

MINUTES OF THE SPECIAL WORK SESSION OF THE CITY COUNCIL OF THE CITY OF COTTONWOOD, ARIZONA, HELD OCTOBER 30, 2012, AT 6:00 P.M. AT THE CITY COUNCIL CHAMBERS BUILDING, 826 NORTH MAIN STREET, COTTONWOOD, ARIZONA.

CALL TO ORDER AND ROLL CALL

Mayor Joens called the work session to order at 6:00 p.m.

COUNCIL MEMBERS PRESENT

Diane Joens, Mayor
Karen Pfeifer, Vice Mayor
Jesse Dowling, Council Member
Ruben Jauregui, Council Member
Tim Elinski, Council Member
Linda Norman, Council Member
Terence Pratt, Council Member

STAFF MEMBERS PRESENT

Doug Bartosh, City Manager
Steve Horton, City Attorney
Marianne Jiménez, City Clerk
Rudy Rodriguez, Administrative Services General Manager
Iris Dobler, Human Resources Manager

ITEMS FOR DISCUSSION, CONSIDERATION, AND POSSIBLE DIRECTION TO STAFF:

PRESENTATION AND REVIEW OF THE COMPENSATION STUDY CONDUCTED BY PUBLIC SECTOR PERSONNEL CONSULTANTS

Mr. Bartosh stated one of the council's strategic initiatives for the last four years was to do a compensation study for our employees to ensure they were fairly compensated for the kind of work that they perform. That had been delayed and delayed due to the recession and after a four year period we finally feel that we are pulling out of the recession. He thought it was also important to recognize that we've done a lot of cost cutting measures in the city and cut down on a number of positions we have. Consequently, that has put us in a position to be able to look at compensation and be able to follow through on any recommendations that are made related to compensation. The first of this budget year we had money set aside to bring in a consultant to ensure that we got a knowledgeable, fair, equitable study to ensure it is defensible to city council and the public as well. We put out a request for proposals and the firm selected was Public Sector Personnel Consultants who had worked with the city before. The other important thing to know is that the last time the city did this was 1999, which was 13 years ago. Generally, you want to go with 3-5 years at the most before you do these kinds of studies just to make sure we are competitive in the market. He

introduced Kay Tilzer from Public Sector Personnel Consultants who would explain the process to the council.

Kay Tilzer reviewed the study and the process they used in identifying the market model and their findings. The project scope included a review and analysis of the city's current classification structure. They looked at the classifications that exist, the current placement and internal equity, the labor market, and assessed the current salary administration policies and practices. They wanted to make sure that the alignment of those jobs internally were balanced so that jobs of greater complexity were paid higher than jobs of lower complexity, and make sure the external market and the salary plan at the city were appropriate to be competitive in the market place. They looked at the 108 job titles and job descriptions and recommended that some of those be consolidated. It appeared there were truly about 98 job types and levels within the city.

A brief discussion ensued regarding the Fair Labor Standards Act (FLSA) and the criteria for determining how a position was determined to be exempt or non-exempt. Ms. Tilzer indicated that there were some exempt positions that were recommended be a non-exempt job class because the information in the job description did not clearly support they would be exempt. Exempt employees did not have to be paid time and a half for hours over 40.

Ms. Tilzer then reviewed the occupational job families, groups, current job titles and recommended modification of titles.

Mayor Joens stated at this time she could not support changing the Natural Resources Director or the Economic Development Director's titles and hoped that the council would support that. They were changing them to administrators and managers. They work in Phoenix all the time. A title is very important and she didn't think coordinator is descriptive of the responsibilities for Natural Resources Director.

Ms. Tilzer reviewed a summary of the position transactions. There were 68 job titles that were not changed, there was a title modification to 28, there were 10 that were merged with another job class, and 2 new job classes created. The next step was determining who they wanted to compare salaries to and what market they were going to look at. The basis for identifying the market were where do you recruit employees from and where do you have employees that leave and go to; the employer groups. Within the city there were a number of different types of job they compete for. Competitors may be different by job classification such as executive and management level where you might compete state-wide, municipal specific or non-municipal specific where you may only recruit in the immediate area such as administrative or accounting positions. It was the occupations they compared, not the employee or the employer. Comparator employers were recommended based on the city's relevant labor market for the following distinct occupational groups: executive/senior management positions; local government specific occupations; and non-government specific occupations. When they looked at the market model there were employers that represented state-wide municipalities that were under 70,000. These were size sensitive jobs when they looked at comparing some of the manager level jobs at the city, and the scope and

complexity of the job was going to be very different than the City of Phoenix. These were typically the manager and executive level classes that were considered size sensitive. The local government specific occupations examples were public works, police and fire, but those were probably not size sensitive.

