February 3, 2017

MEMORANDUM

TO: Rebecca Grill, City Administrator
FR: Charles E. Carlson, Partner and Consultant

RE: Compensation Project Executive Summary

Introduction

The City of West Allis (City) retained Carlson Dettmann Consulting, LLC (Consultants) to develop a new compensation plan covering all regular non-represented full and part-time employees not covered by collective bargaining agreements.

The tasks completed in this study are as follows:

a) Assist the City with documentation of Client's 265 job classifications job using Consultant's Job Description Questionnaire (JDQ).

b) Administer the CDC Point Factor Job Evaluation System to construct a relative ranking of jobs.

c) Review current job documentation for those positions with multiple levels, develop a framework for establishing a classification series for key City positions, facilitate conversations with key department leaders with the goal of establishing said classification series, and provide classification series recommendations to the City.

d) Produce a new classification and compensation plan that will be internally equitable and competitive in external markets both public and private.

e) Review all subject jobs and properly classify those jobs in accordance with current Fair Labor Standards Act provisions relative to exempt and non-exempt status.

f) Review Client policies related to these items and make recommendations for policy modifications as appropriate.

g) Develop a high-level overall assessment of the competitiveness of Client's total rewards program, particularly regarding employer-provided insurances (including contribution levels), retirement, premium pay, awards program(s), mandatory benefits, and paid time off.

h) Present the results of the classification and compensation study to the designated committee of the Common Council and to the subsequent meeting(s) of the Common Council.

Our findings and recommendations for the non-represented staff are as follows:

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Summary of Recommendations

1. Adopt the proposed job classification system and pay plan based on the CDC job documentation and job evaluation process and competitive market analysis. (Appendix A).
2. Maintain the pay system using the recommended review process (Appendix B).
3. Authorize and implement the classification appeal process (Appendix C).
4. Substantially limit overtime eligibility for managers, administrator, supervisors, and professionals – those staff exempt from provisions of the Fair Labor Standards Act, providing exceptions for emergency work.
5. Revise the City's performance review process to include a pay for performance component to appropriately reward employees for innovation and service excellence. Utilize software to manage the process, training supervisors in the process and hold them accountable for adhering to standards.
6. Appoint a special committee, including outside experts, to develop recommendations in 2017 for modifying the City's retiree health insurance policy so it is affordable and consistent with the strategic plan for the City. Recommendations may include increasing the separation of the rating of the health insurance plans for current and retired employees, and gradually shift premium sharing for current employees to a more standard premium ratio.
7. Examine the options and develop a Paid Time Off benefit plan to replace the City's various time off plans in 2018 (sick leave, holidays, vacation, personal leave, etc.) which moves toward a balance between fiscal responsibility and employee recruitment and retention.

Two tasks remain. First, the City revised the original scope of the project to include a review of the compensation levels for protective service employees covered by collective bargaining agreements. Second, we were tasked with developing recommendations on the compensation package for the City Administrator. We will provide both reviews in separate summaries and recommend they be considered independently following action by the City Council on the proposed pay plan.

DISCUSSION FINDINGS AND RECOMMENDATIONS

1. Adopt the proposed job classification system and pay plan based on the CDC job documentation and job evaluation process and competitive market analysis. (Appendix A).

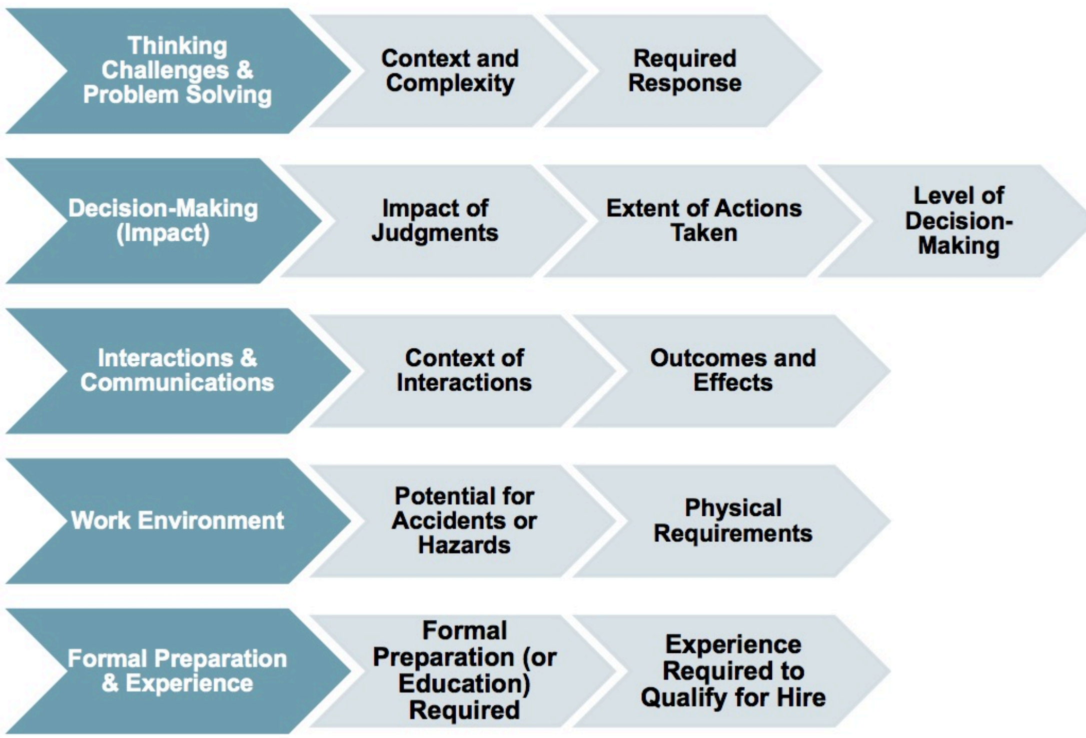
Quality pay plan development requires a balance between determining internal relationships objectively and measuring competitive markets accurately. The plan proposed for adoption represents this balance.

