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DEPARTMENT OF MANAGEMENT SERVICES
DIVISION OF HUMAN RESOURCE MANAGEMENT

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COUNCIL TRANSMITTAL

TO: David Everitt
Chief of Staff

DATE: January 25, 2008

FROM: Steve Fawcett, Director of Management Services

SUBJECT: 2008-2009 Report of the Citizens Compensation Advisory Committee (CCAC)

FUNDING: If Committee recommendations are implemented, funding impact would occur with Council approval of compensation plans for various pay classifications.

BACKGROUND AND DISCUSSION: The CCAC is ready to present its 2008-2009 recommendations on general pay increases and various pay program issues brought about by the current tight labor market. Recommendations include: Consider in-range pay adjustments for long-service employees whose salary range positions are low compared to midpoint; increase coming-fiscal year salary structures in line with market trend; set elected-official July 1 salaries in accordance with City Council Resolution; continue reliance on lump sum incentives as first line of defense against attraction/retention challenges; keep the Airport generally in the same pay programs as provided to regular City employees; and do not try to lead the market with compensation practice. The Committee also affirms its views on pay-for-performance.

RECOMMENDATION: That the City Council receive a presentation of the report by the CCAC's Chair.

rec 1/30/08
SK

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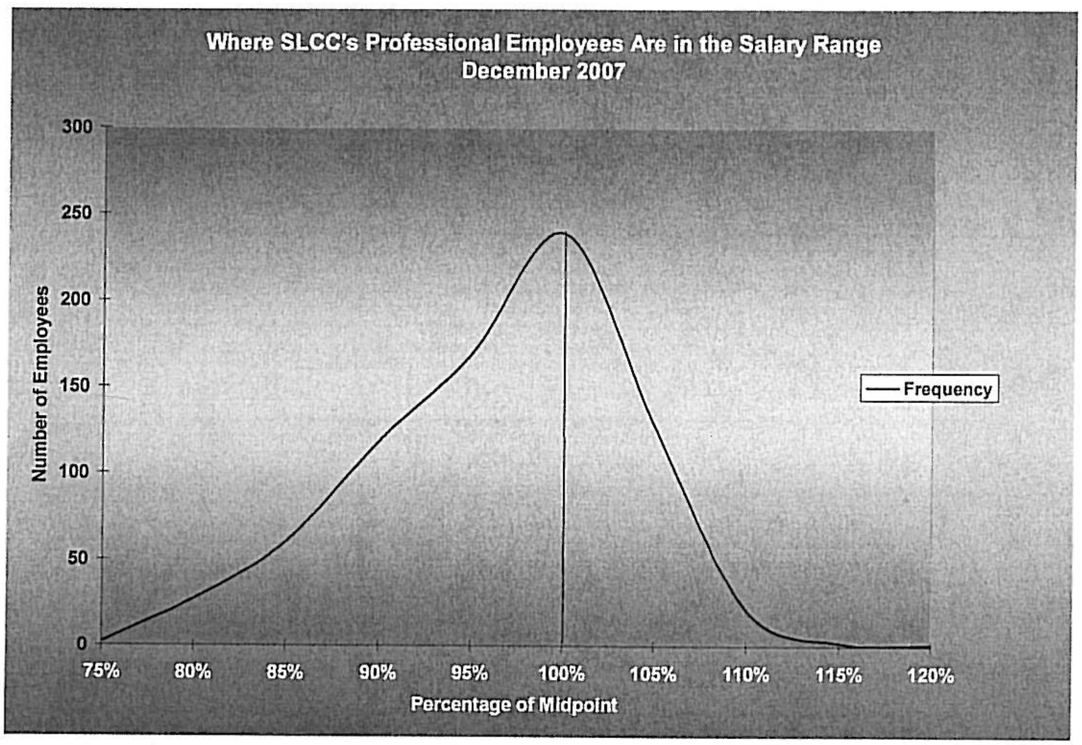


CITIZENS COMPENSATION ADVISORY COMMITTEE
FISCAL YEAR 2008-2009 ANNUAL REPORT

EXECUTIVE SUMMARY

Equity May Call for Acceleration of Below-Midpoint Salaries

The graph on this year's cover depicts a disproportionate population of professional employees positioned below range midpoint. If the midpoint is supported by market data, and provided the employee's skill sets meet market standards, equity may call for an in-range adjustment.

Our 'General Pay Increase' Recommendation for 2008-2009

We suggest a 2008-2009 total salary budget increase of 3.9%; and a pay-step and range-midpoint increase of 2.7%. Adjust elected official salaries in accordance with City Council *Resolution No. 70 of 1993.*

Current Economic Climate Sustains Worker Bidding War

The coming fiscal year may bring some relief, but the struggle to attract and retain certain benchmark skills will likely remain high through most of the period. Firing back at the competition with unwarranted base salary hikes is strategy surely to prove errant in the long run.

Airport and Regular City Turnover

Like most other operational areas in the City, the Airport's attraction and retention challenges have increased in recent times. But has this been out of the ordinary? Employee turnover data suggests not. Also, exit interviews and personnel records indicate that many who left airport employment during the past few years did so for reasons other than money.

Should Airport Employee Pay Differ from Regular City?

Should the identified market for airport employee salaries be different than the identified market for regular City employee salaries? In other words, should airport employees be paid more than regular city employees are paid? Except in the rarest of bona fide business-related cases, we don't advise it.

Attraction/Retention Incentives Shunned?

Some SLCC managers are resisting use of the one-time attraction-and/or-retention incentive. Reported reasoning: "Employees like base pay increases more than one-time awards." The premise is indisputable, but if the incentive is not offered, how does the employer know whether or not it will work? Unless existing base pay falls short of equity standards, management should rely on good employment practices and the one-time incentive as primary strategy in meeting attraction/retention challenges.

In it for the Money

Some jobs simply do not match—and the differences tend to reflect the career aims of those who choose them. One should not pursue public sector employment when an above-market income is the career aim. It's a fact that mysteriously seems to escape some folks.

Managing $133 million in Annual Wages Requires both Flexibility and Control

SLCC's annual wage tab tops $133 million for salaried employees; $140 million when seasonal and hourly employee salaries are annualized. Flexibility and control are necessary to harness fiscal impacts, and to maintain practicality and legality. The more flexible open-range plan requires more controls than the stepped plan, because the potential for runaway expense and troublesome inconsistencies is greater. *Midpoint control* in open-range plans, along with limits on promotional increases, are among the essential.

Pay for Performance—The Perpetual Debate

In past reports we have explained in detail why pay-for-performance (PFP) systems don't work well in public sector employment. Among the reasons, budgets are restrictive, and everyone knows the other person's salary. Whether public sector or private, most employees believe their own performances to be above average. For most employers, the means to prove otherwise are elusive.

Education May be Lacking

Years ago, the City's supervisory training program included a module on compensation. We recommend reinstatement of such a program. Ignorance at the supervisory level aggravates employee unrest and causes dissention.

Combined WMG and WCG Surveys Indicate SLCC on Pace with Market Practice

Because it remains a work-in-progress, we view the Western Management Group's (WMG) annual survey for the Salt Lake Area with some reservation. Suffice to say, however, that when combined with the Wasatch Compensation Group's (WCG) data, we believe the result is a sufficiently reliable indicator that SLCC's salary and salary-plus-benefits programs are competitive.

'Lead' or 'Lag' Strategy

We've said it before: Trying to be the highest payer among local agencies is ill advised. Certain other agencies have amply demonstrated their resolve to match or exceed SLCC's compensation practices. To avoid undue inflationary effects, it's best to follow the market, not lead it.

This ends the Executive Summary. Detailed discussion is provided on the following pages.

Introduction

This annual report for 2008-2009 takes us into our 16th year as the Citizens Compensation Advisory Committee, established by *Salt Lake City Ordinance No. 65 of 1992*. Our general purpose: Advise the City on prudent compensation and benefits practice. As a volunteer committee, it's a role in which we have been pleased to serve, and we look forward to continuing a productive working relationship with the Mayor and City Council.

In our annual reports, we recommend general wage-increase and employee benefits decisions for the coming fiscal year. This advice is intended to keep the City on pace with cost-of-living changes, pay-increase trends, and market practices. As reflected in the foregoing *Executive Summary*, we also provide direction on any strategic issues that may come to our attention.

