City of Livermore
Compensation Policy

Compensation Philosophy
The City of Livermore desires to provide its citizens with excellent customer service in the delivery of effective and efficient public services. The City Council recognizes that a highly skilled, experienced and dedicated workforce is essential to meet those objectives. The City's compensation philosophy takes into consideration the following compensation guidelines.

The City's ability to compensate employees will consider the City's overall financial condition including competing service priorities, requirements for adequate reserves consistent with adopted budget policies, and multi-year general fund revenue and expenditure projections. The City's goal is allocate approximately seventy-five percent (75%) of the general fund budget for personnel and supplemental personnel expenses.

Background
Pay administration touches many areas of human resources administration, it is therefore important to cover it in a plan that is easily understood and in the proper context. Details covering various policies on salary adjustments, initial salary at appointment, performance evaluation criteria for salary adjustments, and the effects of reclassification on salary are found in the City's Personnel Rules and Regulations or applicable Memorandum of Understanding.

The City's Human Resources System is administered by the City Manager and operates on a merit basis. Employees are selected, retained, promoted and paid based on their level of competency to perform required job duties. Each position, except employees on contract, in the City service has an assigned pay range with minimum and maximum pay rates. Basic qualifications are established for each position, and thereafter employees are selected in accordance with the City's Personnel Rules and Regulations.

Salary adjustments are currently based on three factors – General Wage Increases, Equity Adjustments and Merit Increases. General wage increases and equity adjustments are based on negotiated agreements between the City and bargaining units. Merit salary increases are based entirely on employee performance. All recommendations for merit increases are presented to the City Manager and include a written performance evaluation in accordance with the City's Personnel Rules and Regulations.

Employee salary ranges are contained in the City's adopted Salary Plan. The Salary Plan indicates the minimum and maximum rates of pay for each classification. Initially, each classification is rated according to its level of difficulty and responsibility, working conditions, supply and demand, market conditions and other objective factors. Review and adjustment recommendations to salary ranges are made to the City Council by the City Manager in accordance with the City's Personnel System Rules and current operating procedures.

Salary Structure Principles
The City utilizes a pay system for its classifications. All of the City's regular classifications, except employees on contract, have pay ranges that span approximately 25% from the minimum to the maximum of the range. This range size and structure is typical within public agencies. In addition to the basic structure of the pay ranges, a major guiding principle for a salary structure is an acceptable differential between various classification levels.

<u>Classification Level Differentials</u>

While labor market data is a good indicator of market trends in pay, the concept of internal equity, e.g. how classifications are paid relative to each other within the City's salary plan, is an equally, if not more important factor when establishing a pay plan.

Professional compensation practices provide some guidelines when reviewing internal equity between levels of classifications, i.e. how a classification in one level is paid relative to another level based on increasing duties and responsibilities and span of control. These guidelines can minimize compaction issues, i.e. supervisory or management positions that make less than their employees when overtime is taken into consideration. The guidelines presented below are listed in a range format with a minimally accepted differential up to a maximum targeted differential. Salary differentials that fall below the minimum are considered an internal salary compaction problem and are addressed by the City Manager on an exceptional basis as financial resources allow.

Salary differentials towards the maximum of the range are to be used under unusual circumstances and are outlined later in this section. The City's ability to pay is also a factor that needs to be considered in setting the appropriate classification level differentials. Salary differentials are measured by calculating the difference between the <u>highest</u> rate (top of the range) of one pay grade to the <u>highest</u> rate (top of the range) in the next pay grade to which the classification reports. The differential ranges that are best practices are outlined below, though there are sometimes exceptions, especially between upper management levels. The following represents optimal differentials between levels:

1. Entry to journey level of series = 7% - 10% is the target differential

   (Building Inspector I to Building Inspector II)

2. Journey to advanced journey/lead level of series = 5% - 10% is the target differential

   (Assistant Planner to Associate Planner)

3. Supervisory/Management = 10% or more differential over the highest level regularly supervised

   (Supervising Groundskeeper to Public Works Supervisor)

4. Senior Management = 7.5% or more differential over the highest level regularly supervised

   (Plan Check Engineer to Permit Center Manager)

5. Executive Management = 10% or more differential over the highest level regularly supervised

   (Assistant City Manager to City Manager) – City Department Head Positions are surveyed.

For differences between levels in a class series (#1 and #2 above), the advanced levels may be up to 15% higher than the next lower level <u>if</u> the higher level job requires more education, experience and/or certifications to be considered qualified for advancement to journey or advanced journey/lead level jobs.

For differences between subordinates and their supervisors (#3, #4, and #5 above), the range of acceptable differentials are greater to accommodate the variety of special circumstances that may occur and be accounted for. The special circumstances that would warrant a reasonable differential, based upon industry standards between two classes at the upper end of the differential ranges are below:

- To ensure equitable compensation for supervisors/managers over employees who earn high amounts of overtime.
- To compensate for supervisors/managers who must possess a different and higher level of technical proficiency than their subordinates.
- To keep pace with the market.

Internal Equity

Internally equitable pay must clearly define the relative value of each job among all jobs within an organization and the Classification Plan. This ordered set of jobs represents the job structure or hierarchy. The basic concept is simple: jobs that require higher qualifications, more responsibilities, and more complex duties are paid more than jobs that require lower qualifications, fewer responsibilities, and less complex job duties.