<u>Internal equity</u> in an organization is very important to morale, effective management, and cost control. It also enables the City to fulfill its legal requirement to maintain pay equity under the terms of the Equal Pay Act and Civil Rights Act.

Accurate job documentation is the cornerstones of every quality human resource system. In this study, the documentation process started with at least one employee in every existing job classification completing CDC's Job Description Questionnaire (JDQ). In addition, any employees who believed their jobs were unique and should be reviewed had an opportunity to complete and submit a JDQ. Supervisors and managers completed the sections on minimum required qualifications and commented on the accuracy of each JDQ.

In addition, CDC consultants interviewed Directors and Managers of every department to better understand the organization of positions, as well as any anticipated changes, and obtain their observations on current classification concerns.

Using this information, CDC consultants evaluated 279 unique JDQ's to develop a point factor profile. The CDC Point Factor Job Evaluation System supports point scoring on the following major factors and sub-factors:



The City employs staff in a wide variety of occupations. The advantage of a point factor system is it allows us to evaluate them using a common measuring instrument, yielding a point score. Using these scores, we can allocate positions to pay grades in a fair, objective manner.

As we were evaluating job documentation, we observed what we felt professionally were inconsistencies in minimal hiring standards – in many cases, they just did not match the duties as described. We discussed this with the City Administrator and agreed to ask Department Directors to verify their expectations for education and experience minimum standards. Following this verification, CDC re-evaluated all documentation and applied our professional judgment to the facts as we understood them, and we have provided our recommendations to the Human Resource Department.

One of the assignments the City gave CDC was to study the existing classification structure to determine if consolidation of job classifications made sense. Specifically, the current structure included various classification series within a job title (levels I, II and III), and it was the City's feeling these classifications may not reflect meaningful differences in job responsibilities and were better suited to a seniority-driven pay progression philosophy than the City's present commitment to a performance-based pay policy.

Upon evaluation of the JDQ's prepared by the employees and reviewed by managers, in general, we could not discern significant differences in many of these laddered classification series. Based on our analysis of the documentation, CDC has recommended a new classification plan resulting in a reduction of the number of job classifications from 250 existing titles to 165 classifications, a one-third reduction.

Instead of a seniority-driven classification system, the emphasis of the new plan will be on pay progression within a defined job based upon performance. And, as detailed below, we are recommending broader pay ranges to support the policy.

<u>External competitiveness</u> requires two policy decisions. First, the client needs to decide how it wishes to compete in the relevant job markets. Are we to be a high payer? Low? Average? Is the target different for different levels of employees?

Second, what are the competitive job markets that matter?

Regarding the competitiveness question, the City Administration and Finance Committee directed CDC to develop a pay plan that is competitive with market averages, and the data reported here that we used to develop a new compensation structure reasonably reflects average pay. On the second policy question, the Committee tentatively agreed to a list of data sources we suggested early in the project.

We prepared our pay plan recommendations for the Administration and Finance Committee's consideration on the assumption the two tentative policy decisions would be the basis for the creating a new plan.

The list of public sector organizations with data drawn from our proprietary database and quality supplemental sources in our data library were:

<u>Public Employer Data Sources</u>

City of Appleton
City of Eau Claire
City of Fond du Lac
City of Franklin
City of Greenfield
City of Janesville
City of Kenosha
City of La Crosse
City of Milwaukee
City of Muskego
City of New Berlin
City of Oak Creek
City of Oshkosh
City of Racine
City of Sheboygan
City of South Milwaukee
City of Sun Prairie
City of Waukesha
City of Wausau
City of Wauwatosa
City of West Bend
Kenosha County
Racine County
Village of West Milwaukee
Walworth County
Washington County
Waukesha County

<u>Additional Data Sources</u>

- Towers Watson Surveys (Southeastern Wisconsin and Great Lakes Region)
- Comp Data Surveys (Milwaukee area and Wisconsin)
- U.S. DOL, Bureau of Labor Statistics (Milwaukee, Waukesha, West Allis)

In developing our market dataset, we identified a reasonable number of sound "benchmark" positions for market matching. The objectives in selecting benchmarks are: (1) the job can be matched reliably to jobs in the target market, and (2) the set of benchmarks covers a