Our General-Increase Recommendations for 2008-2009

Annual base wage adjustments, or "general increases" as they are commonly known, are essential to keep pace with economic trend and for maintaining employee morale. Our recommendation for the coming-year general increase is based in part on the information provided in the following table. The table shows national market trend for *salary structure* and *salary budget* increases predicted for 2008—and cost of living changes, as measured by the *Consumer Price Index* for All Urban Consumers (CPI-U).

2008 Structure & Salary Budget Increase Predictions				CPI-U, West Region, Class B/C Cities*		
Category	Non-Exempt	Exempt	Executive	Base Period	Index	Percent Increase
Structure ("COLA")	2.7%	2.7%	2.8%	December-06	125.00	
Salary Budget	3.9%	3.9%	3.9%	December-07	130.48	4.38%
				Prev. 12 Mo. Avg.	125.0	
				Last 12 Mo. Avg	128.8	3.07%
Source: WorldatWork				* Population 50,000 to 1,500,000		

"Salary structure" refers to a system of pay grades. When the pay structure consists of grades with steps, a salary structure increase is sometimes referred to as a Cost of Living Adjustment (COLA). The "salary budget" increase adds the cost of any expected merit increases to the planned cost of the structure increase. CPI-U stands for Consumer Price index, all urban consumers.

Although the latest CPI-U average index increase over the past 12 months comes in at barely more than three percent, we have seen an upward trend. Note that the index increased nearly 4.4 percent from December of 2006 to December of 2007. However, we are reluctant to recommend increases that exceed the pay-increase trend predictions, which have always proven to be very reliable. To stay on pace, we believe the City should plan a 2.7 percent salary structure increase and a salary budget increase of 3.9 percent.

We also consider pay practice comparisons when making our general increase recommendation. Charts showing salary and total compensation value (TCV) information start on page 14. The information is from the 2007 Western Management Group's (WMG) annual survey for the Salt Lake Area and also from the Wasatch Compensation Group's (WCG) on-line survey called Technology Net.

Recommendation for Elected Official Salary

By resolution, every fourth year the Mayor's salary is to be based on a survey of capital cities having a mayor-council form of government and populations in the 100,000 to 400,000 range. Cities that fit this criteria are few, and their numbers are getting fewer—as they either change to the city manager model and/or their populations grow beyond the established benchmark.

State Capital	Population	Mayor's Salary
Albany, NY	94,226	$130,195
Atlanta, GA	462,546	$147,500
Baton Rouge, LA	435,413	$113,435
Boise, ID	194,000	$91,229
Lansing, MI	144,276	$106, 995
Madison, WI	210,000	$115,138
Montgomery, AL	201,568	$95,000
Providence, RI	174,000	$125,000
St Paul, MN	287,151	$101,792
Springfield, IL	116,482	$108,020
	Average Mayor Salary	**$114,145**
	20% of Average	**$22,829**
	SLCC Current Mayor Salary	$113,217
	20% of Current Salary	$22,643

The salary of City Council members is set at 20 percent of the Mayor's salary. Our recommendation is to set the annual salary of the mayor at $114,145, starting July 1, 2008, and to set the annual salary of the City Council members at $22,829, effective the same date.

During intervening years, the Mayor's salary increase is determined by the average percentage increase given to the City's professional (600/300 Series) employees. This is also by resolution.

Local Economy Remains Strong; Available Labor Remains Scarce

According to Mark Knold, Chief Economist for the Utah Department of Workforce Services, 2007 has been another stellar year for the Utah economy—and 2008 promises to be a repeat performance. Although showing signs of slowing, Utah Jobs growth continues at a robust pace, and the Utah unemployment rate for November was only 2.8 percent. Such a low rate—almost less than one-half the national figure—translates into a very tight labor pool. This aspect, combined with an over-abundance of jobs, pits employers against one another to attract and retain qualified personnel.

We cautioned the City against over-reacting with base salary increases. No doubt HR has faced considerable pressure to ignore that advice. The current environment tempts otherwise well-intentioned managers to think higher wages is the cure-all to attraction/retention ills. The error of such thinking is well proven. A strategy of base-wage bidding will not change the simple fact that there are virtually more jobs than qualified workers to fill them.

For workers sincere in the aim to improve their employment circumstances, the climate has rarely afforded better opportunity. Unfortunately, the atmosphere also fosters another contingent of not-so-sincere folks. These individuals seek and acquire job offers, then, with no real intent to exit the status quo, present their current employers with invitations to counter.

Whatever the case, reacting with base salary increases is likely to be a misstep on several counts. First, while pay must be sufficient to meet basic needs, studies have shown that money is not the primary motivator for most employees. Secondly, said reaction does not go unnoticed by other employees. They may begin seeking pay-raise leverage of their own. Third, when the sincere employee decides to make the change, the offer of more money will likely not have the desired affect. On the contrary, if money was indeed ever the issue for this employee, he or she will likely be offended that it took the threat of leaving for the employer to finally recognize his/her worth.

At the same time, however, we repeat the advice of our last report: A less-than-competitive compensation strategy will, in a tight labor market, exacerbate recruiting and retention difficulties. Management just needs to exercise restraint in giving base salary increases resulting in pay levels that may not be justified when the economic climate ultimately cools. It bears repeating that unless base salary is too low as indicated by market data or internal equity analysis, good employment practices and the use of one-time, lump sum incentives should be viewed as the primary attraction/retention strategy.

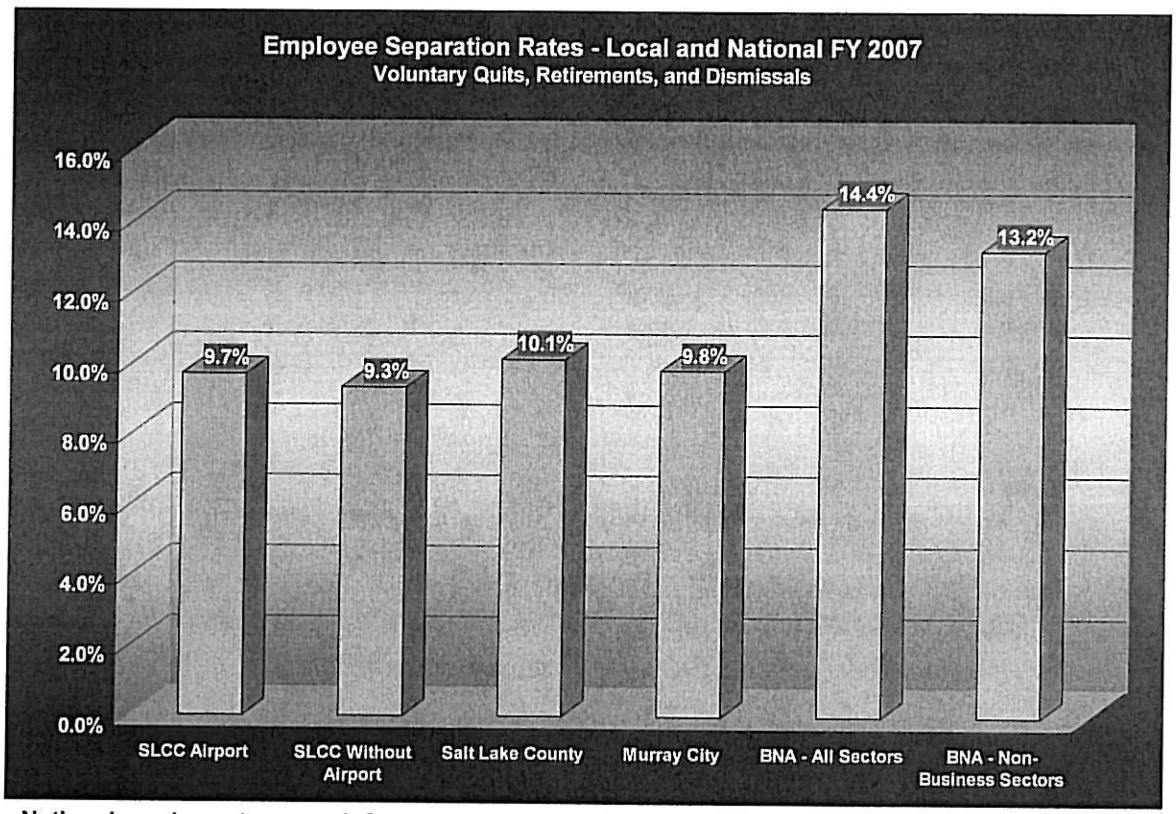
SLCC Turnover – Airport and Regular City

The city's airport leadership has expressed much frustration of late over recruiting and retention difficulties. And not without reason. Like other city departments and other employers both national and local, the airport's employee-turnover rate has increased substantially during the past year, and replacements have been difficult to recruit. While employee separations have occurred at all levels (from blue collar to key manager), those in airport property management and certain craft areas have proven to be particularly problematic.