Ms. Tilzer then reviewed the comparator employers that were used. Salary range data was extracted from the individual pay plans of comparative employers. They used the midpoint method to compare the city's salary range mid-point to the prevailing rates. There were 50 jobs classes they surveyed that were more than 5 percent behind the market; 14 job classes were within the plus or minus 5 percent and 10 were above. The recommended salary structure was 50 ranges now. They were 5 percent apart between the mid-point and 75 percent wide, which gave the city plenty of room to place the experienced, tenured, and new employees within there and not have a compression between salaries that currently was creating some problems. Additionally, they identified it would be based on a quartile methodology so they could target how employees will move through this range and where you were going to place a new hire. This was aimed at trying to acknowledge the skill level needed by the city and giving the flexibility in attracting the right kind of candidate.

Council Member Elinski asked if other cities or employers set up the ranges and the quartiles and if it was pretty common.

Ms. Tilzer replied yes, there are three typical types of plans; this is an open range plan meaning there are not steps in there. A step plan contained very specific salaries within each range which did not give a lot of flexibility. Open range means you have a minimum and a maximum and you can pay any salary amount between the minimum and maximum based upon budget, performance, and a number of factors.

Ms. Tilzer continued and stated the next step was taking the market data and each of the job classes and find the salary range whose mid-point most closely matches the market mid-point and assign each job class to a salary range. Once they've got the initial recommendation for the range they want to make sure that there is a meaningful separation between similar job classes so more complex jobs get paid more money than lower complexity jobs. They identified any salaries that fell below the minimum. If there was somebody who fell below the minimum they got an increase, but somebody else in that job class that had been with the city 5 or 10 and was not below the minimum did not get an increase. They wanted to try and create some separation between employees in the same job class with different years of service to make sure there was separation between new employees and the older employees. They called these in-range adjustments. These would be one-time only adjustments that would be done each time you do a market adjustment. They would do it now and if the city did another salary survey next year or the following year it would be something you would want to make sure there was appropriate separation as well. There would be no adjustment if the employee was at or above the target quartile. If you already have employees who have been here a long time and they have a salary that fell within this target quartile they would not get an increase. The city values long-term service to the city, so in order to look at those employees who had been with the city a long time, they

looked at a longevity structure which was a small amount of an increase for each of the employees based upon how long they had been with the city. They were looking at employment with the city, not just position, based upon the years of service with the city and then as a percentage of the salary range mid-point, which gives a more manageable way of giving salary increases without having those with really high salaries get the higher increases. Everybody gets a percentage based on that same base number.

Council Member Elinski questioned what the difference was between the in-range adjustment and the longevity placement.

Ms. Tilzer replied one is based upon the position. If you have a person who started as a receptionist and is now the accountant, the in-range adjustment would only acknowledge the service as an accountant.

Council Member Dowling asked if you would end up with a position where the adjustment from longevity placement would put somebody in a different quartile.

Ms. Tilzer replied, yes, it could. These were small enough percentages that it was not going to push them too far in.

Ms. Tilzer then reviewed the cost to implement the salary compensation plan for 184 employees. There were 4 employees below the minimum, 146 that were between the minimum and midpoint (which was 80 percent,) and 1 employee who was above the maximum who would not be entitled to any additional increases. That one employee would stay where they were at until there was another salary survey done and they fall below the new market maximum. The total implementation cost for all of the strategies would be about \$424,000. The company's recommendations overall would be for the city to adopt a prevailing rate strategy and a permanent prevailing rate-related policy, meaning the city is going to price its jobs relative to the market. Currently, a prevailing rate practice would be 100 percent of the midpoint. They recommended utilizing the fiscal year 2013 permanent salary range table and salary range assignments under table 4 and 5 of the report. This would bring all employees below minimum up to the minimum of the new range. They also recommended periodically completing this process and they would leave behind the tools to conduct an updated study. The prevailing rate policy they recommended is "at the prevailing rates" is defined as plus or minus 5 percent of the market and competing at 100 percent of those prevailing rates if the city was fiscally able and responsible to do so.

Council Member Dowling asked if the salaries they were looking at in this package would include the benefit package when they look at that as a number.

Ms. Tilzer replied those were the base salaries and were not included in her tables. They did do a survey to see how the city stacks up against other benefits, but not included in those numbers.