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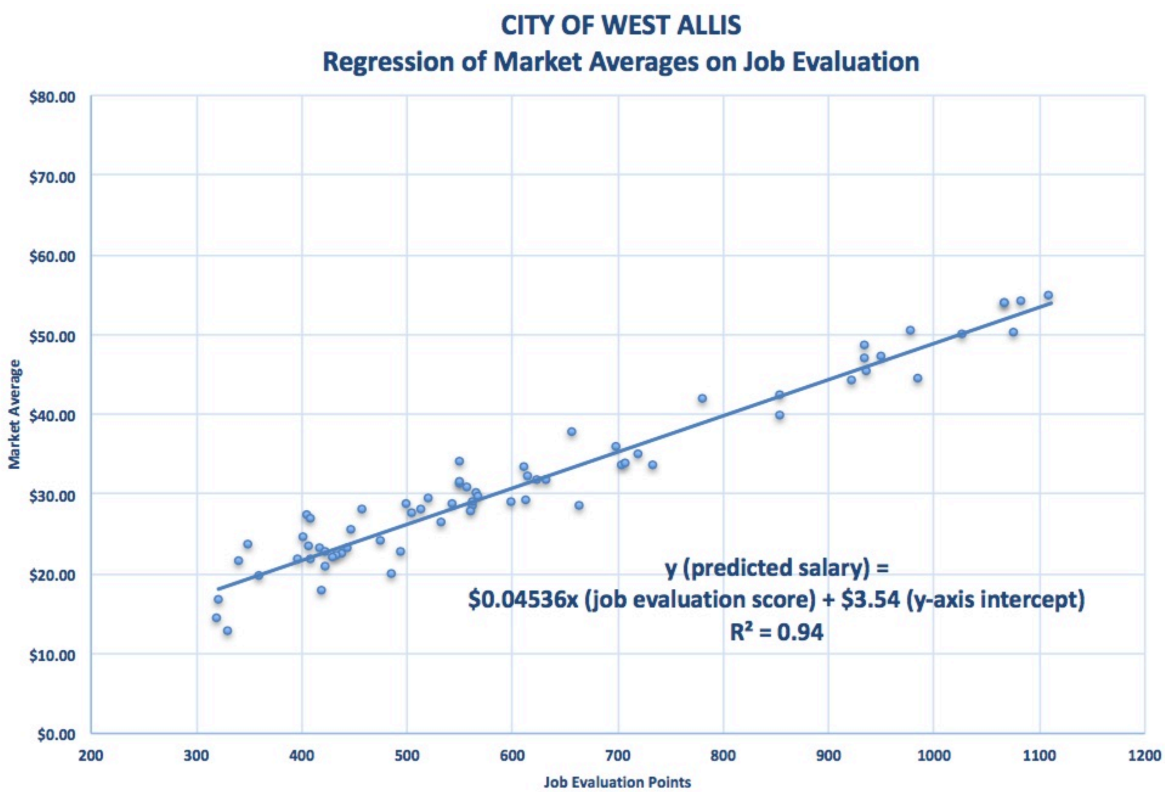
substantial number of covered classifications, a significant portion of the workforce, and is representative of the hierarchy of classifications in the organization.

The data analysis resulted in CDC developing 69 benchmark positions covering 42% of the recommended job classifications and over two-thirds of the covered employees. This is an excellent market sample for developing a competitive pay plan.

A summary listing the benchmark positions, the number of employees covered, current range maximum rates, job evaluation score from the CDC Point Factor Job Evaluation System, and CDC's estimates of the market averages paid to the benchmark positions is provided in Appendix A.1. The summary table also includes a column titled "Mkt Index" (Market Index) that is the relationship between the benchmark's current range maximum and the market measurement. Overall the Market Index for the benchmarks is 107%.

Each of the 69 benchmark positions is represented on the graph below as a data point based on the benchmark position's job evaluation score and the market estimate for the benchmark. The expectation is market pay will vary by the overall internal value of the job as measured by the job evaluation system, and clearly it does in this graph.



The line drawn through the data points is a "line of best fit", or trend line, based on linear regression. That line has a formula {y (predicted pay) = $0.4356x (job evaluation score) + $3.54 (y-axis intercept)}. The correlation coefficient for the data is 0.94, and a compensation professional's interpretation of that statistic is that our job evaluation system explains 94% of the variance in the market data. The significance is we have a good model for building a single, uniform pay plan.

Conceptually, we could have developed a pay range for each of the 165 job classifications using the regression formula by substituting the point total for each classification into the formula to produce a range objective. However, this is impractical as we would be moving ranges up and down as the duties of the positions increased or decreased. Instead, CDC developed point intervals for each grade and assigned all job classifications scoring in that interval into the appropriate grade.

The resulting pay matrices are shown below and on the following page. The rates on the two are the same – one plan is salaried for staff exempt from the provisions of the Fair Labor Standards Act (FLSA) and the second is hourly bases for FLSA non-exempts.

RECOMMENDED STRUCTURE - SALARIED

Grade	JE Points Fr	JE Points To	Minimum 87.5% Step 1	90.0% Step 2	92.5% Step 3	95.0% Step 4	97.5% Step 5	Control Pt. 100.0% Step 6	High Performance Zone	120.0% Maximum
R	1050	1199	$99,278	$102,128	$104,957	$107,786	$110,635	$113,464	➤	$136,157
Q	1000	1049	$91,042	$93,642	$96,242	$98,842	$101,442	$104,042	➤	$124,842
P	950	999	$86,902	$89,398	$91,874	$94,349	$96,845	$99,320	➤	$119,184
O	900	949	$82,784	$85,134	$87,506	$89,877	$92,227	$94,598	➤	$113,526
N	850	899	$78,645	$80,891	$83,138	$85,384	$87,630	$89,877	➤	$107,848
M	800	849	$74,526	$76,669	$78,790	$80,912	$83,054	$85,176	➤	$102,211
L	750	799	$70,408	$72,405	$74,422	$76,440	$78,437	$80,454	➤	$96,554
K	700	749	$66,269	$68,162	$70,054	$71,947	$73,840	$75,733	➤	$90,875
J	650	699	$62,130	$63,918	$65,686	$67,454	$69,243	$71,011	➤	$85,218
I	600	649	$58,011	$59,654	$61,318	$62,982	$64,626	$66,290	➤	$79,539
H	550	599	$53,893	$55,432	$56,971	$58,510	$60,050	$61,589	➤	$73,902
G	500	549	$49,754	$51,189	$52,603	$54,018	$55,453	$56,867	➤	$68,245

