W. 10. b.

Memorandum Date: July 6, 2005
Order Date:

TO: Board of County Commissioners

DEPARTMENT: Management Services

PRESENTED BY: Greta Utecht, Human Resources Manager

AGENDA ITEM TITLE: ORDER/IN THE MATTER OF APPROVING BENEFIT AND COMPENSATION CHANGES FOR NON-REPRESENTED EMPLOYEES.

I. MOTION

MOVE TO APPROVE ORDER NO.______/ IN THE MATTER OF APPROVING BENEFIT AND COMPENSATION PLAN CHANGES FOR NON-REPRESENTED EMPLOYEES.

II. AGENDA ITEM SUMMARY

In order to address internal equity pay, recruitment and morale issues among non-represented employees, the Board is being asked to approve compensation and benefit changes.

III. BACKGROUND/IMPLICATIONS OF ACTION

A. Board Action and Other History

The County has recently approved a new three-year contract with our largest bargaining unit, the American Federation of State, County and Municipal Employees (AFSCME). Contract changes include compensation plan adjustments which reduce it from 12 to 10 steps within each grade, County contributions to employees' deferred compensation accounts amounting to two percent (2%) in year one, four percent (4%) in year two and the County pick-up of employee PERS payments (6%) effective year three (July 1, 2007). In addition, the AFSCME Nurses bargaining unit members were also granted salary market adjustments in year one and two of the contract of either 2.5% or 5%, depending on the classification.

The current agreements between Lane County and the Administrative-Professional Association of Lane County Public Works, Inc. (Admin-Pro), and between Lane County and Lane County Public Works Association Local 626

(Local 626) provide for a two percent (2%) cost of living adjustment (COLA) effective July 1, 2005. Similar compensation plan adjustments (going from 12 to 10 steps) for these two bargaining units were completed in 2004.

The County is still in contract negotiations with the Lane County Prosecuting Attorneys' Association (PAA) and with the Lane County Peace Officers Association (LCPOA). If the Board approves their most recent proposals, these units will be granted similar or higher compensation and benefit changes.

Because the County's compensation plan for classified employees relies heavily on internal equity factors, human resources staff (HR) has developed options for implementing commensurate changes to the compensation benefits for non-represented employees.

B. Policy Issues

Section 28 (4) of the Lane County Charter requires that "the board of county commissioners shall maintain a system of personnel administration, including appeal procedures, in which each person in that service shall receive equitable compensation fixed on the basis of

(i) competence in the position with the county,
(ii) record of service there and elsewhere,
(iii) the range of compensation paid others by public and private employers for comparable service
(iv) the county's financial condition and policies, and
(v) other factors relevant to the determination of what is fair compensation for the individual."

In addition, Lane Manual Section 2.235, Rule IV-3(a) states that "the compensation plan for County personnel shall provide reasonably competitive ranges of pay for each classification of employment. The Board may make adjustments in a salary range or ranges as necessary to attract and hold competent personnel and to provide equity between the various classifications. Such salary range adjustments are to be distinguished from merit increases in that they are not intended to give recognition to length or quality of service but are to be based solely on prevailing rates of pay in private business and other public jurisdictions in our market area for positions comparable to the various classes of work in the County service."

Human resources staff believes that in order to meet the above policy directives, our compensation plan for non-represented employees needs to be addressed on both a short-term and a long-term basis.

C. Financial and/or Resource Considerations

All of the options developed by staff fall within the parameters already established in the County financial plan for FY2005-2006 through FY 2007-2008. Resources needed to respond to the more systemic market and internal equity issues outlined below have not been specifically identified and can't be until we know the full measure of the problem and to what extent the Board is able to address it.

D. Analysis

Over the past 5-10 years, market conditions have had less impact on our compensation system than have internal equity or comparative worth factors, bargaining unit contracts and the County's financial condition. Market has also been less of a factor because Lane County's workforce has been relatively stable and not subject to large increases or decreases. We have a long-term (the average length of service for all County employees is 9.1 years), older employee population (Average age is 45) and, up until the major PERS changes were enacted two years ago, we were not subject to a large number of retirements in any one year. As a result, our excellent benefits, especially retiree health insurance, served to keep our more senior employees at Lane County instead of going elsewhere for higher base salaries. This has been particularly true of our non-represented positions, most of which are professional, supervisory or management classifications.

