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REPORT TO COUNCIL

SUBJECT

Amend the Salary Resolution to Revise Merit Increase Provisions, Add a Severance Provision and Amend the Salary Schedule to Adopt New Salary Ranges for Unclassified Department Directors (Pay Plan Category F)

BACKGROUND

Unclassified department directors (Pay Plan Category F) employees are not organized and do not negotiate for any changes to their wages, hours, and/or other terms and conditions of employment. Department directors are at-will employees, appointed by the City Manager in accordance with the City Charter, Article IX - Section 901. Department directors serve as the City Manager's executive team responsible for: managing the operations for the respective departments, driving vision and purpose of their portfolio, working in a strategic manner that delivers results, maintaining the City's culture while building a team, managing the fiscal resources of their department, and upholding the delegated authority from the City Manager.

There are some compensation conditions that when experienced together, with the City's current policy, can have an adverse impact on salary, recruitment, or retention of our executive level staff. Most absent is a formal compensation philosophy to establish compensation for executive level employees that will support strong recruitment and retention of staff in a highly competitive market. Several undesirable issues have been identified over the years in regards to the salary structure of the department directors and, particularly, the absence of conventional compensation practices for executive level employees. For example:

- The current practice of maintaining 6 salary ranges for department directors with no strong business case for such distinction between director service results in market value distortion and pay inequity issues.
 - Note: One exception is the NOVA Director position which is assigned a federal salary limit.
- The 15% salary range for department directors not only limits salary growth, but a portion of the range is also set below market. This combination creates recruitment and retention issues because new employees start at near or at the top of the range to align to their market rate/value (or enter having taken a salary reduction), and there is little (or no) room for growth.
- Significant salary compaction between the department directors and their management subordinates, who are represented by bargaining units. In some cases, subordinate staff are compensated more than directors.
- The second-tier retirement plan benefit for new hires that qualify as classic employees presents recruitment challenges when applicants are required to reduce their pension benefit to become employed by the City, and/or overly burdens salary growth (already in a narrow

range) because higher salaries are required to make up for a lower pension and to compete with surrounding cities that do not have a second tier.

The narrow salary range, reduced classic employee retirement benefit and high cost of living in the Silicon Valley have presented significant recruitment and retention challenges for the department director positions.

The City Manager reported to the City Council the executive compensation issues that had surfaced over time and developed a framework for a more focused City Council review. By direction of the City Council, and at the recommendation of the City Manager, the City Attorney/City Manager Sub-Committee on Recruitment & Compensation met several times in July and August 2017 to review data and discuss the idea of a compensation philosophy as well as explored different compensation models to address these concerns.

The City Manager has developed proposed revisions to the salary schedule and salary resolution to address both the compensation issue around Department Directors and to reflect professional best practices relative to compensation. A full presentation on this matter was provided at the September 1, 2017 Special City Council meeting and the City Council approved a motion for the City Manager to schedule the appropriate action for City Council consideration on September 12, 2017.

EXISTING POLICY

Council Policy 7.3.1 Legislative Management - Goals and Policies, Goal 7.3D: Maintain a quality work force, Consistent with state and federal laws, City Charter, and adopted policies in order to assure that City services are provided in an effective, efficient, and high quality manner.

ENVIRONMENTAL REVIEW

The proposed amendment to the Salary resolution is not a “project” within the meaning of the California Environmental Quality Act (“CEQA”) pursuant to CEQA Guidelines section 15378 (b) (4) in that it is a fiscal activity that does not involve any commitment to any specific project which may result in a potential significant impact on the environment and section 15378 (b) (5) in that it is a governmental organizational or administrative activity that will not result in direct or indirect changes in the environment.

DISCUSSION

Internal Compaction Challenges

Department directors are not organized and do not negotiate for any changes to their wages, hours, and/or other terms and conditions of employment. However, their management subordinates represented by bargaining units have negotiated salary increases outpacing the department directors' increases over the years. In the most recent 10-year history, department directors received a total of 10% salary increases (4 years with no increase, followed by 5 years of 2% budgeted assumption as increases). No increase is scheduled for FY 2018/19 although following practice the budget includes an assumption of a 2% increase. On the other hand, the Sunnyvale Managers Association (SMA) and Public Safety Managers Association (PSMA) received a total of 18.5% and 19% salary increases respectively over the same 10-year period. Currently, as a result of lower COLAs over the years and no changes to the salary ranges, the annual salary of the Director of Public Safety is almost the same as the Deputy Chief (with education premium) with a \$28 annual salary difference, with scope of duties much broader. Similarly, the annual salary of the Assistant City Manager is only 0.5% higher than the Deputy Chief (with education premium). The annual salaries of all the other department

directors are 2.4% to 8% lower than the Deputy Chief (with education premium). These positions also hold broader duties and responsibilities than the Deputy Chief position. The Director of Employment Development salary is a unique issue because it is capped by the Workforce Improvement Act (WIA) guidelines.

