



# City of Arlington Council Agenda Bill

Item:  
NB #1  
Attachment  
D

<b>COUNCIL MEETING DATE:</b>	
December 5, 2016	
<b>SUBJECT:</b>	
Executive Report presentation by McGrath Consultants	
<b>ATTACHMENTS:</b>	
Executive Report	
<b>DEPARTMENT OF ORIGIN</b>	
Administration - Paul Ellis	
<b>EXPENDITURES REQUESTED:</b>	
<b>BUDGET CATEGORY:</b>	General Fund
<b>LEGAL REVIEW:</b>	
<b>DESCRIPTION:</b>	
Victoria McGrath, of McGrath Human Resources Group, will present an overview of methodology, description of how a market-based salary system works, recommended classification system changes, recommended compression strategies, recommended salary schedule for non-represented employees, and benefit market review.	
<b>HISTORY:</b>	
The City of Arlington (City) solicited proposals from interested, highly-qualified, and experienced consulting firms to design, conduct, and assist in the implementation of a comprehensive compensation study for the City's employees. The City received two proposals. Staff reviewed both proposals and has recommended awarding a contract to McGrath Human Resources Group to complete the survey. The last full comprehensive compensation plan was completed in the early 2000s.	
<b>ALTERNATIVES</b>	
<b>RECOMMENDED MOTION:</b>	
Discussion only.	

# Classification and Compensation Non- Represented Executive Report

**For**



**December 2016**



McGrath Consulting Group, Inc.  
P.O. Box 190  
Wonder Lake, IL 60097  
Office (815) 728-9111  
Fax (815) 331-0215  
[www.mcgrathconsulting.com](http://www.mcgrathconsulting.com)

©Copyright 2016 McGrath Human Resources Group. All rights reserved.  
No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopy, recording or otherwise without the expressed written permission of McGrath Consulting Group, Inc.

## Table of Contents

<b>Study Overview .....</b>	<b>4</b>
<b>Methodology .....</b>	<b>6</b>
Data Collection .....	6
Labor Market .....	7
Market Data Solicited .....	9
<b>Pay Range Market Analysis.....</b>	<b>9</b>
Minimum Salary Comparison.....	9
Market Rate Salary Comparison.....	9
Maximum Salary Analysis.....	11
Market Data Summary.....	11
<b>Current Compensation Systems .....</b>	<b>11</b>
Compression .....	12
<b>Position Considerations .....</b>	<b>13</b>
<b>Recommended Salary Schedule.....</b>	<b>13</b>
Placement.....	13
Longevity .....	14
Life Cycle of Salary Schedule .....	15
Benefit Statements .....	15
Summary of Compensation .....	16
Summary of Recommendations.....	16
<b>Benefit Analysis.....</b>	<b>18</b>
Health Insurance .....	18
Non-Uniformed Employees .....	18
Uniformed Employees .....	20
All Plans .....	20
Wellness Program .....	21
Paid Time Policies .....	21
Vacation .....	22
Sick Leave.....	23
Holidays .....	24
Payout Provisions .....	25
Summary Benefit Recommendations .....	25
<b>Appendix A: Non-Represented Employee 2017 Recommended Schedule .....</b>	<b>27</b>
<b>Table of Tables</b>	
Table 1: Comparable Organizations .....	7
Table 2: Average Market Rate Summary Full-time Positions.....	10
Table 3: Proposed Vacation Schedule for Non-represented and Department Heads .....	23

## Study Overview

McGrath Consulting Group, Inc., an organization that specializes in public sector consulting, was commissioned by the City of Arlington to conduct a comprehensive classification and compensation study of all positions. The City requested an evaluation of all City positions in order to update the current system.

The purpose of this study is to:

- ✓ Obtain and establish compensation among the external comparable market.
- ✓ Establish internal equity among positions within the City.
- ✓ Integrate the data from the external market and internal market, into an updated compensation system.
- ✓ Obtain data, evaluate and recommend other pay practices and compensation-related benefits such as additional pay, leave and cash-outs.
- ✓ Work with administration to develop a plan for and support with implementation of the compensation system.
- ✓ Provide implementation strategies for any compensation system updates including a projection of the ongoing budget commitments necessary to provide a sustainable and consistent compensation system.

