



Department of Employee Relations

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December 7, 2015

To the Honorable Committee
Finance and Personnel
Common Council
City of Milwaukee

Re: Common Council File # 151209: *Communication from the Department of Employee Relations relating to amending the Salary Ordinance relative to pay administration and pay progression provisions for general city employees.*

Dear Committee Members:

-SUMMARY-

This report recommends changes to Part II of the Salary Ordinance to authorize pay progression practices for certain City of Milwaukee employees. The recommended changes allow the Department of Employee Relations to create and administer salary adjustment provisions in 2016 for City of Milwaukee employees who have been excluded from pay progression practices allowed under career ladders created in 2012 and beyond or provisions of labor agreements. The recommended changes are designed to address the following critical needs:

- 1) Establish pay progression practices that will assist the city compete for top talent to fill vacant positions;
- 2) Improve retention rates of recent hires and reduce turnover of fully trained contributors;
- 3) Continue the implementation of pay practices that recognize employee contributions and performance standards (instead of length of service); and,
- 4) Minimize pay differentials created by years of frozen wages among employees performing similar work at comparable levels of proficiency.

BACKGROUND

Pay progression practices that allowed general city employees to receive salary adjustments on their salary anniversary dates have been frozen since 2010 per Common Council action and provisions of 2010-2011 collective bargaining agreements between the City and its bargaining groups. During a three year period, from 2010 to 2012, no cost of living adjustments were authorized for general city employees. Act 10, the 2011 Wisconsin legislation that significantly altered collective bargaining rights of public employees took effect in 2012 after the expiration of most collective bargaining agreements between the City and its labor groups. Under provisions of the Act, labor groups that succeeded at certifying their status with the Wisconsin Employment Relations Commission, had limited bargaining authority. Pay progression for non-public safety unions is not a permissive subject of bargaining.

Across the board salary increases of 1.5% and 1% were implemented for general City employees in 2013 and 2014 respectively. Such increases moved pay structure minimums and maximums and salary adjustments were implemented for eligible employees in accordance with provisions of the Salary Ordinance. These adjustments were not tied to any performance standards, contributions or skills.

In February of 2015, as a result of a Wisconsin Supreme Court decision, all general City employee members of the Employee' Retirement System hired prior to 01/01/14, were required to contribute 5.5% of their earnable compensation towards their pension. In an attempt to offset the impact of this contribution by employees, a pension offset of 3.9% for most employees was approved and implemented. This offset was not implemented as a general wage increase; pay range minimums and maximums were not changed.

The lack of significant movement of the City's pay structures and the freeze of pay progression provisions that allow individual salaries to grow have made it increasingly difficult for the City to compete for qualified personnel. A review of recent recruitment and examination efforts for key positions in various City departments highlights this challenge (See Table 1).

Table 1		
Job	Candidates on list	Hired
Accounting Specialist	11	1
Lead Auditor	3	1
Dietetic Tech	10	3
Equipment Mechanic	3	1
Library Branch Mgr	11	4
Vehicle Srvc Tech	6	2
IT Support Specialist	15	1

Additionally, a review of turnover data by type of separation reveals a significant increase in the number of resignations; from a total of 131 in 2012 to 184 in 2014. Turnover in professional and technical classifications have the greatest impact because these represent the same positions that the City is struggling to fill. Even when a department is able to hire qualified personnel they experience difficulty retaining them because new hires see limited career advancement and pay progression opportunities.

In addition to experiencing difficulty in replacing workers due to higher resignation rates, departments are increasingly concerned about their ability to replace a high proportion of the workforce who is currently retirement eligible (approximately 675 employees) and the significant number of additional employees who will be retirement eligible in the next five years (approximately 697).

All of the aforementioned factors, and the need to recognize that newer generations are attracted and motivated by opportunity, responsibility, and reward, highlight the need for the City to reinstate pay progression practices in 2016. This report recommends changes to the Salary Ordinance to enable the start of pay progression practices in 2016 as funded in the recently adopted 2016 City of Milwaukee Budget.

CAREER LADDERS

In 2012, the Department of Employee Relations (DER) working with the Department of Neighborhood Services (DNS), recommended to the Mayor and the Common Council a career ladder for Commercial and Residential Code Enforcement Inspectors. The career ladder identified the specific licenses, credentials, or certificates that, along with the achievement of performance standards, allowed employees to advance through the pay range. The basic premise of the career ladder was that the ability for employees to receive salary adjustments was not based on length of service but rather on the acquisition and application of new knowledge, skills, and abilities that positively impacted productivity, created greater efficiency and quality services, and developed and encouraged a more flexible and cross-trained workforce.