The following tables provide more detail:

Salary Increase History -

Fiscal Year	Directors	SMA	PSMA
2009/2010	-	2.00%	-
2010/2011	-	2.00%	5.48%
2011/2012	-	3.00%	1.30%
2012/2013	-	-	-
2013/2014	2.00%	-	1.68%
2014/2015	2.00%	2.00%	2.36%
2015/2016	2.00%	3.50%	3.23%
2016/2017	2.00%	2.50%	1.34%
2017/2018	2.00%	1.50%	3.61%
2018/2019	Not scheduled	2.00%	Salary survey
Total	10.00%	18.50%	19.00%
Average	1.11%	1.85%	2.11%

Salary Compaction -

Classification	Annual Salary Maximum	Difference from Deputy Chief \$227,674*
Assistant City Manager	\$228,823	0.5%
Director of Public Safety	\$227,702	0.0%
Director of Environmental Services / Public Works	\$222,158	-2.4%
Director of Community Development / Finance	\$215,688	-5.3%
Directors of Human Resources / Library & Community Services, Chief Information Officer	\$209,405	-8.0%
Director of Employment Development	\$190,123	-16.5%

*includes 2.5% education premium

The internal compaction between department directors and their management subordinates is severe, resulting in little internal incentive for current management employees to promote into executive roles. The current compensation structure and compaction issues do not deliver a fair and

equitable compensation strategy for current directors. Concerns have already surfaced, and in the long term, will further lead to more significant challenges in retaining our executive level workforce.

Existing Compensation Practice Challenges

The current merit increase structure is based on years of service with a pre-determined increase percentage. The salary range is established with a narrow 15% difference from the minimum to the control point (maximum). A minimum 5% merit increase is given at 13 pay periods of service (6 months) typically with no performance evaluation included to support the automatic increase, and every 26 pay periods (1 year) of service thereafter automatically for those with an achieve or above standard overall rating on their performance evaluation. The pre-determined 5% merit increase given at a specific time of employment does not establish a relationship between pay and performance. It does not allow flexibility to make discretionary rewards based on performance, or reward different performance levels at the appropriate merit increase percentage.

For example, a new employee with a starting salary at the minimum of the salary range will reach the maximum in 30 months (2.5 years). It is not uncommon to negotiate initial salary placement at the top of the range due to the high cost of living in the Silicon Valley and based on the best qualified candidate's salary history, meaning the employee will reach the maximum in a shorter period. When considering the reduced pension of the second-tier retirement plan, some candidates will effectively have to accept a reduction in compensation. This combination of factors results in no salary growth potential and no recognition incentives for the department directors, making it difficult to retain and recruit qualified professionals.

Recruitment Challenges

The combination of the City's below market salary range and the second-tier pension have already resulted in recruitment and retention challenges. The City has a reduced benefit second tier retirement for new employees (2% at age 60 instead of 2.7% at age 55 for existing CalPERS members). The narrow 15% salary range, the reduced retirement benefit and high cost of living in the Silicon Valley do not attract lateral seasoned professional candidates. The City Manager has limited flexibility in offering qualified candidates an attractive recruitment package. In addition, the City lacks other general benefits that candidates look for at time of hire, such as severance, substantial moving expenses, etc.

These conditions have already proven to be difficult circumstances to attract executive level talent and a pattern of shallow candidate pools has surfaced. Despite the City hiring reputable professional recruitment firms for the department director positions, the City has had difficulties in filling the recent department director vacancies. The hiring of the Assistant City Manager, the Director of Library and Community Services, and the Director of Public Safety were dependent on the City Manager's professional network; candidates had to accept either lateral or reduced pay or reduced pension. The first recruitment for the Director of Environmental Services was unsuccessful even with an extended application deadline. There was an eligible candidate initially interested but later declined due to the salary and second tier retirement benefit. The recruitment process has been restarted with another recruitment firm causing additional costs and delays in filling this critical position. Given the qualifications of the existing executive staff, and the competitive regional hiring market, the City will be challenged to retain staff without changes to its executive compensation program. There is a need for the City Manager to have broader compensation flexibility and authority for at-will employees so that Sunnyvale has the opportunity to select, hire, and retain the best candidates.

Historical Compensation Model

In February 2006, the City Council approved changes to the management compensation structure to address significant salary compaction with bargaining unit positions, and a desire to stay competitive in the regional market for attraction and retention. The City hired the Hay Group to develop a management job evaluation system. One of the changes was grouping the department directors into 5 salary ranges as follows, based on a point system of knowledge, problem solving and accountability the classification required:

- Assistant City Manager
- Director of Public Safety
- Director of Public Works
- Director of Finance, Director of Community Development
- Director of Parks and Recreations, Director of Library, Director of Information Technology, Director of Human Resources, Director of Employment Development

The salary of the Director of Public Safety was established at 12% above the Deputy Chief. The salary of the lowest paid director was established at 3% above the Deputy Chief. Then a 12% differential was used between the remaining 4 ranges, with a 3% differential between each range.

