REPORT OF THE BOARD OF COMMISSIONERS MANAGEMENT PAY PLAN REVIEW SUBCOMMITTEE

TO THE

KENT COUNTY BOARD OF COMMISSIONERS

September 2016

The mission of Kent County government is to be an effective and efficient steward in delivering quality services for our diverse community. Our priority is to provide mandated services, which may be enhanced and supplemented by additional services to improve the quality of life for all our citizens within the constraints of sound fiscal policy.

Introduction

The Management Pay Plan Review Subcommittee was formed by Finance & Physical Resources Committee Chair Dick VanderMolen in March 2016 to review and recommend any changes in certain elements of the Management Pay Plan (MPP). The Subcommittee consists of Commissioner Diane Jones (Chair), Commissioner David Bulkowski, and Commissioner Harold Voorhees. Staff included County Administrator Daryl Delabbio, Human Resources Director Amy Rollston, and Fiscal Services Director Steve Duarte.

The Management Pay Plan Review Subcommittee was given the following charge:

> *To: review the starting salary point and starting point strategy for MPP new hires and promotions; review strategy for moving MPP employees through the salary range without a pay-for-performance system; review the number of current MPP employees whose salary is not at the midpoint after 5 years of employment and the current strategy to address this; and develop an overall strategy to make the current MPP a workable and successful plan now and going forward.*

The Management Pay Plan Review Subcommittee met four times in March – September 2016.

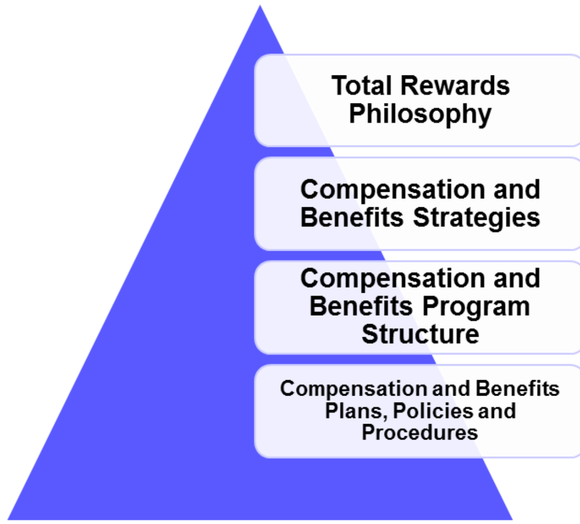
Background

Kent County's Management Pay Plan (MPP) employee grouping consists of approximately 18% of Kent County's workforce (approximately 267 employees) who are not represented by a union. The MPP includes various employee classifications including clerical support, professional, supervisory and management employees. Each MPP position is paid within a pay range. Until 2010, a combination of cost of living increases and performance based pay increases allowed MPP employees to progress through the pay range over time based on their performance in the job. Starting in 2010, the County's economic situation did not allow for funding of sufficient pay increases to facilitate MPP employees' progression through the pay range. As a result, between 2010 and 2015 many MPP employees have remained at or near the lowest point in their pay range even through their performance and competence would warrant that they advance through the pay range. This is in contrast to the 82% of

County employees who are represented by a union. All of these employees have a time based step progression that guarantees that they progress from the bottom to the top of their pay range over 5 ½ years, in addition to receiving annual cost of living increases.

In 2014, a compensation study conducted by the County's Human Resources department included investigation of potential remedies for this problem that would align with the County's Total Rewards Philosophy, which includes the following elements:

- Pay at Market – The County seeks to match the compensation offered by competitors for labor (similar size Counties, the City of Grand Rapids, the State of Michigan, and non-profit and private enterprises).
- Equity – The County seeks to ensure that employees view their compensation as fair.
- Pay for Performance – The County seeks to reward employees for excellence, including performance and culture.
- Work Within Constraints – The County recognizes that progress toward achieving compensation system goals may be tempered by constraints such as the collective bargaining process, limited financial resources, and public perception.