More recently, and as a result of union contract negotiations, market analysis has played a significant role in determining compensation for our nurses, computer technology related positions, and for our prosecuting attorneys. In addition, when we are unable to find qualified candidates at the current salary range, or when we are forced to hire new employees at mid-grade or higher, it is a clear indication that our compensation schedule needs adjustment. For example, since July 1, 2003, the percentage of mid-grade or higher hiring appointments for all employee groups has been:

Local 626	=	0%	(Rarely hire above step 1)
LCPOA	=	0%	(Rarely hire above step 1)
Pros. Attorneys	=	0%	(Only hire entry level newly qualified attorneys, and must hire at step 1 to avoid internal equity issues.)
AFSCME	=	14%	(Reflects need to hire technical and medical positions at higher than step 6.
Admin-Pro	=	17%	(Engineering and analytical positions)
Misc. Non-Rep	=	40%	(Executive Assistants, Legal secretary)
Supervisory	=	40%	
Prof. Non-Rep	=	50%	(Mgmt & admin analysts, physicians
Managers	=	100%	

Exceptional appointments (i.e., hiring above step 3) must be approved by the human resources manager. Prior to doing so, every case is carefully analyzed to be sure that internal equity is maintained. Because resources are scarce, directors rarely have the luxury of hiring at the apprentice level: the need to find a candidate who can "hit the ground running" means that we are more often than not trying to bring highly experienced and skilled individuals into our professional, supervisory and management positions. As explained below, we are often unable to persuade our talented, internal non-represented employees to consider moving into supervisory positions, so many of these positions are filled from the outside. Market then strongly influences our ability to negotiate lower starting salaries.

We have been very fortunate in finding individuals who wish to make a life style change by moving to Lane County from another part of the country, or by finding candidates who have retired from their previous employment and can afford to take the pay cut that results in working for Lane County. However, our luck may be running out. Given demographic trends and the fact that our compensation plan for our professional, supervisory, and management level positions has not kept up with those of other public agencies, competing for qualified candidates is now a major issue for Lane County.

As mentioned previously, another problem we face is our inability to persuade our represented employees who show leadership potential to consider applying for supervisory and management positions. Because our contracts ensure that even exempt represented employees receive compensation for their overtime on a one-to-one basis, we are now dealing with situations around the County where those being supervised make more in take home pay and benefits than their supervisors and managers. The nursing supervisor, chief deputy district attorney and public works zone supervisor positions are good examples of these problems. Compaction is the term used when there is very little or no difference between the compensation of a supervisor and the employees who report to him or her and is a problem that exists throughout the County organization. Depending on the position level, best practices in HR and compensation theory provides for a minimum 10% differential between employees and supervisors. Today, that is the exception and not the rule in Lane County.

The question often asked is why anyone would want to take on increased challenges, a heavier supervisory load than our closest comparators, less pay, and more work hours to be a supervisor at Lane County. It is becoming a very severe succession planning issue, particularly since it is imperative that we have good supervisors and managers who can coach and mentor our employees and not make personnel and management decisions that cost the County. Finally, based on what employees tell us time and time again, it also limits career development opportunities for all employees when there is the perception that our supervisory and management positions are not valued.

e. **<u>Alternatives/Options</u>**

In order to address immediate compensation issues for the County's non-represented employees on the heals of approved contract provisions for AFSCME, Local 626 and Admin-Pro, and proposed contract provisions for LCPOA and the Prosecuting Attorneys, human resources and budget staff have developed three options for the Board's review. Each option was based upon what the total cost of a two percent (2%) COLA would amount to over the next three fiscal years, since the County's financial plan for FY 2005 through FY 2007 (ending June 30, 2008) assumes that all employees will receive a two percent COLA each year. We began by looking at a variety of options, many after the AFSCME model, and we tried to develop a strategy that would help address the following objectives:

1. Make the dollars stretch further by buying features that improve the total compensation outlook for our non-represented employees
2. Improve the morale of our non-represented employees;
3. Not worsen internal equity (compaction) concerns
4. Improve our competitive position in the market (usually defined as other like counties and public sector agencies)
5. Help all employees in this group, whether recently hired, or long-term.