Reason for the turnover and recruiting difficulty? It comes as no surprise that airport management points to salaries as the main cause. Past surveys have shown that major-hub airport market salaries are higher than SLCC airport rates for nearly every key position. Hence, if the city is to be guided by the major hub airport market, a property manager working at the airport should be paid higher than his/her regular-city counterpart. Likewise, the finance manager at the airport should be paid higher than the city's regular finance manager.

If all positions at the airport are "Key," how much has salary been a contributing factor to airport turnover? Exit interviews with former airport employees, who separated during a 32-month period starting on January 1, 2005 and ending on September 1, 2007, indicate that a significant number retired; some left for different careers or to advance their careers; some left to accompany spouses who acquired out-of-area employment; and still others were dismissed. In all, there were 113 separations counted, resulting in a total average annual turnover rate for the period of 7.84 percent (against an average annual population base of 541 employees). Fifty-seven individuals, or more than one-half of the 113 employees exiting, reportedly left for reasons other than money. To assume that the entire remainder left for more money is, at best, a shaky assumption.

The following chart reflects a fiscal-year 2007 jump in turnover at the airport. But the resulting rate of 9.7 percent is only slightly ahead of the 9.3 percent rate calculated for regular City employees. As the chart shows, the airport's rate is also comparable to rates reported by Salt Lake County and Murray City—and is substantially below the national rate for all business sectors and the non-business sector rate, which includes municipalities and non-profit employers.



National employee turnover information is provided by the Bureau of National Affairs (BNA), Inc. In reporting employee turnover, SLCC follows the standard set by BNA, which includes voluntary separations, retirements, and dismissals in the turnover count.

The numbers for Salt Lake County and Murray City are notable, because both of these employers have lured Salt Lake City employees away from time to time—and both have made it an ongoing practice to pay higher-than-SLCC rates for certain positions. Although certainly not conclusive, this observation lends support to the contention that money is generally not the primary motivator of worker's employment choices.

The Experience of Other Airports

But what about turnover at other airports? HR asked 16 other major hub airports the question. Of the dozen that responded, the lowest turnover rate reported was 4.44 percent, and the highest was 15.07 percent, with a median of 8.28 percent. The representative of one major Midwest airport said that his airport's latest reported rate of 7.06 percent represented a substantial increase over prior reporting periods, and that the number was "rapidly climbing." The representative of a major airport in the East lamented, "We're having a hell of a time keeping people, and we lose them as fast as we hire them." This airport reported a turnover rate of 10.48 percent.

Thus, based on the data, some airports are enjoying lower turnover rates than SLCC; and some are experiencing higher rates. The Salt Lake City Airport's attraction/retention plight does not appear to be significantly more severe than that of other employers experiencing similar woes.

Should the City Employee Who Works at the Airport be Paid More than the City Employee Who Doesn't?

With the above turnover information in mind, we address the question of whether airport employees should be paid more than their counterparts employed in non-airport City positions. In other words, should the identified market for airport employee salaries be different than the identified market for regular City employee salaries?

It's reasonable to address this question from time to time, but our answer is the same as given repeatedly in the past. In our view, an affirmative response can only apply to the narrowest of possibilities—namely, the executive director position, one or two others in the second or third level of leadership, and any rare case where the necessary skills and discipline to do the job can be acquired only through highly specialized academics and experience gained with another airport.

The recurring question is symptomatic of managers who persist in the assumption that turnover stems from compensation problems. We join many employment experts in questioning that assumption. Given the impact of the organizational and leadership issues the airport has faced in recent times, we find it difficult to conclude without hard data that employees want to leave their SLC Airport positions because of low pay. In this regard, a salary survey with the intent of "supporting salary increases" isn't the kind of data we are referring to.

To learn why they really leave, we suggest a third-party follow-up with former employees. To determine how to stem the outward flow of good people, we believe this approach would be much more valuable than a salary survey.

As long as the Airport is owned and operated by the City, we find the idea of creating separate pay structures for the City and the Airport to be philosophically questionable at best, and potentially downright destructive. That said, any analysis of the issue should consider several factors:

- First, can employees move between assignments at the airport and other city departments? If so, this supports having one pay structure for all employees.

- Second, does the airport recruit for positions that are similar to those of the city from similar or identical candidate pools? If the pool of prospective candidates is similar, then there should be similar pay structures. Otherwise, the higher-paying entity will cannibalize the recruiting effort of the lower paying entity.

- Third, is the airport considered part of the city family or is it viewed as a separate entity? If the airport is generally viewed as part of the city by other city employees, the impact of separate salary structures for the two entities could adversely impact morale in the lower-paid entity. This, in turn, would lead to dissention (and increased turnover) by those who resent being paid less for performing duties that require essentially the same skills. At the same time, turnover in the higher-paying entity may continue unabated. Why? Because the high turnover there wasn't really caused by compensation problems in the first place.

We can see no justification in a pay program designed to compensate a finance executive working at the airport more than his or her counterpart working for the city's general fund; or an airport electrician being paid more than a city electrician.

Again, however, if a case can be made such that there exists an airport position so unique to the aviation business that attraction/retention needs simply can't be met except by relying on the major hub airport market to guide salary decisions, such case should be presented to the Administration and the City Council for review. The case should include a profile of who has occupied the position for the Airport, how they acquired the position, and who has left and why.

Resistance to Using One-Time Incentives Sidesteps Proper Approach

It goes without saying that employees will generally prefer base salary increases over one-time awards, but that doesn't mean supervisors must promote concession. The following letter from a well-intentioned manager illustrates the kind of thinking for which we strongly advise caution, and reminds us of the need to again encourage the use of one-time, lump sum incentives to facilitate attraction/retention aims.

> *"... I am requesting concurrence in my recommendation to increase the base salary of four of my senior staff... I would much prefer to increase their base salary than provide a bonus because the purpose of the adjustment is to keep up with the incredibly high demand for engineers and technicians over the long haul, not a one-time thank you."*

There is no assurance that demand for engineers and technicians, or any other position benchmark for that matter, will remain "incredibly high over the long haul." Indeed, history has shown that the market demand for certain job skills will inevitably have its ups and downs over time.

Base pay additions become permanent, compounding repeatedly with each general base pay adjustment regardless of whether the project that was once mission-critical is now history; or whether a market down-turn in jobs-availability has created an excess supply of the subject employee's skills

That said, by all means adjust base pay when called for by equity reasons—but spurn the notion that meeting attraction/retention challenges should rely exclusively on base pay increases.

Public Sector Employees Not In It for the Money

Some jobs simply do not match—and the differences tend to reflect the career aims of those who choose them. Consider the typical construction engineering consultant, for example, versus an engineer working for the City.

The income and job stability of an individual who works for a private engineering consulting firm will, in the final analysis, depend on the availability of construction projects and the market share captured by the firm. When things are good, high salaries may be accompanied by generous bonuses, and employment is likely secure. This will vary over time.

Retirement benefits will take the form of a defined contribution plan (401k, profit-share or other), with the employer's contribution depending on the firm's fortunes. Regarding leave benefits and life/work balance? On average, these are probably not comparable to what the City offers—which may matter little to the individual whose top career priority is to earn the highest possible income.

The point is that if the individual is in it for the money, he/she should not choose a government job. People who choose a career with the City are likely to find satisfaction in serving the public, along with relative peace of mind in stable employment and above-average health, retirement and leave benefits. We believe that the salary that goes with this public sector employee package is appropriately one that is generally in step with the market average; not one that exceeds market average.

Is the City System too Controlling?

Some SLCC managers complain that the City pay system unduly restricts their freedom to make salary decisions. They charge that linking city employee salaries to market average encourages mediocrity. They want more latitude in deciding what to offer new-hires, and in determining what adjustments to award employees who step up in pay grade. They want discretion to provide performance-based raises, and they want to eliminate midpoint control, thereby allowing employees in open-range systems to ultimately be paid at the range top.

