

Agenda Report

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SUBJECT:

EXECUTIVE MANAGEMENT TEAM COMPENSATION AND BENEFITS AND MANAGER GROUP
COMPENSATION AND BENEFITS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION:

- A. Adopt Resolution No. OCSD 19-13 entitled, "A Resolution of the Board of Directors of the Orange County Sanitation District approving salary increases, salary range adjustments, and a minor increase to 457(b) matching contributions for At-Will Executive Management Team employees for Fiscal Year 2019/2020, Fiscal Year 2020/2021, and Fiscal Year 2021/2022", authorizing the General Manager to implement increases consisting of a 3% salary range adjustment annually and corresponding salary increases and up to a 5% merit increase annually based on job performance as determined by the General Manager, not to exceed Step 5 of the corresponding salary range, commencing in the first pay period of July 2019 for Fiscal Year 2019/2020.
- B. Adopt Resolution No. OCSD 19-14 entitled, "A Resolution of the Board of Directors of the Orange County Sanitation District approving salary increases, salary range adjustments, and a minor increase to 457(b) matching contributions for unrepresented management employees for Fiscal Year 2019/2020, Fiscal Year 2020/2021, and Fiscal Year 2021/2022", authorizing the General Manager to implement increases consisting of a 3% salary range adjustment annually and corresponding salary increases and up to a 5% merit increase annually based on job performance as determined by the General Manager, not to exceed Step 5 of the corresponding salary range, commencing in the first pay period of July 2019 for Fiscal Year 2019/2020.

BACKGROUND

Executive Management Team Group

There are five (5) Executive Management Team (EMT) employees who provide executive leadership, strategic direction, and department oversight for the Orange County Sanitation District (Sanitation District). EMT employees serve in at-will employment status, which may be terminated at any time, with or without cause, with no liability to the Sanitation District.

Currently, the EMT's salary market position is at the 68th percentile based on July 2019 data.

The General Manager is recommending salary increases annually for three years that consist of a 3% salary range adjustment and corresponding salary increases and up to a 5% merit increase each fiscal year based on individual job performance, not to exceed Step 5 of the corresponding salary range, as determined by the General Manager.

Additionally, the General Manager is recommending an increase in the matching 457(b) contribution from up to \$200 a month to up to \$300 a month for Executive Management Team members who do not receive Investment Incentive Salary (IIS) or are assigned to the classic open or PEPRA pension plans.

In 2016, the Board authorized the General Manager to administer the Board-approved EMT pay plan through a pay-for-performance system with pay range steps. The pay-for-performance system allows for merit increases to be paid only to EMT employees who meet specific goals assigned by the General Manager related to his District Work Plan and departmental initiatives.

Pursuant to the understanding with the EMT members at the beginning of discussions, the salary changes and salary range adjustments would take effect the first pay period in July of the current fiscal year, 2019.

Manager Group

There are fourteen (14) employees in nine (9) manager classifications at the Sanitation District who oversee staff within a particular division and align performance with the goals of the agency. In recent years, the Sanitation District has reduced the number of managers, resulting in significant cost savings and increased efficiencies, and broader scopes of responsibilities. Managers are not represented by a bargaining unit and represent themselves as a group in discussions with the General Manager regarding wages, benefits, and other conditions of employment.

Currently, the Manager Group's salary market position is at the 73rd percentile based on July 2019 data.

The General Manager is recommending salary increases annually for three years that consist of a 3% salary range adjustment and corresponding salary increases and up to a 5% merit increase each fiscal year, not to exceed Step 5 of the corresponding salary range, based on individual job performance as determined by the General Manager.

Additionally, the General Manager is recommending an increase in the matching 457(b) contribution from up to \$200 a month to up to \$300 a month for managers who do not receive Investment Incentive Salary (IIS) or are assigned to the classic open or PEPRA pension plans.

In 2016, the Board authorized the General Manager to administer the Board-approved Manager Group pay plan through a pay-for-performance system with pay range steps. The pay-for-performance system allows for merit increases to be paid only to Manager Group employees who meet specific goals assigned by the General Manager related to his District Work Plan and departmental initiatives.

Pursuant to the understanding with the Manager Group members at the beginning of discussions, the salary changes and salary range adjustments would take effect the first pay period of July in the current fiscal year, 2019.

RELEVANT STANDARDS

- Ensure the public's money is wisely spent
- Offer competitive compensation and benefits
- Cultivate a highly qualified, well-trained, and diverse workforce

PROBLEM

Koff & Associates, an independent Human Resources consulting company, recently evaluated classification and compensation data among the Sanitation District's 17 comparison agencies in a labor market study to refresh data from the Sanitation District's most recent Classification and Compensation Study (C&C Study). The results of the July 2019 data refresh indicate that the EMT and Manager Group salaries at the Sanitation District are positioned near the 75th percentile targeted by the Sanitation District. Currently, the EMT are at the 68th percentile of market, and the Manager Group is at the 73rd percentile as compared to peers in like positions.

Data indicates that by the year 2022, 80% of EMT employees and 64% of management employees will be eligible for retirement, making succession planning, retention, and recruitment high priorities at the Sanitation District. As the Sanitation District looks to promote employees from the supervisory ranks into Management and EMT positions, these potential internal employees are currently faced with a decision to continue at the Sanitation District or look outside the organization for higher level positions that may be more attractive in the market. In addition, if the Sanitation District seeks to recruit employees from outside the agency to fill potential EMT and management position openings due to retirement, the Sanitation District should ensure it provides competitive pay compared to the labor market to support the ability to attract and retain top talent.