The Consultant would like to extend appreciation to the City Administrator, Assistant City Administrator, Human Resources, and Finance for their time, cooperation, and sharing of information and perceptions with McGrath Human Resources Group.

*Note: The contents of this report are geared toward the non-representative employees of the City. Information and recommendations have been gathered for all City employees; however, a number of city employees are represented by unions and as such, all wages and benefits are subject to negotiations. Information regarding compensation and benefits as part of this study that may be subject to contract negotiation have been submitted to the City under confidential cover.*

## Definitions

The following are definitions that helped guide the development of the compensation system for Arlington.

**Benchmark Position:** A job that is commonly found and defined, used to make pay comparisons, either within the organization or to comparable jobs outside the organization.

**Classifications:** Job titles.

**Compensation System:** A system developed to compensate employees. This system includes a balance between internal equity and external competitiveness.

**Compensation Data:** Data derived from information regarding the salary range and the rate of pay of the incumbent(s) holding a benchmark position of the identified labor market.

**Comp Ratio:** The ratio of an actual pay range to the established position point (or average market rate). The Comp Ratio is used to measure and monitor an individual's actual rate of pay to the Position Point of the established pay range. In Arlington, a 50% comp ratio (+/- 10%) indicates an individual is being paid approximate to the established position point (or average market rate).

**Compression:** Pay differentials too small to be considered equitable. The term may apply to differences between (1) the pay of supervisors and subordinates; (2) the pay of experienced and newly hired personnel of the same job; and (3) pay range midpoints in successive job grades or related grades across pay structures.

**CPI-U:** Consumer Price Index – Urban: A measure of the average change over time in the prices paid by urban consumers for a market of consumer goods and services. It reflects the spending pattern for three population groups: all urban consumers, urban wage earners, and clerical workers. This group represents approximately 87% of the total U.S. population.

**Demotion:** The (re)assignment of an employee to a position in a lower pay grade or range in the organization's salary structure.

**Labor Market:** A location where labor is exchanged for wages. These locations are identified and defined by a combination of the following factors: geography; industry; education, experience and licensing or certification required; and job responsibilities.

**Market Data:** The technique of creating the financial value of a position based on the "going rate" for benchmark positions in the relevant labor markets.

**Minimum Salary Range (Minimum):** The minimum amount of compensation the organization has deemed appropriate for a position.

**Maximum Salary Range (Maximum):** The highest amount of compensation the organization has deemed appropriate for a position.

**Market Rate (Market):** The organization's best estimate of the wage rate that is prevailing in the external market for a given position.

**Market Average:** Per the compensation philosophy of the City Council of Arlington, the philosophy to pay employees based upon the ‘average’ market rate; or the ‘average’ prevailing wage rate in the external market.

**Market Average Range:** A pay range in which the minimum and maximum of the range is established around the Average Market Rate.

**Pay Grade:** The grade, or placement of a position, within the salary structure.

**Pay Grade Evaluation:** The (re)assignment of a job to a higher or lower pay grade or pay range in the salary structure due to a job content (re)evaluation and/or significant change in the average market rate in the external labor market.

**Performance Increase:** An adjustment to an individual’s base pay rate based on performance or some other individual measure.

**Promotion:** The (re)assignment of an employee to a position in a higher pay grade or range in the organization’s salary structure.

**Position Point:** Per the compensation philosophy of the governing board of Arlington, the philosophy to pay employees based upon the ‘average’ market rate; or the ‘average’ prevailing wage rate in the external market.

**Salary Schedule Adjustment:** An adjustment to the salary structure; the increase or decrease of a pay range, minimum – maximum. This is a method to maintain the salary range in relation to external market conditions.