Flexibility and Control—Both Are Critical

In previous reports we explained the differences between stepped plans and open range plans. SLCC has both. Stepped plans generally work better for union-covered employees and para-military employees. Their simplicity better accommodates union contracts and/or the preference for lock-step progression linked to longevity. Stepped plans afford very little flexibility. Indeed, a demoted employee may actually receive a pay increase in moving from one stepped pay grade to a lower stepped pay grade. Also, in the government sector where long tenure is the rule, the top step in a stepped plan is likely to be attained by all but those who have separated either voluntarily or involuntarily. That's why in stepped plans, grade maximums rather than midpoints are usually linked to market average.

Open range plans, on the other hand, afford maximum discretion to the compensation decision makers—so much so, in fact, that they present a definite risk of compensation excesses unless controls are faithfully administered. Using the range midpoint as a control is standard practice among employers using open range plans. Open-range maximums are set well above market average to allow flexibility in salary administration; not to pay everyone at the range top. We understand that this has been a difficult concept for some employees to accept. As we stated in our last report, being paid at the range top is appropriate only if the range top is the market average.

Certainly some level of flexibility is desirable—especially in open range plans. But in a public sector pay system, where wages are public knowledge, budgets are limited, and discrimination claims are easily launched, we believe these wants reflect naiveté and if conceded to the extent desired, would provide a formula for fiscal and administrative chaos.

Midpoint Control: Let Market Average Guide the Practice

We are aware that one of the most criticized features of the city salary system for professional employees is midpoint control. The city follows the example of many employers in setting most of its range minimums and maximums approximately 20 percent below and above the midpoint, respectively.

The city ordinance that established the CCAC states that one of our duties is to:

> "Determine the appropriate competitive position of city pay levels relative to the **central tendency** (emphasis added) of surveyed employer pay levels."

"Central tendency" means the 50th percentile of salary rates, or in other words, the market average. Where position matches exist in the identified market, range midpoints are based on data indicating the market average rates. (Where no such matches exist, range midpoints result from pay level assignments based on internal equity analysis.)

We believe that the appropriate pay level for a city employee with journey skills is general alignment with the market average rate, as indicated by survey data collected and analyzed in accordance with accepted professional practice. This does not mean that the salary rate must precisely equal the value determined as the market average. As we have explained in previous reports, by tying the midpoint control to the indicated market average, and by accelerating salary progression below the midpoint and slowing it on the upside, the ultimate effect is to cluster salaries within a zone around the midpoint.

Again, this concept apparently eludes the understanding of many employees. They object to being denied the range maximum—determined in their resolve that long service should justify above-market average pay. In their press to discredit the approach, some employees (both management and non-management) dispute the fact that other employers use the midpoint to control salary concentrations.

How prevalent is use of the midpoint as a control on salary? Almost any survey done by large compensation consulting houses will ask respondents to state the *control point* of the range. If the range maximum is to be attainable, there would be no sense to the control point terminology.

Unless the range top is not far above market average—say no more than five percent in non-PFP systems—most employers do not allow base salaries to aggregate at open-range tops. It is our view that public sector employers should be in this camp. Public Sector employees tend to remain in service for a long time. Indeed, employment stability is one the things that attracts workers to the public service. If the employer allowed the top of the range to be the control point, the vast majority of salaries would ultimately reside there. Obviously, no public sector employer could defend this scenario to taxpayers and fee payers. Likewise, most private sector employers would not endeavor to convince stock holders that such an approach is appropriate.

Again, employees need to understand that being denied the range maximum is a competitive disadvantage only if the range maximum represents the market average. This has been such a point of contention, however, that we recommend a survey of other employers' practices, both public and private, to assess the conventional wisdom regarding use of the control point and the *acceleration/deceleration* concept.

Does this strategy of tying salaries to market average relegate the City to mediocrity? We think not. Witness the excellent ratings that SLCC employees have received year after year in the Dan Jones Citizen Survey. It should also be recognized that many exceptionally capable individuals enter public service knowing full well that it's not a career choice apt to garner the highest wages.

The aim is to keep city salaries generally competitive overall and over the long run. *Competitive* does not mean paying above market average. To pay above market average is to adopt a pay policy that goes beyond that which is necessary to be competitive. Likewise, paying less than market average reflects a less-than-competitive pay policy. We believe that departure either way is unfair. Unless it can be shown that performance suffers, pay that exceeds more than a competitive level is unfair to taxpayers and fee payers. By the same token, pay that is less than competitive is unfair to employees, and probably will affect performance in the long run.

Other Often-Resented Controls

Compensation is by far the largest operating expense of most employers. The City wage tab for full-time employees alone now exceeds $133 million per year, and these dollars drive high benefits costs as well. Operating a compensation system the size of SLCC's without carefully designed and consistently administered controls would ultimately result in fiscal chaos, and possibly discrimination lawsuits as well.

Besides the range midpoint for open-range plans, listed below are several of the most often protested controls currently in use by the SLCC system. The controls are spelled out in the City's *Compensation Guidelines and Procedures*, which are posted on the city's internet and intranet sites.

1. Hiring offers are permitted within a range of values, but have limits to prevent uncontrolled compression of new-hire salaries with current employee salaries—as well as to encourage managers to act responsibly in making salary decisions.

2. The hiring authority may decide to offer a salary higher than the suggested guideline, but may not later use the new employee's high salary as argument that the salaries of longer service employees must be increased to be fair. Without such stipulation, the inflationary impact—given enough time and the propensity of many supervisors to succumb to the complaints of longer service employees—could be crippling.

3. Everyone makes their own deal at hire, but once inside a structured pay system, all employees must be subject to the same rules. Inconsistencies spawn morale issues and discrimination complaints, as well as undesirable fiscal impacts. That's why there's a general 10 percent limit on promotional increases. That a longer service employee may wind up

being paid less than a shorter-service employee is, by far, the lesser of the evils.

4. Bringing pay up to the level of responsibility is unfailing logic. But so is bringing responsibility up to the level of pay. When the employee's pay is already within the new pay range, the general rule is to give no immediate increase. This rule, intended in part to temper fiscal impacts when large numbers of employees are reclassified, is sensitive to the fact that in many cases, current salary will approach or even exceed the midpoint of the new grade. Movement to the higher grade will result in a higher pay raise whenever a general increase is given.

In all of these cases, flexibility is afforded by special approval of policy exception requests, within limits. An in-range pay adjustment should be considered when it serves objectives of pay equity and business purpose—and does not create imbalances with the pay of other incumbents already occupying the new grade.

Some controls that limit the compensation decisions of supervisors are established by union contracts. These apply to stepped plans. The stepped plan, meaning a salary structure with steps instead of an open range, is a different matter. Generally, in stepped plans the top step will approximate market average. This is the intent with SLCC's stepped plans, which include AFSCME-covered groups, and sworn fire and police.

Incidentally, HR reports that some managers have expressed preference for returning professional employees to a stepped structure. It should be emphasized that stepped plans offer little flexibility. This is precisely why their use is preferred for sworn positions in police and fire, and for union-covered positions. The stepped plan tells the employee the *where-and-when* the employee will be at any given point in length of service—provided he/she commits no grievous wrongs along the way.

Freedom to Pay for Performance (PFP)?

Many managers—even public sector ones—tout pay-for-performance (PFP) as the means to validate any pay system while enhancing employee performance. We have never seen empirical evidence to back up this position. Even if it works for some private sector employers, PFP clearly cannot be viable in the public sector where all employees' salaries are public knowledge. Serious morale difficulties and conflicts will arise when employees who think they are deserving (which is most everyone) see co-workers benefiting from the system while they are denied. Ironically, employees often have a better grasp of who the stellar performers are than do the supervisors. Studies have shown that 80 percent of employees believe their own performances to be above average, yet true PFP systems only materially benefit about 20 percent of the employee population.

In previous reports, we identified other problems with trying to pay city employees based on their individual performances. These problems include lack of budget to provide meaningful differences in performance-based awards, and questionable objectivity in performance appraisal approaches.

Education May be Lacking

Years ago, the City's supervisory training program included a module on compensation. We recommend reinstatement of such a program. Ignorance at the supervisory level regarding prudent pay principles aggravates employee unrest and dissention. Believing that in a compensation system such as that administered by the City that employees should be allowed to progress in-mass to as much as 120 percent of market is potentially harmful ignorance.

