



AGENDA
SPECIAL COMMITTEE OF THE WHOLE MEETING
July 5, 2011 – 7:30pm

- 1) Steps
- 2) COLA
- 3) Salary Survey
- 4) Ranges

SPECIAL COMMITTEE-OF-THE-WHOLE AGENDA ITEM – July 5, 2011

1) Steps

The “steps” process is often misunderstood in a lot of different arenas, not just local government. As a compensation strategy, it is a fairly simple idea, but the idea often gets lost in other concerns. Sometimes those concerns are just strategies to lower salaries (often found in local government). Sometimes those concerns are just strategies to gain greater pay for years of service (usually found in schools/teaching). However, neither of those ideas are a textbook use of a step system. If there are other goals, that’s fine; there are other tools than can achieve other goals.

The classic use of a step system is in a pay structure where all employees that perform a particular job are paid the same base salary. These pay structures occur more in the public sector than in the private sector for a number of reasons. Having the same base salary does not mean receiving the same total pay; individual workers with the same base pay may work different amounts of overtime, have different extra stipends for additional duties, etc. The bottom line, though, is that in such pay structures, everybody who performs the same basic job has the same base salary.

In the case of police and fire, for example, a cop is a cop and a firefighter is a firefighter. The general duties and functions that a street-level officer and firefighter perform are usually the same. It therefore stands to reason that they would be paid the same.

The exception to this general philosophy is new employees. A person straight out of “the academy” or with a fresh degree in fire science is qualified to take the job ... but they have not yet acquired the full range of skills or specific Rolling Meadows knowledge to perform independently at the same level as the folks who have been on the job for a number of years.

This is where steps come in to the equation. Steps are a recognition that new hires require extra attention and different handling that has them performing at a level of lower independence than everyone else on the job has. To put it crudely, the person isn’t a “full” police officer or firefighter yet, so they’re not given the pay of a “full” police officer or firefighter. They are given a reduced percentage of the “full” pay in recognition of the fact that supervision imposes costs on the other people on the shift.

The general theory with steps that should be used, then, is a basic question: how long does it take an average person on the job to be fully interchangeable with everyone else who’s receiving the base pay? The answer to that question for each job should govern the number of steps.

One of the classic indicators of a misunderstanding of a steps program is the language used about where the steps lead. The top step is the “base pay” for a position, also often called “full pay.” It means that the person has achieved full working equality with the others. It is decidedly not the “maximum pay” or “top pay.” The easiest example is the longevity pay given to employees at five year intervals after 10 years of service. The “maximum pay” or “top pay” is 103% of the base salary, and that is earned after 25 years of service. (Longevity is a similar but separate compensation strategy.)

Two questions come from this description:

- 1) Does the Council still choose to subscribe to this general idea about pay?
- 2) If not, what other philosophy should be used and what type of pay structure would better reflect it?

SPECIAL COMMITTEE-OF-THE-WHOLE AGENDA ITEM – July 5, 2011

2) COLA

Cost of Living Adjustments (COLAs) are another good example of a pay strategy that has a specific purpose that often gets lost in the course of negotiations. Here are three definitions of a COLA that are taken from different sources:

- 1) “An adjustment in individual wages based on changes in the consumer price index.” *Compensation Theory and Practice*, Marc Wallace & Charles Fay
- 2) “an increase in wages that is designed to match increases in prices of items purchased by the typical household” *Economics*, Michael Melvin & William Boyes
- 3) “Typically an annual adjustment based on increases in the cost of living necessary to keep the employee at the same level of purchasing power as the year before” *Summary of Economic Development Terms*, Economic Development Institute, University of Oklahoma

These definitions all have one thing in common: they are directly tied to the concept of **inflation**. COLAs are intended to be nothing more and nothing less than adjusting salaries and wages to keep up with inflation.

In economics, the term “real” is used to identify figures that have been adjusted for inflation. Terms like “real GDP,” “real interest rates,” and “real wages” mean GDP, interest rates and wages *adjusted for inflation*. In most cases, the “real” figures are the figures that are the most accurate form of measuring.