PROPOSED SOLUTION

Adopt Resolution No. OCSD 19-13 entitled, "A Resolution of the Board of Directors of the Orange County Sanitation District approving salary increases, salary range adjustments, and a minor increase to 457(b) matching contributions for At-Will Executive Management Team employees for Fiscal Year 2019/2020, Fiscal Year 2020/2021, and Fiscal Year 2021/2022", and Resolution No. OCSD 19-14 entitled, "A Resolution of the Board of Directors of the Orange County Sanitation District approving salary increases, salary range adjustments, and a minor increase to 457(b) matching contributions for unrepresented management employees for Fiscal Year 2019/2020, Fiscal Year 2020/2021, and Fiscal Year 2021/2022".

Based on prior Board authorization, the General Manager entered into discussions with the EMT and Manager Group employees, which resulted in the proposed 3% salary range adjustments and corresponding salary increases annually, up to a 5% merit increase each fiscal year based on individual job performance as determined by the General Manager, and a minor increase in 457(b) matching contributions.

RAMIFICATIONS OF NOT TAKING ACTION

Risks may include losing top talent and of not being able to attract top talent due to decline in salary market position, not maintaining the Sanitation District's targeted 75th percentile in salary market position, and impacting internal alignment across employee groups, potentially causing compaction issues between unrepresented groups and represented groups.

PRIOR COMMITTEE/BOARD ACTIONS

November 2016 - Approved Resolution No. OCSD 16-27 and Resolution No. OCSD 16-28, which established a pay-for-performance compensation system with pay range steps for Executive Management and Manager Groups, respectively. Also, the Resolutions authorized the General Manager to administer the Board-approved Executive Management Team and Manager pay plans.

ADDITIONAL INFORMATION

Executive Management Team

Executive Management Team members are employed on an At-Will basis and serve at the pleasure of the General Manager. The General Manager is authorized, per the Board's Personnel Policies and Procedures, to periodically adjust the rate of compensation for Executive Management Team members who have signed At-Will agreements so long as no adjustment exceeds the compensation permitted by the applicable salary range.

The five (5) At-Will employees of the Sanitation District's EMT are relied upon heavily to provide leadership, strategic direction, and department oversight at the Sanitation District. These individuals serve in key leadership positions that are critical to the success of the agency.

Executive Management Team members hold the following classifications:

Executive Management Team Classifications

Assistant General Manager & Director of Operations and Maintenance
Assistant General Manager & Director of Finance and Administrative Services
Director of Engineering
Director of Environmental Services
Director of Human Resources

The Sanitation District is committed to maintaining a competitive compensation market position that attracts and retains top employment talent. It is the Sanitation District's philosophy to compensate employees competitively and equitably; understanding the relative market position assists in that determination.

The comprehensive District-wide C&C Study completed by Koff & Associates in 2016 revealed that EMT salaries for all classifications were significantly below the 75th percentile. Over the previous five (5) years, the group's aggregate market position had declined from the 60th percentile in 2011 to the 33rd percentile in 2016.

Salary structure changes and salary range adjustments approved by the Board in 2017 and 2018 accomplished the goal of bringing the Sanitation District's EMT salary ranges in line with the market's 75th percentile (with the top of the range being at the 75th percentile) by 2019. The current proposed three-year salary range adjustments are designed to keep pace with comparison agency increases and thereby maintain the Sanitation District's current market position.

The ability of employees on the EMT to move through their respective pay ranges is based on their ability to meet the Sanitation District's goals in a pay-for-performance pay system.

Manager Group

The nine (9) classifications that comprise the Sanitation District's Manager Group are relied upon heavily to provide day-to-day leadership to support strategic direction and division management oversight at the Sanitation District. These individuals serve in key leadership positions that are critical to the success of the agency.

Manager Group members hold the following classifications:

Manager Group Classifications

- Administration Manager
- Controller
- Engineering Manager (6)
- Environmental Lab & Ocean Monitoring Manager
- Human Resources & Risk Manager
- IT Systems & Operations Manager
- Maintenance Manager
- Operations Manager
- Purchasing & Contracts Manager

The comprehensive District-wide C&C Study completed by Koff & Associates in 2016 revealed that the Manager Group salaries for all classifications were significantly below the 75th percentile. The Manager Group's market position had declined from the 70th percentile in 2011 to the 55th percentile in 2016.

Salary structure changes and salary range adjustments approved by the Board in 2017 and 2018 accomplished the goal to bring the Sanitation District's Manager Group salary ranges in line with the 75th percentile (with the top of the range being at the 75th percentile) by 2019. The current proposed three-year salary range adjustments are designed to keep pace with comparison agency increases and thereby maintain the Sanitation District's current market position.

The ability for employees in the Manager Group to move through their respective pay ranges is based on their ability to meet the Sanitation District's goals in a pay-for-performance pay system.

CEQA

N/A

FINANCIAL CONSIDERATIONS

The costs of the salary range adjustment, salary increases, and minor adjustments to benefits are approximately \$920,897 over the three-year term for both EMT and Managers combined.

ATTACHMENT

The following attachment(s) are included in hard copy and may also be viewed on-line at the OCSD website (www.ocsd.com) with the complete agenda package:

- Resolution No. OCSD 19-13 (Executive Management Team)
- Current Executive Management Team Pay Table
- Proposed Executive Management Team Pay Tables, July 2019 to June 2022
- Resolution No. OCSD 19-14 (Manager Group)
- Current Manager Group Pay Table
- Proposed Manager Group Pay Tables, July 2019 to June 2022