RECOMMENDED STRUCTURE - HOURLY

Grade	JE Points Fr	JE Points To	87.5% Minimum	90.0% Step 2	92.5% Step 3	95.0% Step 4	97.5% Step 5	Control Pt. 100.0% Step 6	High Performance Zone	120.0% Maximum
I	600	649	$27.89	$28.68	$29.48	$30.28	$31.07	$31.87	➤	$38.24
H	550	599	$25.91	$26.65	$27.39	$28.13	$28.87	$29.61	➤	$35.53
G	500	549	$23.92	$24.61	$25.29	$25.97	$26.66	$27.34	➤	$32.81
F	450	499	$21.94	$22.56	$23.19	$23.82	$24.44	$25.07	➤	$30.08
E	400	449	$19.95	$20.52	$21.09	$21.66	$22.23	$22.80	➤	$27.36
D	350	399	$17.96	$18.48	$18.99	$19.50	$20.02	$20.53	➤	$24.64
C	325	349	$16.63	$17.11	$17.58	$18.06	$18.53	$19.01	➤	$22.81
B	300	324	$15.40	$15.84	$16.28	$16.72	$17.16	$17.60	➤	$21.12
A	275	299	$14.26	$14.67	$15.08	$15.49	$15.89	$16.30	➤	$19.56

The City currently has over 100 pay grades for its current 250 job classifications. In adopting the recommended pay plan, the City would have 165 job classifications assigned to 17 pay grades. The result is a simpler, uniform pay plan balancing internal equity and market competitiveness. The plan will be much easier to administer and maintain.

The City currently uses two pay plans for each pay grade – one for employees who do not live in the City and a second set of schedules that are 2% greater for employees who are City residents. The schedules proposed in this report are for non-residents with the understanding the City will continue to pay the 2% residency incentive as a pay add-on, instead of using two schedules.

It is important that to explain how we used the pay line formula to develop this plan. Using Grade I as an example:

Grade I has a 50-point interval from 600 to 649 points. The midpoint of that interval is 624.5 points, so when we substitute that value into the regression equation, the result follows:

- Y (predicted pay) = $0.04536 (per job evaluation point) + $3.54 (y-axis intercept)
- Y (range Control Point) = {$0.04536 times 624.5 JE points} + $3.54 = $31.87

Assuming the City adopts the Committee's tentative policy decision to target market average as the plan policy, we have recommended setting $31.87 as the Grade I's "Control Point", then built a pay range around that value with the range Minimum rate set at 87.5% of the Control Point and the range Maximum at 120%. We repeated this range determination process for each pay grade in the new plan and assigned job classifications to the pay grades based on job evaluation scores. The pay grade order lists are attached as Appendix A.2. The City has allocation lists for individual staff.

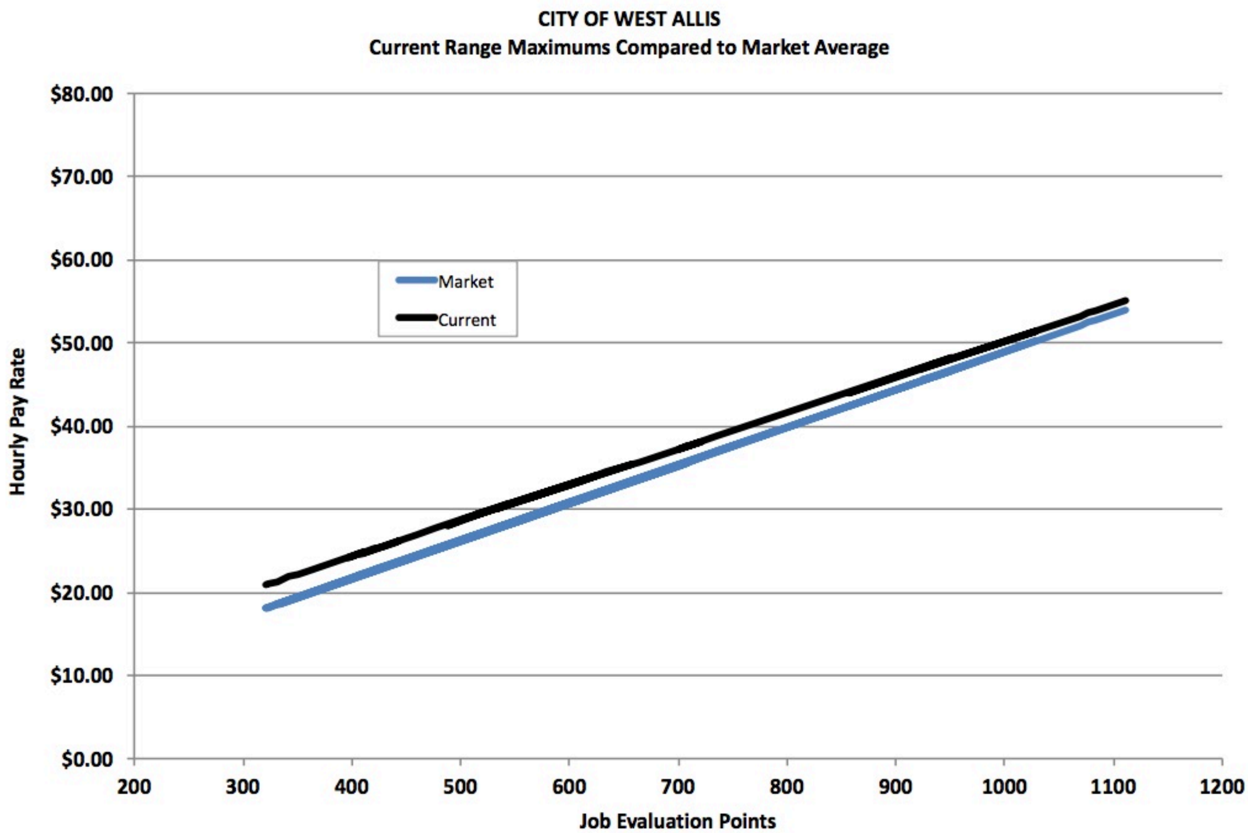
There are two major features to this range design that differ from the City's present policy. Both features are intended to support the City's policy of stressing performance-based pay.