Four three-year-plan options were taken to the department directors group for review. Of the original four, one was calculated with the County picking up the employee portion of PERS contributions in year two. That specific feature was the one that the directors were most supportive of, and they instructed HR and budget staff to develop more ideas with the second year pick-up as the main feature. The final three options developed for the Board's review are listed in Attachment A.

- Option one is the original option discussed by the department directors. It results in the most "bang for the buck" because the value of the package as measured against current based salary amounts to 3.25% the 1st year, 7.25% the second year and 3.25% the third year. That is because an additional 25 hours of Time Management (TM) sale equates to 1.25% of salary. Measured against our criteria, option one meets numbers 1 and 2, and in fact saves over the cost of a 2% COLA each year. But, because it doesn't change the base salary on our compensation plan, it will make a bad internal equity situation even worse, and it won't help with recruitment until year two, and that assumes that candidates are familiar enough with Oregon's PERS system to understand how the employee contribution is dealt with can impact one's take home pay. Finally, it will primarily benefit long-term employees with high TM accrual rates.

- Option two increases the County's contribution to employee deferred compensation accounts each year by 1%and adds a 1% COLA in year one. This option meets criteria number 1, 2 and 5, but does not help with our compaction issues or significantly help with recruitment and competitive placement.

- Option three is the most expensive option, and therefore is the least effective in meeting criteria 1. However, it does address all the other criteria and is the fairest option in applying equally to all non-represented employees. Option Three is therefore the one recommended by staff.

In addition to recommending that the Board approve Option Three, staff requests and recommends that the Board direct us to initiate a more comprehensive market analysis for our professional, supervisory and management positions. As cited above, with the approval of the AFSCME Nurses contract, and if the proposed LCPOA and PAA contracts are approved, we have and will have severe compaction issues in several areas of the County.

Because option three departs from the compensation package approved for AFSCME, HR staff has met with AFSCME's president (Cheryl Dyer) to outline the recommendation and our justification for it. Ms. Dyer has no objections to our proposal and understands the issues.

V. TIMING/IMPLEMENTATION

HR staff will immediately begin processing the step conversion and COLA changes to the compensation plans. Because of the step conversion feature, retroactivity to the first pay period in July is not possible, but we believe that if approved today (July 13), we can implement the changes for the pay period beginning July 16, 2005.

VI. RECOMMENDATION

Human resources staff, supported by all of the department directors, recommends that the Board adopt the proposed motion which reflects the compensation adjustments in option three above. Staff and directors also recommend that the Board direct us to initiate a market analysis to determine appropriate compensation for County non-represented professional, supervisory and management positions.

VII. FOLLOW-UP

Human resources will notify departments of the Board's action, and will immediately begin the process to implement the changes. In addition, we will create a draft work plan for the longer term compensation analysis and bring it back to the Board later this month or in August.

VII. ATTACHMENTS

Board Order
Attachment A: Options for Non-represented Employee Compensation
Attachment B: Summary of Proposed Changes

IN THE BOARD OF COUNTY COMMISSIONERS OF LANE COUNTY, OREGON

ORDER NO. 05-7-13-8) **IN THE MATTER OF**
) **APPROVING COMPENSATION**
) **CHANGES FOR NON-REPRESENTED**
) **EMPLOYEES.**

WHEREAS, the Board of County Commissioners has approved a contract with the County's largest bargaining unit, the American Federation of State, County and Municipal Employees, Local 2831, and has a current contract in place with the Lane County Public Works Association Local 626, and the Administrative-Professional Association of Lane County Public Works:

WHEREAS, the compensation packages in these contracts impact internal equity relationships with non-represented employees;

WHEREAS, County human resources staff has reviewed the compensation options available for non-represented employees and developed a recommendation;

WHEREAS, the recommendation is consistent with the financial guidelines set forth by the Board of County Commissioners.

IT IS NOW HEREBY ORDERED that the compensation changes for non-represented employees as reflected by Option Three on Attachment A and described on Attachment B be approved and

IT IS FURTHER ORDERED that the County Administrator is authorized to implement the compensation changes for non-represented employees.