Council Member Dowling stated historically municipal or city jobs have been a little lower on the pay scale but you usually make up for that with the benefit adjustment package factor.

Council Member Elinski stated obviously the data they had gotten was fresh and considered the market around us. Everybody else is struggling as well. Eighty percent of our employees were below the midpoint than the other municipalities around that they surveyed.

Ms. Tilzer stated they were below the midpoint of the recommended salary range. She guessed you could extrapolate that out and say they were below the market midpoint.

Mr. Bartosh stated obviously they noticed all the benchmark cities were rural communities. While we do lose people to the Phoenix metropolitan area, it's not fiscally realistic to think we can pay as much as they pay down in the valley, which is why they didn't use any of those as a comparison.

Mr. Rodriguez then reviewed the city's merit program which was referred to as the compa-ratio program as it existed right now, which staff suggested removing. He explained how the new merit plan would work. Salaries would be capped once they reached the maximum of the range. Anyone who was capped would also be subject to longevity. Once you hit that then you are subject to two things: one is increases in longevity based on their years of service and cost of living increase, which we haven't done too often. Every year we look at what the social security administration (SSA) does and in the past we used only 60 percent of it for a cost of living increase. What they were recommending from this coming July 1 on is using the entire increase. If not, we were actually falling back. Anytime we do a cost of living it would be a budgetary issue beginning July 1 of the following year even though the SSA increases are posted earlier in the year.

Mayor Joens questioned if we would have longevity pay now.

Mr. Rodriguez replied we looked at the program we had five years ago in 2007 (that was never implemented) and revamped it and came up with a new longevity plan in the future to be implemented July 1, 2013, that would be brought back to the council. It would be part of the city's annual budget process along with the cost of living adjustment. If we don't do this we end up falling behind. He then explained the salary range changes (quartiles) which all employees would begin at the second quartile and work their way up. A compensation study had been set aside for many years. One of the things driving this, which they had talked about this over the last few years, was the city wanted to be the leader in the Verde Valley. We wanted to be the employer of choice and attract and retain good talent. We also wanted to stop being the training ground for other communities. So many times we train firefighters and police officers and they end up leaving. Under the general fund they had budget \$600,000 to implement the compensation study, but we were looking at \$424,000 for base salaries and there was still the benefits portion of it that will probably add another \$100,000.

Mr. Rodriguez continued and discussed the future of the compensation plan. They wanted to revamp the longevity policy to be effective July 1, 2013. They talked about changing the name from longevity to something else and figure some way to tie it to performance. Ms. Tilzer had already started reviewing the city's benefits package. One of the things he wanted to point out is the treatment of contract employees being similar to regular employees. It was always a burr when you have employees that can only earn say 5 percent, yet contract employees can get a bigger increase than the 5 percent. He would like the similar rating structures used as the council evaluates them, and capping them based on these recommendations.

Mayor Joens stated with the understanding that it's a contract with the council and the council can do what it wants.

Mr. Rodriguez replied the council can do anything that they wish; they can go well beyond. It was up to them. He was just pointing out that one of the reasons they did this was to make sure that we were compensating contract employees appropriately.

Mr. Rodriguez then discussed the implementation process of the compensation study. Part of the implementation process would be retroactive to July 1, 2012. Regular employees will start at the second quartile. They would like to have the cost of living increases automatic as of July 1, 2013, with the stipulation that we would come to council and withdraw it if there were budgetary constraints. That also goes for the longevity program.

Mayor Joens asked which cities in Arizona have an automatic COLA, and Mr. Rodriguez responded most cities do not.

Mayor Joens stated she did not like that too much, and questioned why we would make that automatic.

Mr. Rodriguez stated this was up to the council. The only reason that we put that in there right now was so we can keep up with the pay structure as it is. Right now we are going to be seeing a lot of cities doing compensation studies that are going to take our data and try to top it.

Mayor Joens asked why we can't decide that every year at our budget.

Mr. Rodriguez stated we can go ahead and do that. If it's automatic, we budget for it and if we can afford it, then we bring it back to council and pull it out.

Council Member Pratt stated so you only have to address it if there is a budgetary issue, which makes sense to him.

Council Member Elinski stated he saw the Mayor's point on that, but it was important that we do try to keep ahead of ourselves because we have a bad habit of slipping behind on a lot of different rate structures we have.