Total Compensation Value (TCV), Local Market, Non-Executive Positions - Salary Plus Benefits Comparison

To cover the next sections, we adopt the format used in previous reports. This is intended to allow easier comparison with year-earlier information. Data looked to for salary and benefits comparison is a meld of survey results provided by the Western Management Group (WMG) and by the Wasatch Compensation Group's (WCG) on-line survey named Technology Net. Regarding the WMG data, survey participation has continued in flux since WMG took the administrator reins from AON Consulting. This means that unwelcome variances may still be a concern. Thus, we have not given substantial weight to the data in making our recommendations for the year ahead. Suffice it to say that the data continues to indicate that SLCC's practice is at least on pace with the competition.

	2006-2007		2007-2008	
EMPLOYEE GROUP	Actual Average Salary Only SLCC/MKT	Actual Average Salary Plus Benefits SLCC/MKT	Actual Average Salary Only SLCC/MKT	Actual Average Salary Plus Benefits SLCC/MKT
Operations/Maintenance	103.6%	104.2%	106.4%	107.9%
Clerical/Technical	115.2%	113.3%	114.3%	113.2%
Non-Exempt Professional	106.4%	107.5%	105.6%	107.2%
Exempt Professional	99.0%	103.4%	100.2%	103.4%
Police Officer	112.9%	109.4%	107.2%	104.1%
Sergeant	106.6%	103.4%	108.1%	104.1%
Lieutenant	105.0%	102.0%	105.8%	102.3%
Police Captain	102.7%	100.8%	105.7%	102.8%
Firefighter EMT	106.7%	99.0%	101.1%	93.8%
Firefighter Paramedic	116.4%	133.5%	114.2%	103.6%
Firefighter Engineer	95.7%	90.3%	110.5%	100.7%
Fire Captain	110.1%	102.0%	111.7%	101.6%
Battalion Chief	120.8%	100.0%	116.9%	97.8%
Average	107.8%	105.3%	108.3%	103.3%

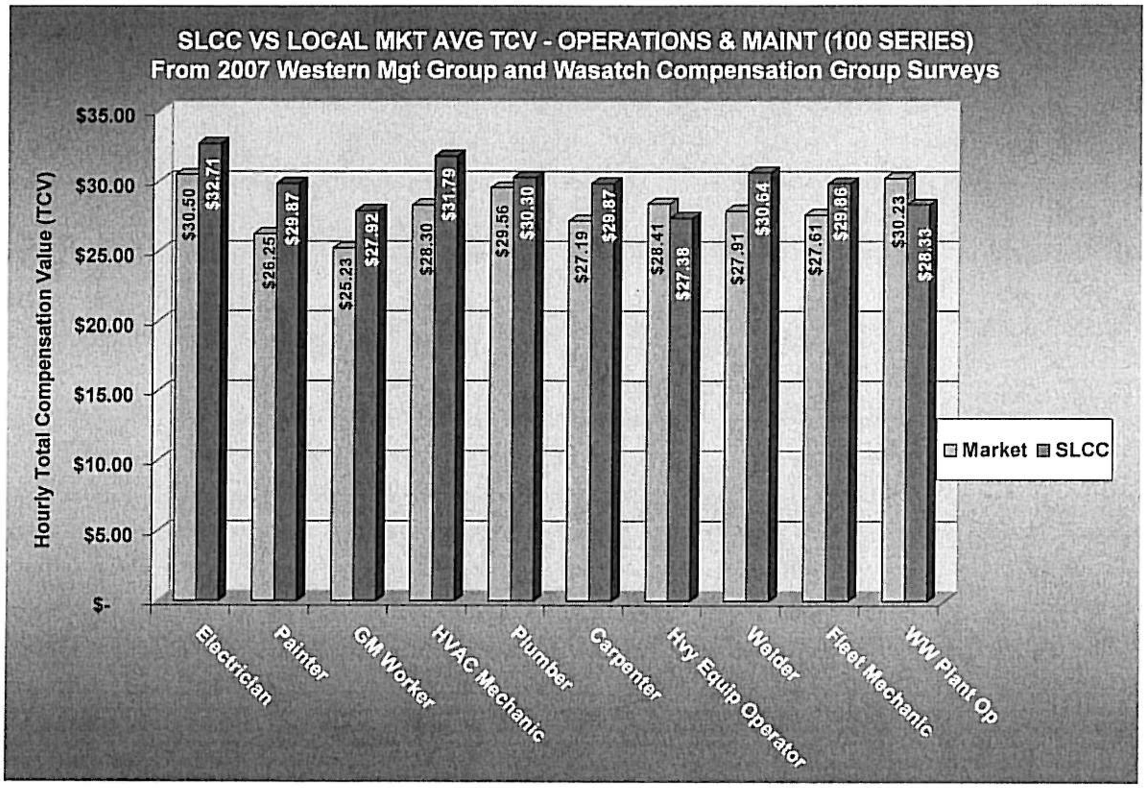
Although the overall SLCC-to-market salary-only comparison went up this year, the change in compensation based on actual average salary was only slight at ½ of one percent. The SLCC excess in overall salary-plus-benefits comparison went down by two percent. Such small differences can be caused by variances in the mix of survey participants and their employee separations, new hires, etc. As is the usual case, the clerical-technical group continues to be high in both categories, with the data suggesting a 9/10ths of one percent reduction in the salary-only category, and a 1/10th of one percent reduction in the salary/benefits combination. More will be said about this group starting on page 16.

Because turnover is exceedingly low in the public safety groups, pay grade maximums may be seen by many police and fire employees as the true level at which compensation competitiveness is measured. Data presented in the next chart suggests close SLCC-to-market alignment at the grade maximum. Most employers regard comparison variances within five percent as alignment with market.

EMPLOYEE GROUP	MINIMUM AVERAGE SLCC/MKT TVC	MAXIMUM AVERAGE MKT TCV	MAXIMUM AVERAGE SLCC TCV	MAXIMUM AVERAGE SLCC/MKT TVC
Police Officer	101.5%	$ 80,980	$ 82,300	101.6%
Sergeant	120.1%	$ 95,446	$ 98,472	103.2%
Lieutenant	113.9%	$ 110,317	$ 114,027	103.4%
Captain	111.9%	$ 122,442	$ 122,068	99.7%
Assistant Chief	82.7%	$ 155,430	$ 159,025	102.3%
Combined Avg Police	**106.0%**	$ 112,923	$ 115,179	**102.0%**
Firefighter	95.9%	$ 74,258	$ 75,809	102.1%
Firefighter Engineer	81.2%	$ 82,099	$ 80,369	97.9%
Firefighter Paramedic	94.8%	$ 84,159	$ 84,401	100.3%
Fire Captain	109.6%	$ 95,977	$ 93,800	97.7%
Battalion Chief	105.7%	$ 113,102	$ 108,036	95.5%
Assistant Chief	72.8%	$ 142,947	$ 130,427	91.2%
Combined Avg Fire	**92.3%**	$ 98,757	$ 95,474	**97.5%**