The compensation study sought to understand the current state of the MPP compared to the Total Rewards Philosophy objectives outlines above. The study consisted of the following elements:

- <u>Wage Compression</u>
  Wage compression results when there is not a sufficient pay differential between managers and the employees they supervise. (Kent County flags potential wage compression issues if the pay differential between managers and subordinates is less than eight percent.) The problems resulting from wage compression include low morale among supervisors and difficulty finding employees who are willing to accept promotional opportunities to supervisory roles. Three sources of wage compression were identified, each becoming separate elements of the study:
  - Range Penetration issues, which result when employees are unable to effectively advance through the pay range.
  - Subordinates who are in a pay range that is higher than market.
  - Managers who are in a pay range that is below market.

  Note: The issue of subordinates who are in a pay range that is higher than market will be resolved over time with the implementation of a dual-tier wage system where new hires will be paid at market.

- <u>Market Assessment</u>
  A market study was conducted to determine how County pay ranges compared to the pay offered by our competitors for labor. That process will be replicated every three years.

- <u>Internal Equity Assessment</u>
  An internal equity assessment acts as a complement to the market assessment. Internal equity will be re-evaluated as needed.

- <u>MPP Pay Range/Structure</u>
  This part of the study still needs to be developed and funded. The current structure assumes that the midpoint of the MPP employee's pay range aligns with the average market rate for a fully qualified person in the job.

- <u>Pay for Performance</u>
  This part of the study still needs to be developed and funded.

The Subcommittee also looked at the issue of voluntary turnover, excluding retirement (which means that an employee has voluntarily resigned a position to move to another position or organization). There is no specific "rule of thumb" regarding what an appropriate level of turnover should be or what might be considered healthy. The 2014 average voluntary turnover rate for all industries was 11.0%.[1] During the past five years, the annual voluntary turnover rate (countywide, including management) for Kent County was as follows:

2011 – 2.97%
2012 – 3.41%
2013 – 2.42%
2014 – 3.68%
2015 – 2.64%

Voluntary turnover rate for MPP employees was as follows:

2011 – 2%
2012 – 4%
2013 – 5%
2014 – 5%
2015 – 4%

As can be seen, the County's voluntary turnover is significantly lower than the nationwide average. What can't be seen is the reason for turnover. The Subcommittee will not speculate as to reasons for turnover, but the fact is that the County's voluntary turnover rate is relatively small.

The remainder of this report focuses on the issue of range penetration, due to the close alignment of this issue with the charge of the Board of Commissioners Management Pay Plan Review Subcommittee.

MPP Range Penetration Analysis

Range Penetration consists of providing a mechanism to allow MPP employees to progress from the bottom to the midpoint of the pay range over time. In 2014, the County defined the following range penetration targets based on time in current role:

Time In Role	Percentage Progress Toward Midpoint
0 Years	0%
1 Year	20%
2 Years	40%
3 Years	60%
4 Years	80%
5 years	100%

Note: New hires may be paid up to the midpoint of the pay range, based on their previous employment experience.

[1] Source: http://www.compensationforce.com/2015/03/2014-turnover-rates-by-industry.html

The County implemented supplemental funding increases of $200,000 (in addition to the standard 2% cost of living increase) in 2015 and 2016. These increases were applied to facilitate progression of MPP employees at the bottom of the pay range toward the midpoint based on the range penetration targets identified above. Those employees who were eligible for the increases received an overall pay increase of up to 6.85% in 2015 and up to 6.4% in 2016 (this includes the standard 2% increase received by all MPP employees in these years).

The table below summarizes the progress made remedying existing range penetration issues:

	2014	**2015**	**2016**
Employees below range penetration target	91	77	39
Employees at or above range penetration target	33	31	70
Employees at or above midpoint (market rate)	142	161	158
Total MPP Employees	266	269	267

After two years of supplemental funding, the number of existing MPP employees who are paid below their range penetration target was reduced by 57% from 91 employees to 39 employees. Additional supplemental funding is planned for 2017.

Alternatives Discussed

The Management Pay Plan Review Subcommittee investigated whether it would be feasible to allocate an additional $140,000 in supplemental funding in 2016, in order to bring all 39 employees to their 2016 range penetration target. This additional funding would represent a short-term solution in that it would bring employees to the appropriate level of range penetration for 2016 but would not offer additional funding to allow for continued progression through the pay range in 2017 and beyond. This potential solution was not approved due to the fact that it was not included in the 2016 budget.