Mr. Rodriguez stated the next steps were if the council was comfortable with it we would present it to the council at our November 6 meeting. If approved, the adjustments would be in the December 7 payroll so we don't have three payrolls back to back.

Council Member Elinski asked when we would be reviewing the benefits and how that affects the compensation study and the implementation.

Mr. Rodriguez stated the benefits are a little bit trickier because it depends on what type of employee they are, such as police department or an ASR employee. We would not know that number until we run the payroll itself and figure out what the difference is. It will be roughly about \$100,000 above what the base amount is going to be. So if it's \$424,000 we can pretty much count on anywhere between \$525,000 to \$540,000, and we should still be under the \$600,000 we allotted in the budget.

Council Member Elinski questioned if we were going to do the same thing with our benefit package in that we try to find the midpoint where every other city is and stick with that. It seems we've always been a little higher with our benefits, or at least that is what he had heard.

Mr. Rodriguez stated where we have an advantages over a lot of other cities is how much we pay for dependent health care. We pay a boat load for dependent health care. That doesn't mean we are going to reduce it or anything else, but they are looking at what other cities have such as a bilingual language compensation, and if they cover dependent coverage and to what extent. That all has to come to the council, who will make the final call on that.

Council Member Elinski stated it seems we have the salary plan budgeted at 100 percent. If we took it down to 95 percent we drop our bottom line, but with our benefit package being better than other municipalities it might level us out again. He didn't want get into a position where we approve this and we realize with the benefit package we are going to have scrape up some more cash to make up the difference.

Mr. Rodriguez stated the \$530,000 mark is about where we would fall out of the \$600,000. We are not adding any more and that would include our retirement, FICA, and everything else we need to pay.

Mr. Bartosh stated he doesn't think we are going to see a whole lot of difference in the basic benefits we provide. Where we'll see the difference is there are incentives that are provided that we don't provide, which if the council chooses, we can add those at any time. In terms of the basic benefits we are probably pretty competitive.

Council Member Pratt stated what will increase is the city's portion of retirement benefits because they are based on the salary. Our increase would be retirement benefits, social security or FICA.

Mr. Bartosh stated that is what Rudy was talking about regarding the additional \$100,000 for additional costs of the benefit increases associated mostly with retirement.

Mayor Joens questioned if you would have to go back with the state for the retirement and put more money it because it was retroactive.

Mr. Rodriguez replied because it was a one-time salary adjustment, that extra portion would be part of the calculation.

Mr. Bartosh stated technically the city's increased costs go up too, but the employees cost for retirement will go up proportionately.

Mr. Horton stated there is a difference between the benefits package and the ERE's that are attached to the base salary.

Mayor Joens stated there are members of the public who will be disgruntled because we are not totally out of our recession yet and they are struggling to pay taxes so that we can pay employees but they are expecting services that they enjoy.

Council Member Elinski asked what projection of our budget is the \$550,000.

Mr. Rodriguez stated it is about 1/16 of our \$80 million budget.

Council Member Dowling stated it would be advantageous to have some more data on this, such as the number of people that have left because of salary.

Mr. Bartosh stated we can put something together that states something like 80 percent of our employees are below market. For the last 8 to 10 years the employees have been working below the market. So the taxpayers have been getting a pretty good deal.

After a brief discussion regarding the city's salary scale and whether or not the best qualified individuals had been recruited for city jobs due to the scale, Mayor Joens stated she was surprised in going through all the positions that are not very highly paid that if you had a family, they would be eligible for welfare. When the council had its goal setting session, one of the things we all agreed on was that taking care of our employees was our highest goals. They are our most valuable resource.

Vice Mayor Pfeifer stated it will also show that it wasn't just lip service that we were concerned about our employees.

Judge LaSota addressed the council and asked about the salaries for the magistrate judges and went over the stats for the court and the salaries of magistrates state-wide. He believes that study shows that the current salary for the magistrate judge is low, and would like an appropriate analysis for the magistrate position.

Mayor Joens stated it is up to council to decide the salary for its contract employees and they do not have to consider the compensation study. It is just a range, but the council can make other choices for the employees they have on contract.

Council Member Elinski stated the council can deem whatever we deem appropriate for our contract employees, but we needed a comprehensive study to deem where it should fall.

After further discussion regarding how the compensation study was conducted, it was noted that consideration of the compensation study would be on the November 6 council agenda.

ADJOURNMENT

Mayor Joens moved to adjourn. The motion was seconded by Council Member Pratt, and carried unanimously. The work session adjourned at 7:44 pm.

Diane Joens, Mayor