The City utilizes its current salary plan system as a means of effective internal equity. One level of equity maintenance is achieved by the systematic approach to job/classification studies that review certain jobs for proper alignment within the Classification Plan, and therefore, proper salary placement. This process is called job analysis and is very important as a means to create and maintain an internally consistent job structure. Job analysis is almost a purely descriptive procedure. Effective job analysis (or job description) identifies and defines job content by describing the job duties and tasks as well as other pertinent factors such as skill and effort needed to perform the job adequately. The City currently uses a Position Classification Questionnaire (PCQ) in conducting job analyses. This method utilizes the common allocation factors of: decision-making, scope and complexity, contact with others required by the job, supervision exercised and received, and the minimum qualifications that include the knowledge, skills, and abilities (KSAs).

Market Surveys

Market-competitive pay systems play a significant role in setting a salary that will attract and retain the most qualified employees. Conversely, paying more than is necessary may represent an undue financial burden for the City. Because money is a limited resource, the City must strike a balance between offering competitive salaries to attract and retain highly qualified employees and providing sufficient resources to enable them to be productive. To this end, the City must have a strategy that includes surveying the relevant labor market to determine the organization's place in the external market and determining the most adequate frequency and benchmarks for surveys. The City strives to conduct market surveys at the start of every labor negotiations cycle with bargaining unit groups.

Relevant Labor Market

Relevant labor markets represent the field of potentially qualified candidates for particular jobs and are defined on the basis of occupational classification, geography, and service/function/industry provided.

The following factors should also be considered in determining the relevant labor market:

- The most effective number of survey agencies is between 8 and 12. Anything less than 8 survey agencies increases the chance that there will not be sufficient data collected when a job is difficult to match. More than 10 or 12 agencies, however, does not significantly affect and/or add value to the data results in most cases. This is particularly important when the cost of surveying more agencies only makes the survey more costly and time consuming than necessary.
- Geography is important for determining the labor market. The potential candidate pools are shared by similar agencies that are close in proximity. If there is any potential of employees being recruited away from the City, it most likely will be by another agency within the Bay Area. It is very doubtful that there will be any loss of employees of any significant degree to either Fresno or Los Angeles for instance.
- Size of the organization is another important factor. A larger organization typically has more levels of management, supervision, and workers so to match a Supervisor classification with a much smaller organization would be very difficult and often leads to a lack of sufficient data on some jobs. While size is important, this factor should not trump an otherwise good market benchmark agency that may be smaller or larger but is well suited based upon location and similarity of organization.

The City currently uses a labor market comprised of the following nine survey cities and three utility districts (utility districts are used for salary comparison purposes for specific classifications that are or resemble those classifications utilized at utility districts. Utility districts are also used as back-ups for other classifications where a minimum number of comparable classifications cannot be established to form a representative sample which is a minimum number of four agencies).

<u>Municipalities:</u>
- City of Antioch
- City of Brentwood
- City of Fremont
- City of Hayward
- City of Manteca
- City of Pleasanton
- City of San Leandro
- City of Tracy
- City of Union City

<u>Special Districts:</u>
- Dublin San Ramon Services District
- Oro Loma Sanitary District
- Union Sanitary District

Market Areas

There may be instances when a different combination or new agencies need to be surveyed due to an unexpected situation. For instance, if a recruitment results in a poor applicant pool, then an increase in salary range may be warranted if it is a difficult to recruit for position. If the City's ability to retain employees becomes an issue, then the total compensation for that classification should be reviewed. It is important that special circumstances be dealt with in a flexible and appropriate manner. It is expected than an evaluation of the City's relevant labor market shall be conducted every 5 to 7 years to ensure that Livermore's survey cities continue to provide similarity and balance based upon the outlined factors.

Choosing Benchmark Jobs

It is unnecessarily burdensome and expensive to survey all of the City's classifications. Benchmark classifications play an important role in compensation surveys because they allow pay levels to be determined from the information collected on one job to apply to other similar jobs. Benchmark positions have four characteristics:

- The job contents are well-known, relatively stable over time.
- The jobs are common across the number of different employers.
- The jobs represent the entire range of jobs being evaluated within an organization.
- The jobs are generally accepted in the labor market for the purposes of setting pay levels.

Because it is so important to determine and survey benchmark classes, it is recommended that the City go through a benchmarking process before each survey is conducted. Once the benchmarking process takes place, then the salary survey process should be the only updated process necessary.

Use of Statistics

The City utilizes the mean and median in analyzing total compensation data. Where the City falls significantly under the mean or median after a compensation survey for a classification(s), additional data may be gathered and a salary determination may be made, with other factors also being taken into consideration.

The mean salary is calculated by adding all of the collected salaries and dividing by the total number of salaries in the set (the City's salary is <u>not</u> used in the equation). The median salary is calculated by arranging all salary data points from highest to lowest and using the number that falls in the center (the City's salary is <u>not</u> used in the equation). Many times, the set of salaries collected will contain one or more outliers (salaries that extremely high or low in comparison to other salaries), which can lead to a distorted representation of the typical salary. The mean understates the true typical value when there are one or more extremely small values and it overstates the true typical value when there are one or more extremely large values. This problem can be mitigated if numerous survey cities and data points are utilized through using the mean as the statistic.