**Step Schedule:** Standardized progression pay rates that are established within a pay range. To move to the next step one must have met acceptable performance standards.

**Salary Schedule:** The hierarchy of job grades and pay ranges established within an organization.

**Spread:** The range of pay rates, from minimum to maximum, established for a pay grade. Typically used to set individual employee pay rates.

## **Methodology**

### **Data Collection**

The project involved several steps: collection of data, interviews, and data analysis. The first step of this study involved the gathering of data that pertains to current compensation practices within Arlington. The Consultant received information relating to current salaries, collected market data,

specific policies, and current job descriptions. This provided a basis on which to build a compensation system.

Interviews were conducted with the City’s senior staff, including the City Manager and Department Heads. The purpose of these meetings was to first, gain an understanding of the City’s current compensation practices and philosophy; second, solicit ideas and input from these stakeholders for future compensation methodologies and practices; and finally, determine if there were any positions within the City that were difficult to recruit, retain, or were otherwise unique in the position’s responsibilities.

### Labor Market

In order to gain information from the external market, the Consultant established a list of comparables from interviews with the Department Heads and City Administration. Each of the comparable organizations were contacted initially via telephone and then were provided an online questionnaire. Salary data for specific positions was solicited from the comparable organizations. The following comparable organizations were contacted:

**Table 1: Comparable Organizations**

<b>Participants</b>		<b>DNR</b>
City of Anacortes, WA	All Comps requested	
City of Bellingham, WA	All Comps requested	
City of Bothell, WA	All Comps requested	
City of Burlington, WA	All comps requested	x
City of Everett, WA	All Comps requested	
City of Lake Stevens, WA	All Comps requested	
City of Lynnwood, WA	All Comps requested	
City of Marysville, WA	All Comps requested	
City of Monroe, WA	All Comps requested	
City of Mt. Vernon, WA	All Comps requested	
City of Mukilteo, WA	All Comps requested	
City of Oak Harbor, WA	All Comps requested	
City of Snohomish, WA	All comps requested	x
City of Stanwood, WA	All comps requested	x
City of Mill Creek, WA	Police	
City of Mountlake Terrace, WA	Police	
City of Sedro Woolley, WA	Police	
City of Tumwater, WA	Police/Fire	
City of Camas, WA	Fire	

<b>Participants</b>		<b>DNR</b>
City of Port Angeles, WA	Fire	x
District 1	Fire	x
Lake Stevens; Fire District 8	Fire	
Marysville Fire District	Fire	
Monroe (Snohomish #3 #7)	Fire	
Snohomish FD#4	Fire	
Chehalis-Centralia Airport	Airport	
Olympia Regional Airport	Airport	x
Paine Field; Snohomish County Airport	Airport	x
Port of Olympia	Airport	
Skagit Bay View (Port of Skagit)		
Skagit Regional Airport	Airport	x
Woodland State Airport	Airport	
WSDOT Aviation	Airport	

The Consultant was pleased with the response to the survey. All but eight (8) of the organizations contacted provided data.

The collection of this compensation data was utilized to analyze the Average Market Minimum, Mid-Point and Maximum rates per defined Benchmark positions, as well as a comparison of the Average Salary of the positions to the salary of incumbents within Arlington. When necessary, evaluation of the comparable organization’s job description, when available online, was utilized to resolve conflicts.

The labor market for Arlington was determined based upon a number of factors including location, size, recruitment areas, and discussions with Department Heads. During interviews, each Department Head was asked if there were certain municipalities they felt had similar positions. If so identified, the Consultant sought the salary and benefit data.

The Consultant surveyed 86 positions within Arlington. In addition to the current positions within Arlington, the Consultant sought comparable data on positions that might have job responsibilities that are combined in Arlington but might be separate in other organizations. These may be positions that have differentiated salaries due to required certifications, and positions that might be added in the future. Further, in some cases, the titles were altered to better align with the industry.