In negotiating COLAs as a part of a labor contract, the discussion is supposed to be about predictions of inflation. The contract should reflect the best estimate of inflation that the two sides can agree upon. Employees do not want a COLA that turns out to be less than inflation; the effect would be taking an unintended cut in real wages. Employers do not want a COLA that turns out to be higher than inflation; the effect would be an increase in “real wages” – in other words, giving an unintended raise.

Again, the language used is often fairly instructive of whether a clear understanding exists. When folks are at the table discussing the annual “raises” in the contracts, the whole point of a COLA is being missed. COLAs done correctly are not raises; they are simply adjustments for inflation that keep an employee earning the same “real” pay.

The most public example of the misunderstanding of a COLA was in the Social Security system a couple of years ago. For the first time since COLAs were introduced into Social Security payments (1975), the COLA was zero. Social security checks were not increased that year. The reaction across the country was that there was something unfair about the lack of an increase. The reaction was so strong that Congress chose to send recipients \$250 checks to “compensate” them for the missing COLA.

But in 2009, the inflation rate was effectively zero. (It was actually slightly negative: -0.36%) That means that *in general*, prices didn’t rise in 2009. Certainly the prices of some things rose, but the prices of other things fell, the general effect was therefore neutral. Having no COLA in a zero-inflation year was correct.

For more than at least ten years running (2000-2009), the employee contractual increases in Rolling Meadows were higher than inflation. That means that for at least a decade, the COLAs were not COLAs; they were indeed raises. In 2010, non-union employee pay was frozen, making the first actual cut in real wages.

Does the City still wish to use the concept of COLAs in its contracts, and how does this historical record affect the discussion of pay?

SPECIAL COMMITTEE-OF-THE-WHOLE AGENDA ITEM – July 5, 2011

3) Salary Survey

Attachment:

- Study Group Criteria

The Council has expressed the need for a salary/wage survey prior to contract making decisions. The last time a survey was done was in 2006, and the landscape has likely changed significantly since then.

Based on the city's experience with the last survey, the selection of cities to be included in the survey is a critical piece of the process.

The attachment to this item is the description of the criteria the study group used to include cities in the survey. The same study group may or may not be used this time, but the parameters they used then are a good basis for discussion.

Would the Council like to make any changes to the parameters that were used last time?

Identifying Comparables

One of the key elements to any salary study is determination of comparable organizations in the surrounding labor market. To determine which cities or villages are sufficiently similar to Rolling Meadows for salary and benefit comparability purposes, the study team employed a statistical methodology that focused on key community profile information for communities within a defined geographic radius.

For the purposes of Rolling Meadows' analysis, the study team focused on communities within a 30-mile radius. We initially narrowed the group to:

- immediately adjacent communities and,
- communities with populations between 10,000 and 65,000.

To this group, the following criteria and accompanying weights (expressed as points) were applied:

Weighted criteria and total possible points assigned

<u>Criterion</u>	<u>Weighting</u>
1. Population	15%
2. Number of Full-Time Employees	15%
3. General Fund Expenditures	15%
4. Equalized Assessed Value	15%
5. Median Family Income	15%
6. Sales Tax Revenue	15%
7. Geographic Proximity	10%

In selecting comparable communities to be included in a survey of salaries and benefits, no one factor should be considered on its own. Rather, we consider several factors that impact compensation levels in the surrounding communities, including Rolling Meadows. These factors are based primarily on analogous size comparisons (population, and full-time employees), economic profile comparisons (general fund expenditures, sales tax revenues, median income, and assessed value), and proximity (distance from Rolling Meadows). Of the weighted criteria, 30% measured comparable size, 60% measured economic variables, and 10% measured relative proximity. Based on these criteria, scoring factors were applied to an initial group of sixty-five communities in comparison to Rolling Meadows. The initial sixty-five communities are listed in the attached Appendix A.

The weighted criteria and total possible points assigned to them are as follows:

<u>Criterion</u>	<u>Total Possible Points</u>
1. Population	15pts.
2. Number of Full-Time Employees	15pts.
3. General Fund Expenditures	15pts.
4. Equalized Assessed Value	15pts.
5. Median Family Income	15pts.
6. Sales Tax Revenue	15pts.
7. Geographic Proximity	10pts.