Potential options to alleviate long-term range penetration issues were also discussed. One alternative that has been implemented is allocating approximately $200,000 annually to address ongoing range penetration issues. This level of additional funding would facilitate a system that mirrors the time-based step progression that exists for Kent County's union represented employees, and has been included in the 2015 and 2016 County Budgets, and plans are to include it in the 2017 Budget. In addition, the chart below identifies alternatives have been identified for consideration.

Total Rewards Philosophy Goals	Best	Better	Good
Equity The County seeks to ensure that employees view their compensation as fair.	Same pay scale structure as union groups with time based progression through scale as long as performance is satisfactory	Same pay scale structure as union groups with time based progression through scale as long as performance is satisfactory	Same pay scale structure as union groups with time based progression through scale as long as performance is satisfactory
Pay at Market The County seeks to match the compensation offered by competitors for labor.	Top of pay scale aligned with market. Pay at hire based on experience/ qualifications	Top of pay scale aligned with market. Pay at hire based on experience/ qualifications	Top of pay scale aligned with market. Pay at hire based on experience/ qualifications
Pay for Performance The County seeks to reward employees for excellence, including performance and culture.	Bonus program for all County employees - not part of base pay		
Work Within Constraints The County recognizes that progress toward achieving compensation system goals may be tempered by constraints such as the collective bargaining process, limited financial resources, and public perception.	No delay in annual progression through the steps of the pay scale	No delay in annual progression through the steps of the pay scale	The County makes an annual determination regarding whether it can afford to fund the cost to allow employees who are not yet to the top of the pay scale to advance one step. Minimum 5 year wait to progress to top of pay scale.

Recommendation

As noted above, the MPP Review Subcommittee has been charged with 1) reviewing the starting salary point and starting point strategy for MPP new hires and promotions; 2) reviewing the strategy for moving MPP employees through the salary range without a pay-for-performance system; 3) reviewing the number of current MPP employees whose salary is not at the midpoint after 5 years of employment and the current strategy to address this; and developing an overall strategy to make the current MPP a workable and successful plan now and going forward.

It is important for decisions to be made within the context of both the issue or issues, the opportunities provided, and the potential consequences that can be foreseen. While not always possible, there are considerations that the Subcommittee has factored into both its discussions and recommendations. Some considerations have been noted above, and there are two other important considerations that must be addressed. Many considerations were discussed, including the County's financial constraints and availability of resources. There are multiple demands that are placed on the County, and priorities have to be identified. There are a number of challenges that the County will be facing in the short-term. While the economy is improving, there are revenue constraints on property taxes, which represent the single largest revenue source that exists. In a previous memorandum to the Board of Commissioners, County Administrator/ Controller Daryl Delabbio outlined a number of items that will require funding in 2017 and beyond, which are added costs to those in 2016, including an additional $450,000-$500,000 expenditure for the new judgeship and associated personnel.

In addition, we now know that total General Fund revenues for 2017 will be approximately $2.3 million more than 2016, which is good news. We also know that to provide increases agreed to by the collective bargaining agreements (and to include a similar increase for the MPP employees) for 2017 will result in an additional $2.3 million. However, there are other operating costs that have also increased, so in order to maintain the same level of service in 2017 that we have in 2016, we have to cut $1.9 million out of the General Fund operating budget. As is the case with all recommendations and decisions, it is a question of balancing demands, expectations and available resources.

Critical to this discussion is the constraint placed upon local units of government as a result of Proposal A and the capping of increases to the Taxable Value of property. While there is no constraint if taxable value decreases, any increase in Taxable Value for a property is limited to five percent or the rate of inflation, whichever is less. Inflation during the past several years has been less than one-half of one percent, so the General Fund's major source of revenue (property tax) is less than it was in 2008 in actual dollars. Coupled with this is the direction of the Finance & Physical Resources Committee for the Administrator/Controller to prepare a structurally balanced budget. The net result of the Subcommittee's recommendation (below) is based on the considerations noted herein, along with the recognition that efforts have been made over the past two years to provide short-term remedy to this issue.

The MPP Review Subcommittee has done this and is recommending that the County Administrator/ Controller:

1) Make it a high priority to adjust, to the degree possible, the 39 employees who are below the range penetration target and move them as soon as financially able;
2) Focus on the "Good" and "Better" strategies noted above; and
3) Continued monitoring of the MPP program take place on an annual basis.