## **Market Data Solicited**

The market surveys gathered the following information: 2016 Minimum, Midpoint, and Maximum Salary for the position as well as the Average Salary of the incumbents. Positions with less than three (3) participants were excluded since it was considered an insufficient sample size. Further, salaries that were considered statistically too high or low were eliminated when determining the market average.

In addition to compensation data, the Consultant solicited data employer-provided benefits such as insurance and leave accrual.

## **Pay Range Market Analysis**

### **Minimum Salary Comparison**

The analysis of the Minimum Salary Range gives the initial indication if starting salaries are within an acceptable Market Range. For this purpose, the closer to 50% (Average Minimum), the closer the match of the City's Minimum to the Average Market Minimum. Minimum starting salaries below 40% (called the comp-ratio) would require further evaluation, as this could be an indication the minimum of the Salary Range has fallen below the Market Average. A starting salary below the Average Market Minimum may not necessarily be a problem depending upon the speed in which an individual advance to the established Market Rate.

There are some concerns with the minimum salaries of the current Salary Ranges because 27% of the Benchmark positions are below the Average Market Minimum. There are an additional 25% of positions that are also of concern and need be looked at further, as they are within the 40% Comp-Ratio, but at the lower end, and will soon be below the Average Market Rate. From the data, it would appear that a portion of the starting salaries have fallen below the Average Market Minimum.

### **Market Rate Salary Comparison**

The next step in developing a compensation structure is to compare the current incumbent's salaries to the Average Market Rate. For this purpose, positions where there is more than one (1) incumbent, an *average* of the current employees is utilized. Later in the study, analysis was conducted for each

individual employee in relation to the recommended Market Rate, and is submitted under separate cover.

It is standard compensation practice to establish a range around the Average Market Rate to determine if the employee is being fairly compensated. Employees often assume if the Average Market Rate is \$25,000, then they should be earning \$25,000; however, compensation practices review a range around the Average Market Rate that an employee should be at by the time the employee is fully functioning within their position. Public sector organizations traditionally establish a 5-10% range around the Market Rate; therefore, if an employee is earning between 40-60% of the Market Rate, the employee is fairly compensated.

In summary, only 18% of the City’s positions are below the Average Market Rate. There are an additional five (5) positions, or 9%, in the lower 40% Comp-Ratio range that need to be evaluated. Thus, 27% of the positions are of concern and need to be evaluated. With that said, overall, the City has maintained employee’s salaries in relation to the Average Market Rate.

**Table 2: Average Market Rate Summary Full-time Positions**

<b>AVERAGE MARKET RATE COMP RATIO</b>	<b>NUMBER OF BENCHMARK POSITIONS</b>	<b>PERCENTAGE OF POSITIONS</b>
10-29%	1	2%
30-39%	9	16%
40-49%	12	22%
50-59%	21	38%
60%-69%	7	13%
70%+	5	9%

When evaluating all of the positions within the Salary Structure compared to surrounding comparable municipalities, the majority of the Salary Schedules are within the Average Market Rate for positions with similar education, skill, and experience. This speaks to the current tenure of current employees. With that said, the Consultant would have expected to see more salaries higher than the 50% Comp-Ratio. Thus, the current Salary Schedules are just keeping up with the external market and more employees are not achieving the external market rate within an acceptable period of time.

In compensation strategy, the Market Rate is the salary an employee reaches within approximately three – five years of employment, as long as he/she is meeting acceptable performance expectations. It is the prevailing wage for that given position. The current salary structure is not providing employees the opportunity to reach the prevailing wage for the position within an acceptable time period. Thus, the Schedules need to be adjusted.

### **Maximum Salary Analysis**

The Consultant has the information to compare the City's Salary Range Maximum to the Average Market Maximum. However, due to the various types of salary range construction, the data is not very revealing.

### **Market Data Summary**

Overall, the City has kept pace with the external market. The current Schedule has fallen slightly behind the Average Market Rate with some positions that need some adjustment. Thus, there needs to be adjustment with some of the Market Minimums, adjustment of the Salary Schedules to the external market rate, and realignment of positions with placement of the Pay Grades.