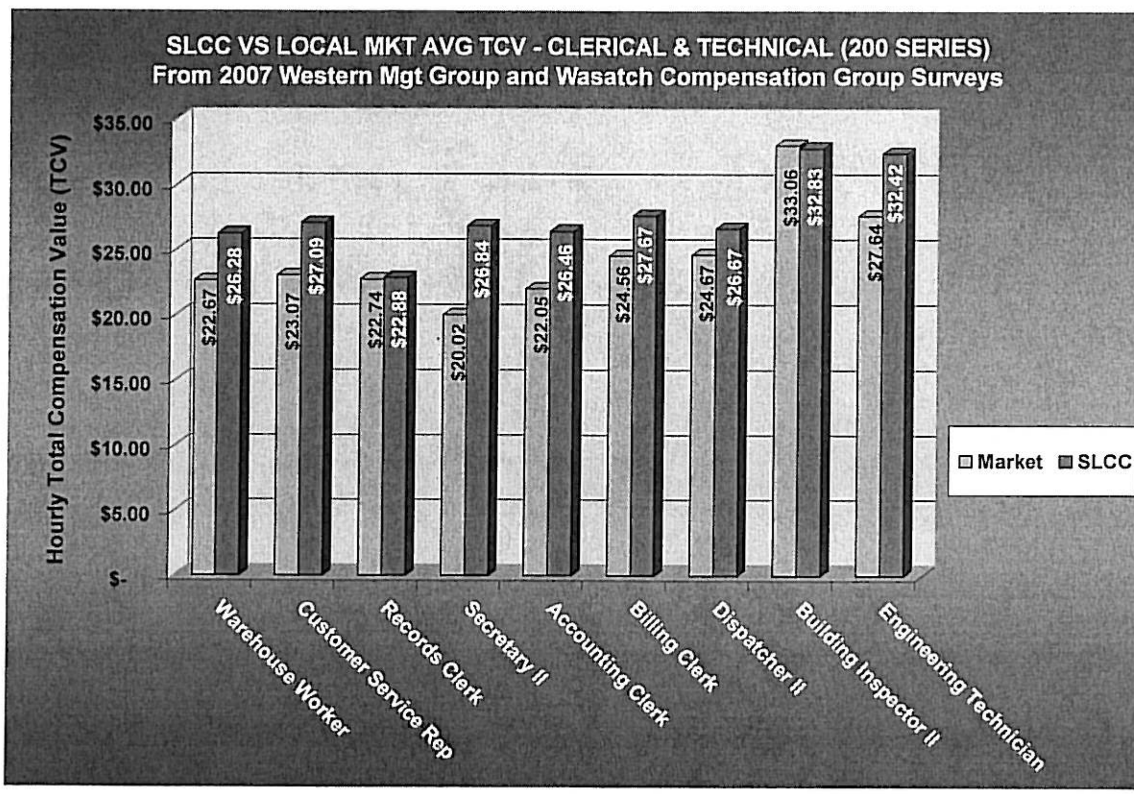
Operations and Maintenance Employees, 100 Series

The following chart plots TCV for 10 benchmark positions in the City's AFSCME-covered *100 Series*. Most of these positions are benchmarks employed in the construction industry, so significant market swings can be expected. Nonetheless, even though the local construction industry has surged in recent times, the 2007 data vs. the 2006 data suggests that this SLCC employee group's salary-only lead over the market went up by 2.8 percent overall (from 103.6 percent of market average to 106.4 percent of market average)—and its TCV lead went up by 3.7 percent (from 104.2 percent of market to 107.9 percent of market). In 2004, data indicated that SLCC's TCV alignment to market was on the upside by only two-tenths of one percent. That excess increased to 7.6 percent in 2005, dropped back to 4.2 percent in 2006, and recovered to 7.9 percent in 2007. Again, year-to-year changes in survey group make-up can contribute significantly to data variances.



Clerical/Technical Employees, 200 Series

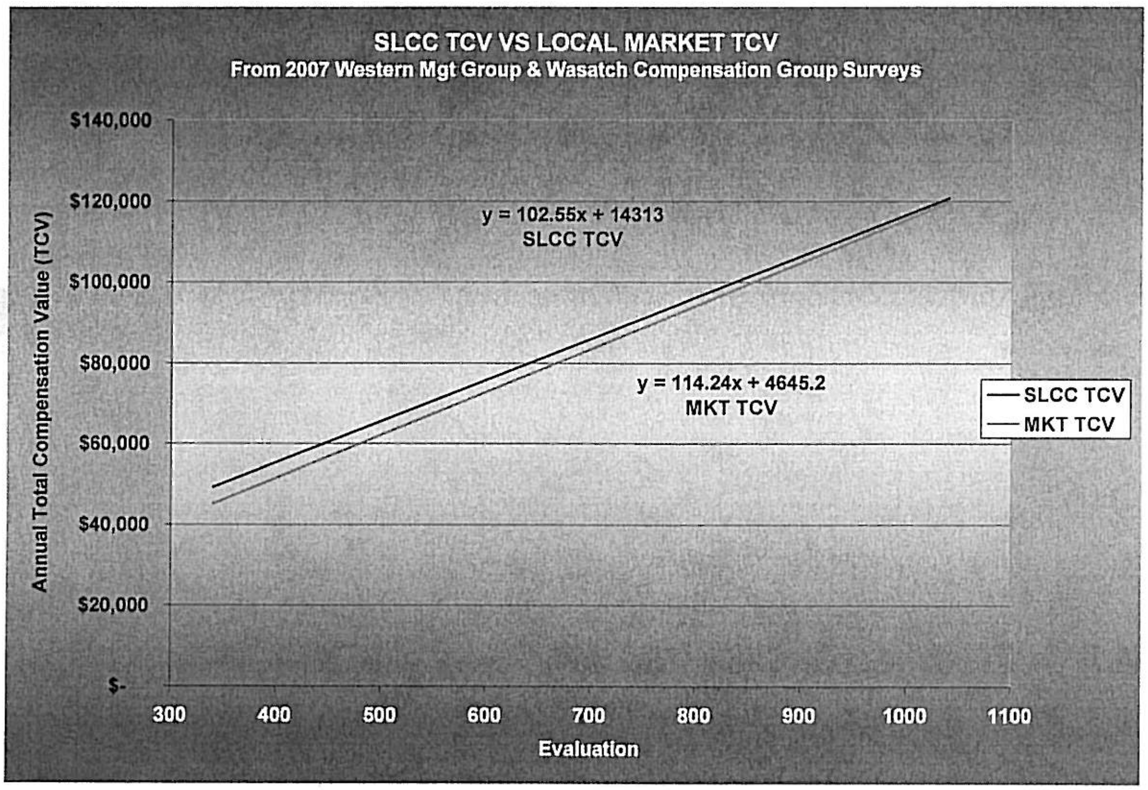
The next chart is for the 200 Series employees, which consists mostly of office



support positions predominantly occupied by female employees. Believing the market to be inherently discriminatory against such female worker element, the City made a deliberate decision during the mid-90s to ignore market data and to establish wage rates on the basis of internal-equity analysis only.

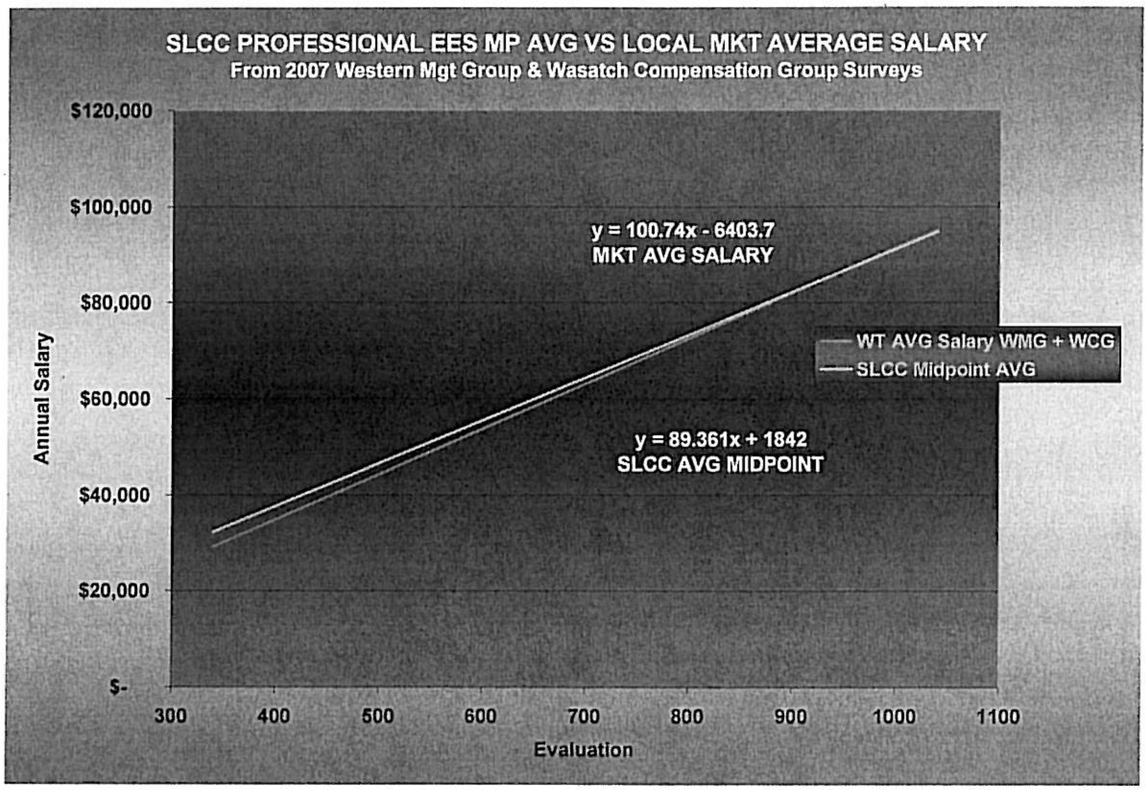
The chart reflects a continuation of this established policy. However, the data indicates that the decline in the excess of City salary rates over market for 200 Series jobs, as we noted in our last report, is being maintained. In previous years, it has been as high as nearly 30 percent.