Each of these criteria, with a weighted range of points based on the relationship of each community to Rolling Meadows, is shown in Appendix B. For instance, if the population of a community is within a factor of 33% when divided into Rolling Meadows' population, then that community received the maximum points of 15 for that criterion. If they fell between 34 and 66% of Rolling Meadows' population, they received 10 points, if they fell outside of 66%, no points were assigned for that factor.

Data for the analysis (population, full-time employees, expenditures, population, EAV etc.) was collected by the consulting team from state and regional sources and from participating communities. The Summary Sheet in Appendix B shows the results of applying the above criteria and point values to our target group of sixty-five nearby communities.

In developing the cohort study group to use in the survey, the study team selected those communities that had correlation scores of 85 or more comparative points on a scale of 0-100. This minimum correlation factor focused the comparable group to fourteen (14) initial communities as set forth in the Exhibit in Appendix B.

The study team also recognizes that adjacent communities, even if they're larger, have a significant impact on cities and communities as an employer in the northwest suburban area, including adjacent Arlington Heights, Elk Grove Village, Mt. Prospect, Palatine and Schaumburg. Therefore, it was strongly recommended that these five communities and all adjoining communities' data be used in the study as well. All employers in the NW area (public and private), including Rolling Meadows, need to weigh their training and recruiting investment in employees relative to the cost of losing them to leading employers in the region. Competition among employers can have an upward push on the rates cities and other governmental agencies must pay to attract and retain quality employees. Therefore, it's important to develop a broad but sensible perspective of prevailing rates in your part of the greater metropolitan area.

In consideration of the above, our judgment is that the most appropriate sample for comparison purposes is the statistically determined total sample of fourteen communities including the data from the adjoining communities referenced above. Based on the data collected and analyzed, it is our recommendation that the following comprise the comparison group for the Labor Market Analysis of the benchmark positions under study. It is our conclusion that the communities in this group most closely resemble Rolling Meadows not only as public employers, but also as

governmental organizations and communities of similar economic and demographic circumstances. The fourteen communities invited to participate in the salary survey and comparison analysis are listed below; of the fourteen communities, thirteen fully responded to the survey:

- ◆ Arlington Heights
- ◆ Algonquin
- ◆ Batavia
- ◆ Carol Stream
- ◆ Libertyville
- ◆ Morton Grove
- ◆ Mt. Prospect
- ◆ Lake Zurich
- ◆ Elk Grove Village
- ◆ Palatine
- ◆ Streamwood*
- ◆ Schaumburg
- ◆ Villa Park
- ◆ Westmont

*Did not fully respond to survey

Labor Market Data For Comparable Cities/Villages

The summary Tables in Appendix C compares the present minimum and maximum ranges of the fifty-nine (59) City of Rolling Meadows full-time employee benchmark positions with the average minimum and maximum actual rate of salary for similar positions in the comparable cities/villages that participated in the survey. This table also shows the percentage difference between both The City of Rolling Meadows pay and of the cities/villages for each of the fifty-nine benchmark positions. (See Appendix C for a complete listing of the survey data).

SPECIAL COMMITTEE-OF-THE-WHOLE AGENDA ITEM – July 5, 2011

4) Ranges

The subject of annually approving salary ranges has come up on the Council. Actual salary ranges, though, only exist for department heads and a few others. By and large, the city's salaries are not ranges, so they are not currently expressed as ranges.

However, if the concept of ranges is helpful, the Council can direct that salary ranges be reported in at least a couple of different fashions:

- 1) For each position that involves steps, the range for a position could be listed with Step 1 as the lower end and the full salary could be listed as the higher end.
- 2) As noted in Item A, a base salary does not include all the money that an individual might be paid. Overtime and stipends are also money that is paid directly to an employee. The amount of actual money paid to an employee could be calculated for each individual at the end of a year. Then the range for a position could be listed with the lowest amount received by an employee as the lower end and the highest amount received by an employee as the higher end.

Is the Council interested in either of these options as range reports? Is the Council interested in some other form of reporting ranges that is not listed here?