## **Current Compensation Systems**

The City currently has six (6) separate compensation systems. Four of these compensation plans are union plans and are negotiated between a labor group and the City. Two plans are for the non-represented employees of the City.

The major issues with the current Compensation Systems is that there are six (6) different Salary Schedules; thus, the Consultant performed an analysis and combined all of the non-public safety schedules together. This exercise illustrated a number of internal equity issues in which positions of similar titles are paid differently, and when looking at the internal hierarchy of the organization, there is compression between employee and supervisor positions. In some positions with a higher level Salary Range, starting wages are lower than subordinate positions. These issues are common with

multiple schedules as an organization rarely attempts to evaluate them as an integrated compensation plan. Rather, each schedule is negotiated or treated independently causing internal equity problems.

The schedules do not provide any promotional opportunities within the organization; thus, if one learns more skills or attains certifications that can be a value to the department, there is no monetary reward. For example, an Equipment Operator I, Equipment Operator II; or Police Officer and Master Police Officer. The City has begun to work on developing levels of positions; however, decided to wait until the compensation study to place the positions into the Compensation System.

The Schedules have no tie to the external market. A few of the Schedules have steps that are fiscally large; thus, it is hard to keep them competitive to the external market. Although the public does not see the overall total compensation increase (step plus cost to the schedule), the Consultant is sure if the public realized what was negotiated, it would be hard for elected officials to justify the total increase in today's economy.

Finally, there are no objective mechanism to place positions within the Salary Ranges.

### **Compression**

Compression is when salaries of job classifications of a higher rank or authority are paid less than positions of a lower rank or authority. This usually occurs in public safety departments where salary plus overtime of lower ranks exceeds the higher command ranks. Because of this issue, the Consultant asked for salary information (base plus overtime) for the entire 2015 fiscal year for all job classifications.

An analysis was conducted of all positions within the City, the only area in which overtime compression is an issue is within the Police and Fire Departments. There are a number of employees with an extraordinary amount of overtime. The issue of Compression arises under two circumstances: 1) the percentage distance between the ranks/positions; and 2) the distribution of overtime. The design of the wage scales has been examined, and recommendations for the percentage distance between ranks has been given.

In addition to the construction of the Salary Schedules, management and contract language control distribution of overtime. Thus, in order to minimize compression, management of the Department must re-evaluate the usage and distribution of overtime. The combination of the various Salary Schedules will be developed with sufficient distance between Pay Grades to minimize Range Compression.

Both the police and fire schedules are subject to contract negotiations. Recommendations to the construction of these Schedules have been provided under confidential cover.

## **Position Considerations**

During the course of the study, there was an opportunity to better align job titles and responsibilities. The Consultant reviewed the City's attempt at created levels of positions – i.e., Operator I, II, III, and made recommendations to maintain or eliminate these positions. Further, recommendations on title changes have been made to either create a consistent hierarchy within the organization, or to title positions more in line with current industry standards.

## **Recommended Salary Schedule**

The recommended Compensation System is a compilation of all four (4) step Salary Schedules. This results in a 12 step schedule. The percent between steps is graduated from 3.0% for Steps 1 – 5; and 2.0% from Step 6 through the top of the range. The schedule is built off the Average Market Rate which is Step 5 of the grid. Steps proceed beyond the Average Market Rate; thus, based upon minimal performance standards and tenure, the employee continues to earn beyond the Average Market Rate to Step 12 of the Salary Schedule. Continued step increases beyond the Average Market provides continued incentive for employees.

### **Placement**

For purposes of implementation, employees currently below minimum of the new pay range Step 1 will be placed on Step 1. Employees above Step 1 are placed on the step closest to their current salary

without a decrease. This may not be a significant increase and should only be viewed as a wage adjustment to move onto the new Salary Schedule. It is not considered a performance increase.

In most organizations, this type of placement proves problematic, as employees feel that if they have more tenure in the position they should be higher within the Salary Range. Although there is merit to this argument, placement on the schedule by years in the position proves to be costly – something most municipalities cannot afford.