First, we recommend establishing progression to the Control Point of each range. The expectation is a new employee would be hired at the Minimum of the range, unless the successful applicant has unique qualifications the City feels are in its best interest to secure by paying above the Minimum. The employee would then progress up the scale by one step each year to the Control Point, provided evaluated performance meets all expectations.

Second, the range Maximum is set at 120% of the market target to provide room to pay employees for measured performance that substantially exceeds expectations. We will say more about the administration of this section of the range below in our discussion of performance measurement.

This structure would be a substantial change from the City's current pay ranges that set range minimums at 80% of the maximum. Currently, over 90% of staff are "maxed" out, and based on our market analysis, the current type of structure would not be consistent with a performance-based plan targeted at average market pay.

The graph below has two pay lines. The lower line is identical to the market policy line shown earlier. The slightly higher line is the regression line drawn through current range maximums and job evaluation scores for those benchmark jobs.



The significance here is the City is competing well overall with market averages compared to current range maximums. The problem is it means the City's current pay ranges are only competing with the lower half of the labor market. This will not satisfy the City's desire to have a competitive pay plan that supports pay-for-performance – we need to be able to compensate higher levels of performance with above-average compensation if we were to be reasonably competitive with the higher levels of the labor market.

To implement this new pay plan, we recommend the following decision rules:

- Employees currently paid below their range Minimums would be increased to the Minimums (the City indicates this would affect 17 employees).
- Employees currently paid between the range Minimum and the Control Point would be increased to the step that provides an increase, and then progress across the range (62 employees).
- Employees paid between the Control Point and the range Maximum – no change due to implementation (213 employees).
- Employees currently paid more than the range Maximum would have their rates frozen (red-circled) until the range Maximum exceeds the rate or they are promoted or reclassified to a higher grade where that is the case (28 employees).

The City Administrator will provide a fiscal note on the cost of this method of implementation.

2. Maintain the system using the recommended review processes (Appendix B).

As many have learned, creating a sound pay plan only fixes half of the problem – to function correctly, it must be maintained and kept current. What are the most effective and efficient ways to do this successfully?

To answer this appropriately, we need to understand the significant challenges and consequent workload demands facing the public sector human resource departments. Specifically, the greatest challenge facing the City of West Allis Human Resource Department is responding to the reality that *53% of the City of West Allis employees covered by this plan are over age 50.* And with an exceptional pension system and the City's post-retirement health benefit plan, employees are likely to retire sooner than not. The pressure on the City to recruit and train new staff will be extraordinary.

Making this even more challenging, this aging workforce demographic is a typical Wisconsin public sector workforce phenomenon. As a result, the public sector across the state will be turning over more than half of its workforce very quickly and the entire sector will be competing for the same talent at the same time. This massive turnover and staffing requirement, both internally and externally, will result in upward wage pressure and the need to commit additional resources to employee development programs.

From a competitive standpoint, it is imperative the City keep the pay plan current by doing two things:

- *Periodically adjust the structure, typically once a year, for overall changes in the market*
- *Market test the pay plan every three years by re-surveying benchmark jobs*
- *Address ongoing Compression and Inversion issues for Police and Fire Department Command Officers by adopting a Bi-weekly Compression Pay Factor which is a percentage of their current pay. Calculation should be based on current represented staffs' compensation and the need to ensure a reasonable pay differential. This should be updated as new contracts are adopted.*

In addition, to meet this recruitment and training challenge, job documentation and standards must be accurate. We noted above the inconsistencies and inaccuracies in present hiring standards in job documentation. The consequence of failing to set valid standards have both legal and practical consequences. From a legal standpoint, federal law requires establishing selection standards that are appropriate for the job being performed. From a practical standpoint, it is not possible to manage an enterprise effectively without them.

- *Assign the Human Resource responsibility for creating and maintaining consistent hiring standards.*

It has been our experience that public sector organizations struggle to maintain internal equity in their job classification systems if they try to do manage the system themselves. It is just too time-consuming and political. Therefore, after clients adopt the pay plans CDC helped them develop, clients rely on us to help them manage the job classification process. This works well because we are experts in applying our evaluation tools, we are objective, we understand the jobs we are reviewing and the nuances of each organization, and we provide timely responses.