Professional Employees, Non-Exempt (300 Series) and Exempt (600 Series)



Here, regression analysis is used to graphically show the aggregate City-to-market TCV comparison for 50 professional employee positions. There are too many positions in the data set to show how each individual one compares. “Evaluation points” reflect position rank. Solving for the equations at various evaluation points indicates that City TCV exceeds market by an average 1.8 percent. That’s down 3.4 percent from last year. The narrowing occurred mostly in upper level (600 Series) positions, where the plotted difference between SLCC and the market was less than two percent.

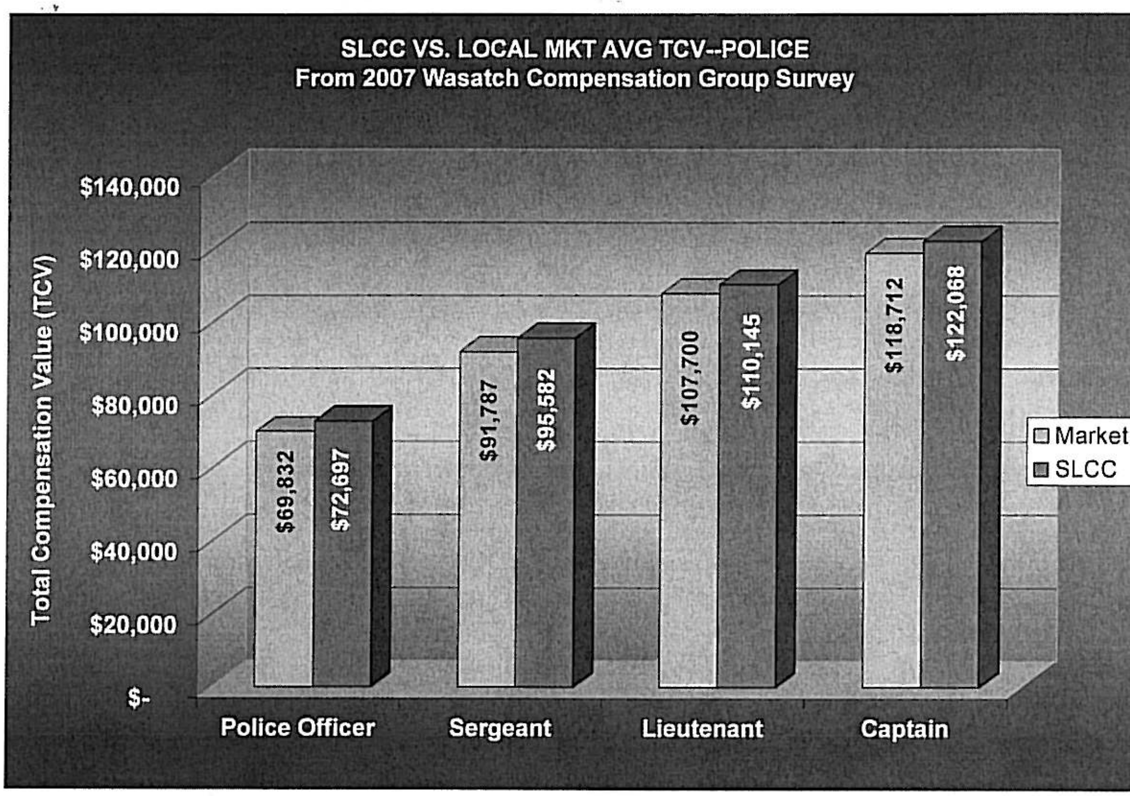
Since the range midpoint is used to control in-grade progression of salaries in the professional employee pay plan, it is useful to compare how the midpoints compare with actual market average salaries. The following regression analysis chart shows such relationship, based on the 2007 salary-only data.



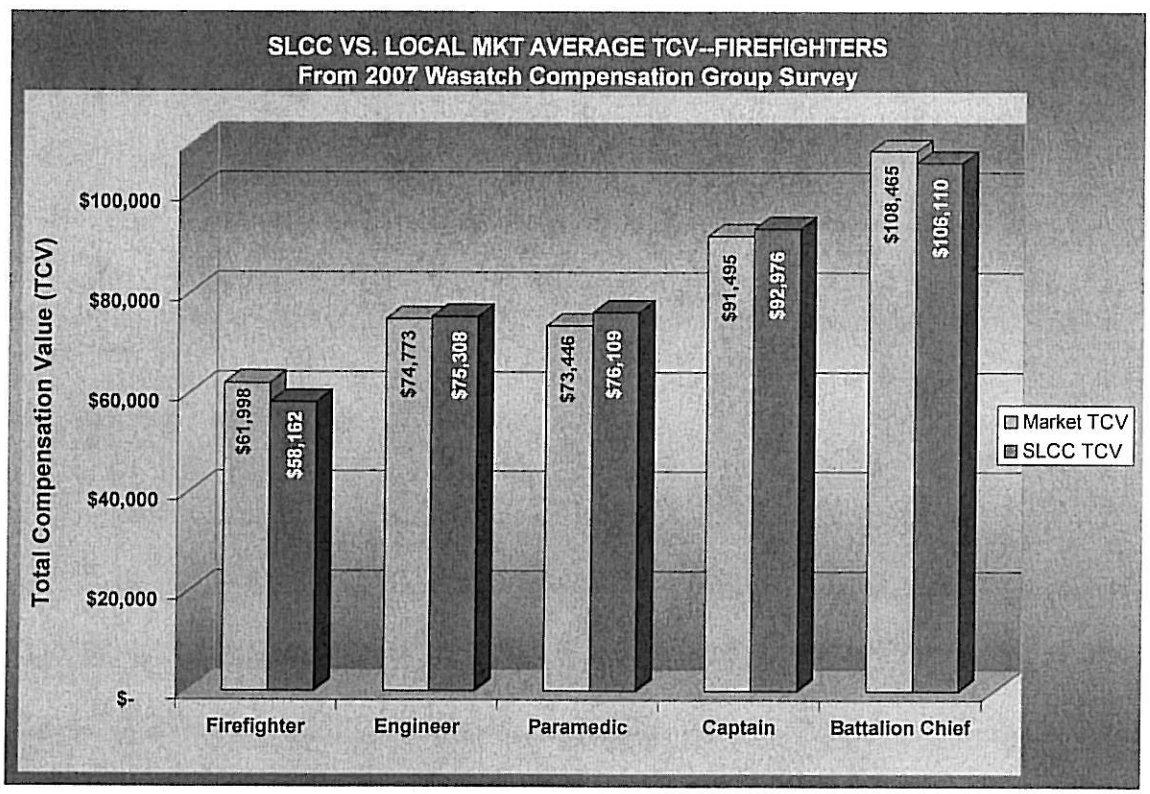
Solving for the equations at various points along the evaluation scale indicates that SLCC salary range midpoints align very closely with market actual average salaries, being only 7/10ths of one percent high on average. Again, narrowing between SLCC rates and those of the market occurs at the upper level positions.

Police, 500 and 800 Series; and Fire, 400 Series and 900 Series

As pictured in the next chart, TCV data using actual average salary suggests a relatively close (generally within five percent) relationship between City and local market values for police positions. Again, however, because it is based on actual average salary rather than top-step salary, police officers may view the chart as deficient because it doesn't show differences based on the top-step salary rate. As mentioned earlier, due to longevity in public safety positions, there is some credibility to the argument. Nevertheless, data based on actual average salary generally conveys a more accurate representation of how employers' actual pay practices compare at a given point in time. It is a reflection of a number of pay-related factors, including the rate at which employees are allowed to progress through the pay grades, and promotional steps, pay premiums, etc. That said, it should be noted that the differences between the SLCC-vs.-market values shown in the following charts are, overall, somewhat larger than when based on top-step salary.



The same point generally applies to firefighters.