The implementation of the DNS Career Ladder led other City departments to embrace the concept and work with DER to 1) determine if career ladders were appropriate for certain job classes, 2) develop the components and requirements of a feasible and effective career ladder for a specific class of jobs, and 3) recommend the implementation of career ladders where the department, working with the City's Budget Office, could demonstrate a reduction of positions, operational efficiencies, and streamlined operations. Since 2012 career ladders have been implemented for specific employee groups in the Assessor's Office, Health Department, Police Department, Department of Public Works, and the Common Council City Clerk's Office.

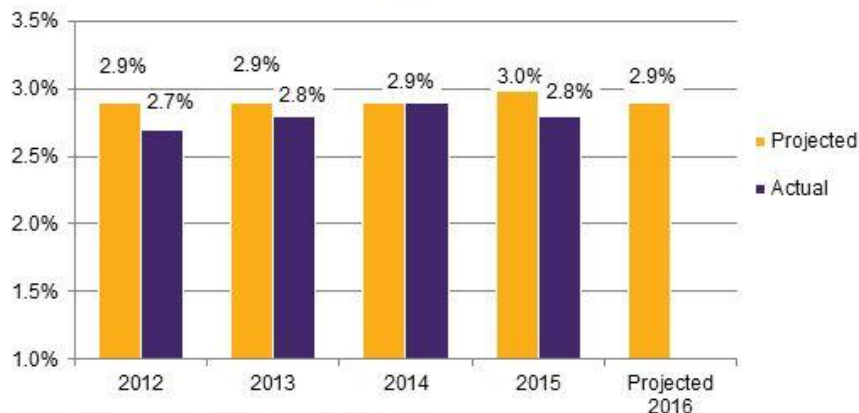
The City's career ladders mirror what other employers are doing to ensure employee engagement and better manage their workforce. According to *WorldatWork*, a global professional association that focuses on compensation, benefits, work-life effectiveness and total rewards, regardless of industry, companies are creating the infrastructure for career management through the adoption of career frameworks, with 40% of employers responding to a survey indicating that they have started implementing such initiatives.

While DER continues to work with certain City department in the development of career ladders where appropriate, we understand that career ladders are not suitable for all types of positions within the City. Specifically, entry level administrative, service and maintenance, skilled trade, and paraprofessional positions do not lend themselves to career ladders as formal education and experience requirements may not be as relevant in determining successful performance on the job. Likewise, many professional and management positions, which generally require formal education and years of experience, should be excluded from such proposals as professional development is expected at those levels and salary adjustments should be based on meeting or exceeding performance standards.

PAY PROGRESSION PRINCIPLES / ASSUMPTIONS

The 2016 City of Milwaukee Budget provides funding to implement pay progression practices to address the many challenges our departments have faced in attracting and retaining qualified employees. The City's ability to recruit and hire qualified talent is influenced by what is happening in the labor market. It is important to acknowledge that the City is not alone as other employers across the nation are struggling with some of the same issues. A key difference is that the City's limited base pay increases have not been comparable to those in the labor market as demonstrated by Mercer's 2015/2016 United States Compensation Planning Survey. The Figure below summarizes the five-year trend of average base pay increases. This information is presented as a point of reference to better understand what the City is competing with when recruiting for talent. It is important to note that according to this survey, the average salary increase budget for 2016 is expected to be 2.9%, up slightly from the average increase budget of 2.8% in 2015.

Figure 1: Five-year trend of average base pay increases



Source: Mercer, 2015/2016 US Compensation Planning Survey
All averages include 0s

The specific proposals and pay progression recommendations contained in this report assume the following:

- (a) Career ladders are not suitable for all city positions; however pay progression practices that tie salary adjustments to performance and behavior standards should be considered and recommended to replace former step structures that allowed adjustments based on length of service.
- (b) Unlike past cost of living adjustments, the City should only adjust pay range minimums and maximums when necessitated based on labor market; the value of a job within the city's compensation structure does not necessarily continue to increase with the passage of time. Unless there are changes to the job or changes to the City's ability to attract and retain employees, those values should not change.

- (c) After years of frozen wages that have created wide and unwarranted pay differentials for employees performing at similar levels of proficiency, the City should consider salary adjustment practices that accelerate pay progression for employees at the low end of the pay ranges. These employees are more likely to be compensated at levels below the market and are the ones acquiring and mastering knowledge, skills, and abilities at a faster pace as they are in the early stages of their career.
- (d) Disqualification factors should be established for employees who are not in good standing or fail to meet job requirements. These factors should include implementation of performance improvement plans or the imposition of disciplinary actions.
- (e) Pay progression practices should be carefully drafted and consideration should be given to the infrastructure and training needed to support the processes before implementation; in drafting these recommendations we recognize that transitioning to a different compensation philosophy takes time, training, and trust.
- (f) Pay administration practices should vary by job groups, therefore the type of adjustment, the conditions under which adjustments are to be granted and the amount of adjustment recommended will vary as recommended by DER and codified in the Salary Ordinance;

The table below identifies the specific components of the recommendations for two separate groups of employees. (Note: pay progression practices recommended in this report do not apply to employees in career ladders or other employees who are eligible for pay progression based on Salary Ordinance provisions or provisions within labor agreements in full force and effect).