- *Adopt a classification review process that is clear and timely.*

We recommend having a fixed period each year for classification reviews, typically in the middle of the fiscal year. When an employee or manager submits a position for classification evaluation, the human resource department reviews the documentation for accuracy and determines whether it appears the duties have changed significantly to warrant a review. The documentation then comes to CDC for evaluation and recommendation, and the client makes the final decision on any changes in classification. Turnaround time for CDC's evaluation is no longer than 30 days. Typically, clients implement resulting changes at the beginning of the next fiscal year so the necessary funds can be included in the budget process. Exceptions to this timeframe can be made for jobs that are added or change due a reorganization during the year. This process provides both fiscal control and flexibility.

3. **Authorize and implement the classification appeal process (Appendix C).**

Even though two CDC evaluators objectively applied the Point Factor System a minimum of three times to each JDQ prepared by the employee and reviewed by a manager, something could have been missed or misunderstood, or the job has changed since the JDQ was prepared. CDC believes it is appropriate to offer an appeal process following adoption of the new plan to give any employee an opportunity to state why the new job classification is in error.

We recommend that matters subject to the appeal process be limited to errors of classification and exclude any issues of pay plan design or implementation method as those are matters of policy reserved to the City Council.

CDC's role in the appeal process would be to analyze, evaluate and recommend with the City having final authority over the decision.

Note: The professional service agreement between the City and CDC anticipates an appeal process and states the parties will agree upon a professional fee for consultant review appropriate for the appeal process the City selects. We have proposed an appeal policy in Appendix C for the City to consider. To control this expense, we strongly urge the City Administrator and Human Resources to submit for our review only those appeals which seem warranted.

4. **Substantially limit overtime eligibility for managers, supervisors, and professionals – those staff exempt from provisions of the Fair Labor Standards Act providing exceptions for emergency work.**

The City tasked CDC with recommending appropriate Fair Labor Standards overtime eligibility designations for each classification, based on the provided job documentation.

The federal Fair Labor Standards Act has various provisions related to compensation, including provisions for who must be paid overtime at 1 ½ times the base hourly rate for all hours worked exceeding 40 in a week. Employees covered by the overtime provisions of FLSA are termed "non-exempt"; employees not covered by these provisions are "exempt".

Currently, the City has overtime pay provisions that exceed federal requirements. Specifically, the City pays overtime:

- For hours in pay status beyond 8 hours in a day.
- For hours in pay status beyond 40 hours in a week.

- To both FLSA non-exempt employees AND professionals, supervisors, and managers who should be classified as exempt

To be FLSA exempt, an employee must meet several criteria. First, the employee must be paid at least $455/wk ($23,660/yr). This standard was raised by the U.S. Department of Labor to $913/wk ($47,476/yr) to be effective in December 2016; however, a federal judge stopped implementation with a restraining order. The new administration is deciding whether to pursue litigation supporting the change in policy. As a result, in recommending classification status for the City, we are using the lower wage amount.

In addition to the salary test, there are four relevant "duties" tests to apply in determining status. An employee is exempt from the overtime rules if the employee is determined to meet the Executive, Administrative, or Professional exemption test; and there is an additional unique test for information technology employees.

CDC recommended FLSA status based on application of these tests to documented responsibilities. To be clear, the City can be more generous in its overtime payment policy than the law requires. The question is: What does the City want to do?

CDC reviewed overtime use/pay data for 2016, and based on our understanding of sound management and compensation policies, we recommend the City consider two substantial changes.

First, we don't think it is good policy to compensate FLSA exempt employees (managers, supervisors, and professionals) for work outside of 8 hours a day or 40 hours per week unless it is a regular and large burden on the employee. Employees at these levels of responsibility are expected frequently to work longer than a normal work day or work week. Furthermore, their job evaluations and grade placements reflect the fact they have substantial responsibility and ability for determining how they accomplish their work.

Therefore, CDC recommends FLSA exempt staff be eligible for compensatory time off at a straight time rate only for hours they are required to work exceeding 48 hours in a week. Furthermore, any accumulated compensatory time off should be used or lost if not taken by the end of the fiscal year.

Is this reasonable? In analyzing the City's overtime payroll records for 2016, we observed that 85% of the compensatory time paid out to FLSA exempt employees in December were for instances of four hours or less, and the overwhelming majority of claims were incidents of thirty minutes, an hour, an hour-and-a-half, etc. Only 6% of the payouts were for incidents of 8 hours or more.

Had this proposed policy been in place in 2016, CDC's estimate, confirmed by the City Finance Department, is the City would have saved over $200,000.

The application of overtime pay requirements for FLSA non-exempt employees requires a different analysis. For FLSA non-exempt staff, overtime pay is not an option – it is required when hours worked exceed 40 in a week. The City could tighten its policy somewhat for this group; however, changes need to be considered carefully. A large number of non-exempt staff perform maintenance or construction related work in the Department of Public Works, often times in response to weather events, emergencies, or construction season, and retaining a policy of forty hours in paid status per week makes good operational sense.

In the case of occasional hours worked outside of a standard workday, paying overtime could be controlled by flexing work schedules within the week. CDC's review of December overtime pay-out for the non-exempt staff indicated almost 80% of overtime occurrences were for four hours or less, so management attention to controlling this cost is the best policy to adopt.

In summary regarding the FLSA question, staff should be classified correctly with adoption of the new pay plan. If any employee feels their classification is incorrect, then individual situations can be reviewed as a classification appeal.