DATED this 13th day of July, 2005.

Anna Morrison, Chair
Lane County Board of County Commissioners

APPROVED AS TO FORM
Date 7-8-2005 Lane County
Stephen L Vorhes
OFFICE OF LEGAL COUNSEL

Attachment A

Options for Non-Represented Employee Compensation Adjustments

Option #1: 2% COLA Yr 3, Def. Comp Yr 1 Only, PERS PU Yr 2, + Add'l TM Sale	Year 1 FY05-06		Year 2 FY06-07		Year 3 FY07-08		Three-Year Total
	Rate	Cost	Rate	Cost	Rate	Cost	
Convert 12 to 10 Steps	1-Time	205,051	Merits	50,459	Merits	43,325	298,835
COLA	0.00%	0	0.00%	0	2.00%	421,861	421,861
Deferred Comp (from current)	+2.00%	357,331	0.00%	0	0.00%	0	357,331
PERS Pickup	0.00%	0	6.00%	934,306	6.00%	952,992	1,887,298
Annual TM Sale Increase	+25 Hrs	139,214	+25 Hrs	139,214	+25 Hrs	141,998	420,426
Total		**701,596**		**1,123,979**		**1,560,176**	**3,385,751**
Amount Budgeted		677,641		1,146,305		1,629,331	3,453,277
(Added Cost) or Savings		**(23,955)**		**22,326**		**69,155**	**67,526**

Option # 2: 1% COLA Yr1, 1% Def. Comp each Yr, PERS PU Yr 2, No Xtra TM	Year 1 FY05-06		Year 2 FY06-07		Year 3 FY07-08		Three-Year Total
	Rate	Cost	Rate	Cost	Rate	Cost	
Convert 12 to 10 Steps	1-Time	205,051	Merits	50,459	Merits	43,325	298,835
COLA	1.00%	210,930	0.00%	210,930	0.00%	210,930	632,791
Deferred Comp (from current)	+1.00%	180,414	+1.00%	180,414	+1.00%	178,666	539,495
PERS Pickup	0.00%	0	6.00%	943,649	6.00%	943,649	1,887,298
Annual TM Sale Increase	0	0	0	0	0	0	0
Total		**596,396**		**1,385,453**		**1,376,570**	**3,358,419**
Amount Budgeted		677,641		1,146,305		1,629,331	3,453,277
(Added Cost) or Savings		**81,245**		**(239,147)**		**252,761**	**94,858**

Option # 3: 2% COLA Yr 1, No Def. Comp, PERS Pick-Up Yr 2, No TM Sale	Year 1 FY05-06		Year 2 FY06-07		Year 3 FY07-08		Three-Year Total
	Rate	Cost	Rate	Cost	Rate	Cost	
Convert 12 to 10 Steps	1-Time	205,051	Merits	50,459	Merits	43,325	298,835
COLA	2.00%	421,861	0.00%	421,861	0.00%	421,861	1,265,582
Deferred Comp (from current)	0.00%	0	0.00%	0	0.00%	0	0
PERS Pickup	0.00%	0	6.00%	952,992	6.00%	952,992	1,905,984
Annual TM Sale Increase	0	0	0	0	0	0	0
Total		**626,911**		**1,425,312**		**1,418,178**	**3,470,401**
Amount Budgeted		677,641		1,146,305		1,629,331	3,453,277
(Added Cost) or Savings		**50,729**		**(279,006)**		**211,153**	**(17,124)**

*Each option maintains the current Employer 1% Deferred Comp contribution.

Attachment B

SUMMARY

PROPOSED CHANGES FOR NON-REPRESENTED EMPLOYEES

2% COLA for all grades, all steps, effective July 16, 2005 for all non-represented employees on the payroll as of July 13, 2005.

Reduce the number of steps in the pay plan from 12 -10

County picks up employee contribution of 6% of salary to PERS IAP account effective the first full pay period in July of 2006.

Maintain same health insurance plan and attendant savings in effect for FY2004-2005.

Maintain 1% deferred compensation contribution by County that was implemented as recognition of cost saving health plan in July 2004.