Employee Group	GROUP A Section 3 - Technicians Section 5 - Paraprofessionals Section 6 - Admin Support Section 7 - Skilled Craft Section 8 - Service & Maintenance	Group B Section 1- Officials & Administrators Section 2 – Professionals Section 4 – Protective Service Non-represented
Type of adjustment	Salary adjustments of 2% of the minimum of the pay range (or recruitment rate) for employees in good standing as defined by guidelines established by DER.	Salary adjustments of 2% of the midpoint of the pay range for employees who achieve a “fully satisfactory” rating. Salary adjustments of 4% of the midpoint of the pay range for employees who achieve an “outstanding” rating.* <ul style="list-style-type: none"> • Salary adjustment funding for each department assumes that no more than 20% of eligible employees will receive adjustments of 4%. • Legislative Assistants in the Office of the City Clerk shall be eligible to receive an adjustment of 3% of the midpoint of pay range 2CN provided they meet all other requirements. This provision is necessary given the unique hiring and employment conditions of these positions within the Common Council.
Rationale	Accelerate progression towards market rate and minimize pay differentials among similar performers. Employees at the low end of the range are eligible to receive a higher % increase.	Accelerate progression towards market rate and minimize pay differentials among similar performers. Employees at the low end of the pay range are eligible to receive a higher % increase.

Employee Group	GROUP A	Group B
Eligibility Criteria	Non-probationary employee.	Non-probationary employee.
Other Requirements	Be in good standing as documented in an “Employee Assessment” form to be completed by supervisor.	Receive a minimum rating of fully satisfactory in a “Performance Appraisal” form and must have completed all “Employee Assessments” and “Performance Appraisal” forms for all direct reports.
Review Period	Six months prior to anniversary date.	For employees with anniversary dates during pay periods 1 – 13, the evaluation period will be pay periods 1 – 13. For employees with anniversary dates during pay periods 14 – 26, the evaluation period will be six month of their anniversary date.
Disqualifiers	Performance Improvement Plan (PIP) or Disciplinary action within six months of anniversary date.	Performance Improvement Plan, Warning Notice, or Disciplinary action during the review period.
Timing of salary adjustment and Effective Date in 2016	Employee assessment is done near anniversary date and adjustment is retroactive to PP 1 of 2016.	For employees with anniversary date during pay periods 1 – 13, appraisals shall be completed in PP 14. Salary adjustment will be effective PP 14. For employees with anniversary date during pay periods 14 – 26, appraisals shall be completed near or on their anniversary date. Salary adjustment will be effective PP 14.
Transition Year 2016	If employee is not eligible per a PIP or disciplinary action within 6 months of his/her anniversary date, eligibility is re-established after six months following the PIP or discipline. This results in a new anniversary date. This provision will only apply in 2016.	If employee is not eligible per a PIP, warning, or discipline, eligibility is re-established after six months following the disqualifying event. This results in a new anniversary date. This provision will only apply in 2016.
Employees near or at the maximum of their pay ranges	Adjustment is base building up to the maximum of the pay range. Difference is paid via a non-pensionable lump sum payment.	Adjustment is base building up to the maximum. Difference is paid via a non-pensionable lump sum payment. Employee must be in active service to be eligible for this payment.
Administrative Review	Departments will be required to develop an internal review mechanism to allow employees who are denied a salary adjustment an opportunity to discuss that denial with a departmental designee (HR representative or a manager just above the chain of command).	DER will develop an administrative review process for denials only.

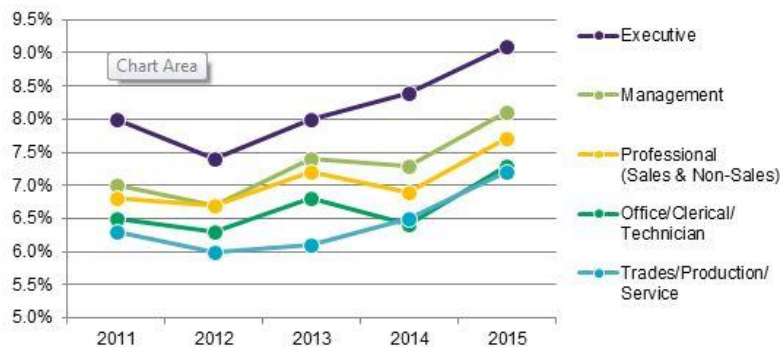
Other Pay Administration Proposals

In addition to recommending pay progression practices to attract and retain top talent, this report recommends changes to other compensation practices as a way to incentivize current employees to stay and

