001, remained at 2001 rates for Pay Periods 1 – 16, 2002. Effective Pay Period 17, 2002, the 3.0% increase for 2002 was applied to all earning over \$50,000, except for elected officials; their increases were delayed until Pay Period 1, 2003.

² Effective Pay Period 1, 2004, those management employees in salary grade 11 and above, and all elected officials, were frozen at 2003 rates of pay for calendar year 2004.

³ Effective Pay Period 1, 2005, an additional 2.5% adjustment was added to the base salary of all management employees in salary grade 11 and above, and all elected officials (excluding the Mayor and Common Council members) to restore pay equity with employees at salary grade 10 and below. However, there was no retroactivity for employees of salary grade 11 and above in terms of receiving a retroactive amount equal to the frozen amount from 2004.

2006	2.1% ⁴	3.0%	3.0%	3.0%
2007	-	-	-	-

⁴ Effective Pay Period 1, 2004, those management employees earning at least \$90,000 and entitled to a step increase in 2006, did not receive a step increase in 2006.