This model was continued in 2007 and 2008. In 2008, a separate salary range was established for the Director of Employment Development in accordance to the Workforce Improvement Act (WIA) guidelines capping the salary.

Due to the economic downturn in 2008, this model was no longer executed as the City implemented salary deferrals or eliminated salary increases. This model addressed and prevented compaction issues. However, the point system is outdated and the criteria for grouping Directors is no longer valid.

Goals

The City has difficulties to attain the “employer of choice” status or offer recognition at the executive level. It is necessary to make changes to the compensation program for department directors to attract talent and retain highly qualified employees that can achieve the following:

- Ensure competitiveness in the regional employment market;
- Establish a fair and equitable, pay for performance compensation program that will attract, motivate and retain.
- Reward individuals on achievements and contributions. Align compensation with performance.
- Address internal compaction and encourage internal growth incentive.
- Provide salary growth opportunity.
- Allow flexibility for the City Manager in making new hire offers to recruit highly qualified candidates.
- Provide City Manager flexibility for merit increase adjustments to address retention issues.

Recommended New Compensation Program

The recommended new compensation program for department directors provide wide salary ranges also known as salary bands. It reduces the number of salary ranges, offering more salary growth opportunity based on achievements. It also establishes a pre-determined differential between classifications to prevent compaction issues in the future.

- The minimum of the salary range of the Director of Public Safety shall be 12% above the maximum of the salary range of the Deputy Chief with education premium. The maximum shall be 20% above the minimum.
- The minimum of the salary range of the Assistant City Manager shall be 3% above the minimum of the salary range of the Director of Public Safety. The maximum shall be 20% above the minimum.
- The Chief Information Officer, the Directors of Public Works, Environmental Services, Community Development, Finance, Human Resources, and Library and Community Services shall be consolidated to a single salary range. The minimum of the salary range shall be 3% above the maximum of the salary range of the Deputy Chief with education premium. The maximum shall be 20% above the minimum.
- The Director of Employment Development shall continue to have a separate salary range due to the salary cap of the WIA guidelines. The minimum of the salary range shall remain at the current rate of \$161,605. The maximum shall be 20% above the minimum to allow for future adjustment in accordance to the WIA guidelines.

In addition, the Salary Resolution Article 7.130 Merit Increase shall be modified that department directors will be eligible for merit increase every 26 pay periods of service with an achieved or above overall rating on their performance evaluation. The merit increase percentage shall be determined by the City Manager and not a flat 5% (rather an up to 5% based on performance). Under extenuating circumstances, the City Manager may extend an increase outside the annual performance review cycle.

Further, a new article shall be added to the Salary Resolution that at the discretion of the City Manager, department directors may be eligible for 3 to 6 months of salary as severance for termination or being asked to resign, with an exception to this benefit in cases of serious misconduct. The City Manager may authorize any amount between three (3) and six (6) months as appropriate.

FISCAL IMPACT

The initial current year cost of adjusting to salary bands will total approximately \$260,000 with an ongoing increase to the base of approximately \$300,000 per year. Department Directors work across all funds (for example the Environmental Services and Community Development Directors work almost exclusively in Enterprise Funds) and therefore the fiscal impact is spread across all operating funds. The initial cost can be absorbed in the current budget. The ongoing cost will be included in the FY 2018/19 Budget.

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City's official-notice bulletin board outside City Hall, at the Sunnyvale Senior Center, Community Center and Department of Public Safety; and by making the agenda and report available at the Sunnyvale Public Library, the Office of the City Clerk and on the City's website.

ALTERNATIVES

1. Adopt a resolution amending the Salary Resolution to revise merit increase provisions, add severance provisions, and amend the salary schedule for unclassified department directors (Pay Plan Category F).

2. Do not adopt a resolution amending the Salary Resolution to revise merit increase provisions, add severance provisions, and amend the salary schedule for unclassified department directors (Pay Plan Category F).

STAFF RECOMMENDATION

Alternative 1: Adopt a resolution amending the Salary Resolution to revise merit increase provisions, add severance provisions, and amend the salary schedule for unclassified department directors (Pay Plan Category F).

Approved by: Deanna J. Santana, City Manager

ATTACHMENTS

1. Resolution to Amend the City's Salary Resolution and the Salary Schedule for Unclassified Department Directors
2. Compensation Survey - Bay Area Cities
3. Compensation Survey - California Cities
4. Recommended Compensation Philosophy