develop their career within the City. Promotions provide employees a financial reward in exchange for expertise and corresponding contributions to the City. They confirm and recognize an employee’s willingness and ability to take on higher-level work. However, promotional opportunities within the City’s structure have decreased over the last several years due to a number of factors including the elimination of positions, the merger or consolidation of responsibilities into centralized locations, and the reorganization of certain functions that have resulted in filled positions being reclassified into higher level positions.

Promotional increases based on current Salary Ordinance provisions result in a 5% (or 7% if promoted into a position of leadership) increase or the minimum of the new pay range or recruitment rate, whichever is greater. Such promotional increases fail to provide enough of an incentive for employees to consider taking on additional responsibilities and more complex work. According to Mercer’s 2015/2016 US Compensation Survey, promotional increases as a percent of base pay are rising because organizations are looking internally at talent and career progression to retain key employees rather than risk losing them to competitors. The average size of promotional increases is 8% of pay. However, the size of the increase varies by job category as demonstrated in the chart below. For executives, promotional increases rose to 9.1% of base salary (compared to 8.4% last year) and for professionals, rose to 7.7% (compared to 6.9% last year).

Figure 3: Five-year trend of promotional increases as a percent of base pay



Source: Mercer, 2015/2016 US Compensation Planning Survey
All averages include 0s

Promotions within the City also fail to recognize that there is a distinction between organization promotions (a change in the type and level of work) AND growth promotions (a change in the work performed due to demonstrated and continued increase in knowledge, skill and ability to perform new work within the same job on a sustained basis).

Organization promotions in the City are authorized under the rules of the City Service Commission (CSC), specifically Rule IV Sections 6, 7 and 9. A promotion of a Public Health Nurse to a Public Health Nurse Supervisor is a typical organization promotion as the incumbent is moved from one classification or job to a higher level classification or job. Other promotions under the rules of the CSC stem from the “advancement” of an incumbent of a reclassified position. A reclassification assumes that there have been permanent and significant changes in a position’s duties and responsibilities to the extent that it is no longer the same position. A reclassified position allows incumbents to be promoted after a reclassification and the salary adjustment is based on promotion provisions in the Salary Ordinance.

This report recommends a new provision in the salary ordinance to allow a salary adjustment of 4% within an employee’s pay range from a “growth promotion”. It will require documented and verifiable changes in the duties and responsibilities of the position due to demonstrated and continued increase in knowledge, skill and ability to perform new work within the same job on a sustained basis, but the changes wouldn’t warrant a reclassification to a different pay range. This new provision would consequently limit “reclassifications” to changes

stemming from reorganizations, budgetary initiatives, consolidation or centralization of functions. This provision would not apply for employees in career ladders and would be subject to approval by the Chair of the Finance and Personnel Committee and the DER Director. Employees would not be able to exceed the maximum of their pay range as a result of a “growth promotion”.

DER is also recommending changing the provisions for salary adjustments after certain promotions as follows:

- For promotions into Section 1- Officials and Administrators and Section 2- Professionals (OR equivalent non-represented Pay Ranges in Section 4- Protective Services) a 7% increase or the minimum of the pay range or recruitment rate, whichever is greater, for positions in Pay Ranges up to 1GX and 2KX or equivalent non-represented Pay Ranges in Section 4- Protective Services; and,
- A 10% increase or the minimum of the pay range, or recruitment rate, whichever is greater, for promotions into positions in Pay Ranges 1HX or higher and 2LX or higher (OR equivalent non-represented Pay Ranges in Section 4- Protective Services)

The premise for supporting these recommendations is that the amount of salary increase should vary based on the complexity of the promotion. The higher the increase in responsibility as a result of the promotion, the higher the salary adjustment should be.

One additional change recommended in this report is to the current internal equity adjustment provision. This provision allows a salary adjustment of no more than 10% of an employee's current salary when an eligible non-probationary employee is being compensated at a rate of pay that is below the rate approved for a new employee with less experience in the same classification or performing similar work. This report recommends including a reference to the fact that the two employees have to demonstrate the same level of proficiency.

Changes to the Salary Ordinance to implement all of the recommendations included in this report are attached. I look forward to discussing the details of the recommendations at the December 9, 2015 Finance and Personnel Committee meeting.

Sincerely,



Maria Monteagudo
Employee Relations Director