Executive Salaries

National salary data in the next two charts is provided by the International City/County Management Association (ICMA) and the WCG. We were surprised by the data for 2006, given that it showed SLCC executive salaries to be generally higher than their national counterparts. Equally surprising, the data indicated that executive salaries for Wasatch Front agencies also tended to be higher than the national average. Suspecting flawed data, we expected the 2007 numbers to present a different picture. Not so the case, as the next two charts show.

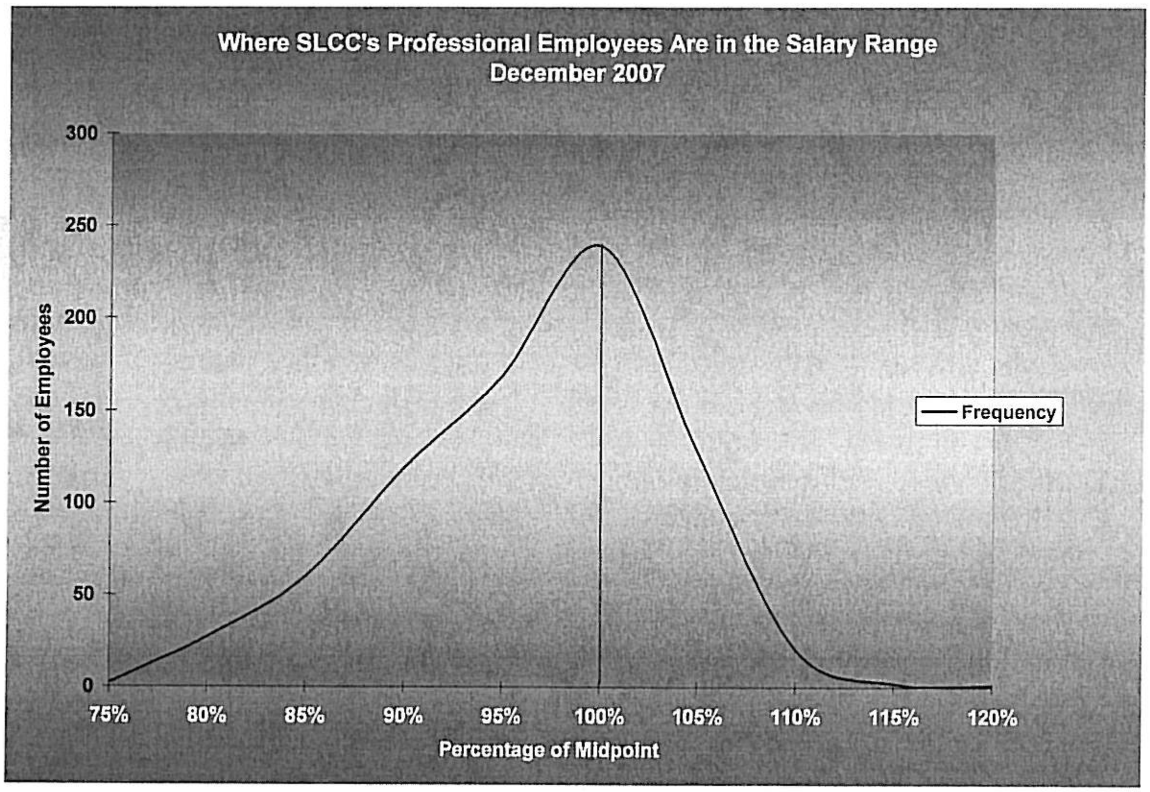
Position	SLCC	NATL MKT AVG - Pop. 100,000 to 499,000	SLCC/NATL MKT
City Attorney	$ 132,268	$ 112,107	117%
Purchasing Director	$ 75,828	$ 73,204	107%
Info Services Director	$ 106,417	$ 96,064	116%
Recreation Director	$ 84,604	$ 74,127	120%
HR Director	$ 98,758	$ 91,187	112%
Planning Director	$ 94,822	$ 90,323	108%
Economic Dev Director	$ 114,113	$ 97,339	119%
Fire Chief	$ 120,640	$ 105,662	117%
Police Chief	$ 115,916	$ 107,139	109%
Engineer	$ 108,647	$ 90,728	122%
Public Works Director	$ 118,915	$ 109,712	111%
Treasurer	$ 100,822	$ 80,411	128%
Finance Director	$ 110,032	$ 101,721	109%
		Average	115%

Result when the survey population scope is expanded to Include Wasatch Front:

Position	SLCC	NATL MKT AVG - Pop. 50,000 to 1,000,000	SLCC/NATL MKT	Wasatch Comp Group (WCG) Avg	SLCC/WCG
City Attorney	$ 132,268	$ 112,268	118%	$ 122,208	108%
Purchasing Director	$ 75,828	$ 72,811	104%	No Match	N/A
Info Services Director	$ 106,417	$ 96,509	110%	$ 96,874	110%
Recreation Director	$ 84,604	$ 73,610	115%	No Match	N/A
HR Director	$ 98,758	$ 92,610	107%	$ 97,497	101%
Planning Director	$ 94,822	$ 93,563	101%	$ 88,757	107%
Economic Dev Director	$ 114,113	$ 95,445	120%	$ 101,452	112%
Fire Chief	$ 120,640	$ 106,965	113%	$ 116,738	103%
Police Chief	$ 115,916	$ 101,149	115%	$ 122,179	95%
Engineer	$ 108,647	$ 91,169	119%	$ 100,231	108%
Public Works Director	$ 118,915	$ 108,840	109%	$ 117,658	101%
Treasurer	$ 100,822	$ 80,957	125%	$ 87,932	115%
Finance Director	$ 110,032	$ 106,372	103%	$ 109,755	100%
		Average	112%	Average	106%

The following chart showing how professional employee salaries are distributed around the range midpoints suggests that some in-range base salary adjustments may be in order—not as a reaction to attraction/retention issues, but merely as a matter of equity.

The chart depicts a significant shift in the distribution compared to the distribution charted in our last report. Now the picture is far less symmetrical, with the population below midpoint being nearly 2.5 times more than the population above midpoint. We believe this results primarily from range-level increases occurring since we last visited the subject—that is, midpoints have increased without accompanying salary increases. Assuming the midpoint increases were justified based on market changes, then an argument is made to make in-range equity adjustments as appropriate. We encourage the City to review cases in which incumbents, who have skill sets that meet market standards, have remained below 90 percent of market-justified control points for extended periods.



'Lead' Versus 'Lag'

Should city salary rates move ahead of market average, or instead should they adjust as the data indicates? In the final analysis, the issue will be decided by taxpayers and fee payers—and we are confident that a lag strategy is the one that will prevail. We are not aware of any public agencies who have adopted a lead strategy and have managed thereby to continuously sustain a pay practice that exceeds the identified market average.

Over the years we have cautioned the City to avoid striving to be the highest payer among employers with whom it competes for personnel. This includes local government agencies. We repeat that caution once again. History has shown that when SLCC increases its rates, other local agencies will do likewise. Indeed, some agencies have made it a point at general-increase time to set their new rates slightly higher than SLCC's rates—after learning what those rates are—and to do it all over again when SLCC "counters" during the next round. This creates unnecessary inflation within the market area, and cannot be justified to fee payers and tax payers.

As for competing with the local private sector, data indicates that SLCC can, and does, compete effectively on the basis of attraction/retention aims. The City's attraction/retention rates have been favorable when compared with that of other employers—through ups and downs in labor availability. We believe the City has accomplished this by paying a competitive wage (based on market average) combined with excellent benefits, relative job security, fair employment practices, and career development and promotional opportunities.

We believe these are values likely to be held by the individual who seeks employment in the public service. If making a *high* (above-market-average) salary is paramount to the individual, he/she should look elsewhere. Does this mean that the government employee's performance will be mediocre? As noted earlier, apparently not. Every Salt Lake City citizen opinion survey that has been conducted during our committee's existence has come back with high scores for City employees.

In Closing

The EXECUTIVE SUMMARY contains our recommendations for the coming year's general increases, and highlights our advice on several compensation issues that have developed primarily due to the continued tight labor market. We urge caution in reacting to attraction/retention challenges with base pay increases, but advise adjustments where equity warrants.

As a citizen advisory committee, we are pleased to be called upon to help guide the City's compensation practice. We look forward to reviewing this report with the Mayor and the City Council, and we will be glad to answer any questions or discuss any needed follow-up.

Allen Miller, Chair
Larene Wyss, Vice Chair
Bob Baty
John Campbell
Lourdes Cooke
Cori-Dawn Petersen
Diane Wood