5. **Revise the City's performance review process to include a pay for performance component to appropriately reward employees for innovation and service excellence. Utilize software to manage the process, training supervisors in the process and hold them accountable for adhering to standards.**

The City is committed to a performance-based compensation system. There are four requirements for a well-managed system.

First, employee performance must be measured and the measurements must be accurate. Evaluations must be based on accurate job documentation, performance objectives must be based on the job, and the standards must be reasonable and clearly defined.

Second, evaluators must do an accurate job of measuring and communicating. This is a learned activity. When done well, it requires thorough training in technique, experience, review and re-training. Commitment to doing this well absolutely is necessary.

Third, the organization needs a system to manage the process. Reviews must be done on time, and there must be a quality control process to find and correct areas of weakness or bias.

Fourth, tying compensation to performance requires having meaningful ways to recognize top performers and make certain poor performers are not rewarded.

In our experience, all organizations struggle with performance evaluations. In our firm, we prefer to call the process employee development because it's more forward-looking and easier for supervisors to embrace. People like to develop; they rarely enjoy judging or being judged.

Often we hear the comment, "It isn't worth the effort if the financial rewards aren't substantial."

We disagree. Employee development is important regardless of whether we link individual pay increases to incremental differences in performance. Our observation is the biggest pay changes in a career are for promotions, reclassifications or job changes, and here a clear track record of positive development is the best assurance an employee has that those opportunities will be available.

The City acknowledges it has work to do to fulfill all four requirements of a strong system. Therefore, we are recommending the City:

- Commit to system development and training program in the second quarter of 2017, implement and test the system in the third quarter, evaluate the outcome and focus additional training where it is needed in the fourth quarter.
- Use the system to implement an exceptional performance award program in 2018.

Under this type of system, what about future base salary adjustments for cost-of-living or market changes?

Going forward, our recommendation is any such adjustments are built into the performance-based pay matrix so that “meeting expectations” is roughly equivalent to the change in market conditions dependent upon the City’s financial capacity to do so.

We note, however, 75% of the staff covered by the new pay plan is already paid above their range Control Points. It would seem to us there is some time to work through all of the necessary performance evaluation issues before this becomes a significant competitive concern.

6. **Appoint a special committee, including outside experts, to develop recommendations in 2017 for modifying the City’s retiree health insurance policy so it is affordable and consistent with the strategic plan for the City. Recommendations may include separately rating the health insurance plans for current and retired employees and gradually shift premium sharing for current employees to a more standard premium ratio.**

The City requested a top-level view of its benefits programs and CDC’s recommendations for areas where modifications seem warranted. Employee benefits are in four major categories by significance of expense:

- Mandatory benefits (Social Security, Medicare, unemployment and workers compensation)
- Pension (Wisconsin Retirement System)
- Paid time off
- Medical coverage

The first two categories, mandatory benefits and pension, are governed by law in terms of benefit levels and employer and employee costs. They are outside the employer’s control.

The last two, paid time off and medical coverage are within the employer’s control, and on these two categories, we have the following four significant recommendations:

- Adopt a separate health insurance rate structure for current and retired employees.
- Modify the sharing of health insurance premiums for current employees.
- Deal with the problem of unfunded retiree health insurance.
- Replace the various separate paid time off benefits plans with a single paid-time off (PTO) plan coordinated with disability insurance.

We will discuss the first two recommendations here and the remaining two in the next sections.

Currently, the City has more retirees covered by its health plans than it has covered employees. Although plan expenses for the retired employees are higher than expenses for current employees, and the city has taken steps to separate actives and retirees in the past, we would recommend that the City continue along this path to reduce overall costs. Further changes would save the City additional premium expense.

How do insurance plan costs compare to the market? The best single source for comparative data is the annual survey by the Kaiser Family Foundation. Results are published each September. The most recent comparisons are summarized in the table below.

Data Comparison: City of West Allis & Kaiser Family Foundation Data

Plan Type	Family Premium	Employer % Contribution	Employer Annual Cost	Employee Annual Cost
City of West Allis - PPO Plan	**$22,236**	**90.00%**	**$20,012**	**$2,224**
KFF Data for PPO Plans:				
National Average (Plan Type)	$19,008	70.0%	$13,308	$5,700
State/Local Government	$17,964	73.0%	$13,116	$4,848
Midwest	$19,704	72.0%	$14,184	$5,520

Plan Type	Single Premium	Employer % Contribution	Employer Annual Cost	Employee Annual Cost
City of West Allis - PPO Plan	**$7,752**	**90.00%**	**$6,977**	**$775**
KFF Data for PPO Plans:				
National Average (Plan Type)	$6,804	81.0%	$5,508	$1,296
State/Local Government	$7,272	87.0%	$6,324	$948
Midwest	$6,840	78.0%	$5,340	$1,500

Sources:
* Kaiser Family Foundation 2016 Employer Health Benefits Survey (www.kff.org)

We have two observations from the data. First, the City's health plan premiums for its majority plan are competitive with the three market data comparisons, particularly if we adjusted the City premium downward 10% if there were a separate retiree plan. Second, the City's 90% share of premium is substantially higher than the marketplace; an increased contribution would be more competitive.

Therefore, the second recommended change discussed in this section is to shift the premium split gradually for current employees covered by the insurance plan. A reasonable way to do this would be to gradually work to a more standard ratio and review plan design as a method to reduce costs.

Last year, the Milwaukee paper ran the following article regarding public employee retiree health benefits.

A WATCHDOG REPORT

Wisconsin faces billions in retiree obligations

Local units of government in Wisconsin face billions in retiree debts, but state still fares better than neighbors like Illinois

By Jason Stein (mailto:jstein@journalsentinel.com) and Haley Henschel (mailto:haley.henschel@jrn.com) of the Milwaukee Journal Sentinel

Madison — Over the next generation, Wisconsin's taxpayers and public workers must deal with at least $6.5 billion in unfunded retirement promises made by local governments, with more than $4.7 billion in the state's largest county alone, a Milwaukee Journal Sentinel investigation has found.

Although many of us in the compensation profession have been aware of this ticking time bomb for years and have tried to deal with it responsibly, we believe this was the first time the significance of the problem surfaced publicly. Of course, there is significant history behind the origin of this problem.

In the 1960's, the large private sector unions had secured health insurance coverage for retirees with substantial portions, if not all, of the premium paid by the employers, large employers in Wisconsin included. In the 1970's, public employee unions, specifically police and fire bargaining units, proposed these benefits be extended to them, as well, and pointed to the larger area employers as having set the community standard.

For example, Beloit faced this demand from the FireFighter local in 1973 and used the new interest arbitration law to add it to their collective bargaining agreement. At the time, the United Auto Workers enjoyed the benefit at plants in Janesville and Belvidere, the Steelworkers had negotiated the benefit nationally and locally, etc. And in 1973, the family plan insurance premium was $600 a year, and the then carrier stated the premium was unlikely to increase because coverage was first dollar so everyone would go to the doctor early and thus avoid major future costs.

Over the next 40 years of collective bargaining and interest arbitration, the retiree health benefit extended to many public employers across Wisconsin, including the City of West Allis. What also happened is the manufacturing sector declined, plants closed and moved production elsewhere, and the tax base eroded. And, while these two sectors were moving in opposite directions, public employers did not fund the retiree health benefit.

Today, the City's unfunded liability for its retiree health plan benefit is almost $160 million. The $160 million figure comes from an actuary the City hires to calculate the health insurance liability according to an Accounting Standard (GASB #45 and more recently GASB #75). The City through its health insurance consultants annually establishes premium rates for health insurance for active employees and retirees based on an analysis of claims activity, etc. Those premiums are established to ensure the City's self-insured Health Insurance Fund can cover its costs each year. The City funds the employer portion of health insurance premiums for active employees and retirees on an annual basis in the City budget every year. That includes approximately $3 million in the annual budget for retiree premiums and approximately $8 million in the annual budget for employee premiums. The significance for this compensation plan project is that unless this benefits and funding problems are addressed, we are advised by the Administration it will be very difficult to fund the current level of employees and even more difficult to provide pay increases.

How can the City reduce this financial burden? There are a number of ways; almost all of them difficult.

For retired employees receiving the benefits, options probably are limited to rating the retiree plan separately, which would reduce the City's premium cost. The implications of changes for existing retires are the most challenging legally.

For current employees, the City probably has complete flexibility, up to and including eliminating the benefit. We are not recommending this; however, it undoubtedly has to be on the table if discussion of more moderate changes are going to be meaningful. In general, we expect the level of benefit will have to be reduced to an amount the City can afford reasonably. The present benefit is not sustainable.

For future employees, the benefit should not exist.

We recognize how uncomfortable this discussion is likely to be; however, it simply must occur and be successful. In our briefing of City staff, we tried to be very clear on the following points:

- CDC is NOT recommending wholesale termination of the benefits. Change? Yes. Elimination? No.
- It would be unfair to blame the current employees for this problem. This problem has existed and continued to grow for many years.
- However, failure to mitigate the financial burden will be everyone's problem. As we stated to the employees, a promise of a retiree health benefit does not have any value if they are not employed to retire and receive it.

CDC's recommendation is the Mayor and the City Council appoint a study committee of Council members, staff, and outside experts to explore alternatives in the second quarter of the year so changes can be discussed and implemented for the 2018 budget.

7. Examine the options and develop a Paid Time Off benefit plan to replace the City's various time off plans in 2018 (sick leave, holidays, vacation, personal leave, etc.) which moves toward a balance between fiscal responsibility and employee recruitment and retention.

Traditionally, most employers provided a variety of unlinked time off benefits, including sick leave, vacation, holidays, personal days off, funeral leave, etc. More recently, employers have combined these unlinked plans into a program call Paid Time Off, or PTO, giving employees more options on how they use their leave balances and reducing the time-keeping requirements for human resources and payroll.

The City of West Allis has extraordinary time off benefits in its vacation plan and one of the most lucrative sick leave plans we have seen in four decades of consulting. Our hypothesis is the hourly cost of time worked, or the productive hourly rate, in the City would be extremely high.

In this project, we have not pressed for the calculation because our recommendations on overtime and the health plan benefits are so comprehensive and enough for this round of study. However, we cannot leave this unaddressed.

- CDC proposes the City proceed with a separate study of options for converting to a PTO program in 2018.

The City should anticipate that any consolidation to a PTO program will need to take into consideration the time off benefit levels of current employees. This likely will require a different accrual rate for the staff with longer terms of service to accommodate their higher leave balances. The objective is to produce more productive time going forward.

Summary

This report discusses CDC's recommendations for a simple pay plan with broader ranges to support a pay-for-performance policy and refinements to pay administration, training, and benefits changes to make the system affordable. In offering these recommendations, we are mindful of the City's very challenging fiscal situation, and we have attempted to bring this together in a coherent whole. We understand the mountain that must be climbed, and our firm will be available to assist wherever we can.