As previously indicated, Salary Schedules have been recommended for AFSCME, Police and Fire. However, these schedules are subject to contract negotiations and have been submitted under confidential cover.

### **Longevity**

Longevity is a traditional and tenured benefit found in public sector that has not proven to be effective toward promoting efficient and effective services. Almost half the participants reported some type of longevity payment. For all but three (3) municipalities, longevity is calculated on a percentage of base pay, starting between the 5<sup>th</sup>-6<sup>th</sup> year of employment, with one (1) comparable reporting this benefit starting in the 10<sup>th</sup> year. The percentage of base pay ranges from .5%-12% for fire, 2%-15% for police, and 1%-4% for non-uniformed personnel. The City of Arlington provides Longevity as a percentage of the base for union personnel, and a flat dollar amount per month of service for non-represented personnel. This flat rate falls short with internal comparability in comparison to the percentages provided to unions. Union percentages are also varied. In addition, department heads do not receive longevity, which adds to the compression problem, as well as does not provide a benefit that is provided to all other employees.

The Consultant recommends the City eliminate Longevity. Financial resources would be better served providing employees market compensation, or enhancing a specific benefit available to all employees. Since the Salary Schedule goes beyond the Average Market Rate – to Step 12, longevity is built into the Salary Schedule. Further, as indicated, the new Salary Schedule is slightly shorter than a

traditional salary schedule; thus, as employees move closer to Step 12, the City can move Step 12 higher and still be within a traditional salary schedule.

If the City decides to maintain Longevity, all non-represented positions – including department heads - should receive the same longevity percentages as non-uniformed personnel who are under a collective bargaining agreement, to better maintain internal equity.

### **Life Cycle of Salary Schedule**

One of the main concerns in any salary schedule is the ability to keep it current. Often, an organization spends a lot of time and resources to review and re-evaluate their Salary Schedule, resulting in providing employees or Pay Grades significant increases because either the position or the schedule is not in line with the external market. When developing a Salary Schedule, public sector organizations must build in some mechanism for maintaining the system with the average cost-of-living increases.

A Salary Schedule has a typical life span of five (5) years, at which time market conditions typically necessitate a review. The City can strive to prolong the life of the Schedule if it commits to maintaining its competitiveness with the external market.

### **Benefit Statements**

Employees, especially in government where benefits are typically more generous than those in the private sector, do not realize the true cost to the municipality for providing benefits. The Consultant recommends the City continue to create an Annual Benefit Statement that details the total cost of compensation for an employee. This often has a dramatic effect on employees who only see their net pay, rather than the total cost an employer actually pays for an employee.

Typical benefits statements include:

- Gross Salary
- Employer cost of FICA, FUTA
- Employer cost of federal and state taxes
- Employer cost of insurances (health, life, LTD, etc.)

Employer cost for employees to participate in a sponsored Employee Assistance Program or a wellness program  
Employer cost of unemployment  
Employer cost of worker's compensation  
Employer cost of pension fund(s)  
Employer cost of other benefits provided  
Total compensation for the employee

### **Summary of Compensation**

From a market perspective, the City has remained relatively competitive; however, with that said, there are a number of positions that have fallen behind the Market with minimum salaries falling below the Average Market Minimum. When comparing what current employees are earning as compared to the Average Market Incumbent Salary, employees are relatively competitive.

The four (4) salary schedules for the nonpublic safety personnel (AFSCME exempt/non-exempt; Non represented exempt/non-exempt) are problematic in that they are not consistent between union and non-union, are somewhat expensive in the amount of the step increase, do not have a tie to the external market; and there is no defined mechanism for placement of positions within the Compensation system. There are a large number of Pay Grades that are unused. Finally, since there are four (4) separate systems, there is considerable problems with internal equity, causing compression problems with internal alignment of positions within the organization.

### **Summary of Recommendations**

The Consultant has proposed four salary schedules. One for all non-represented employees; one for AFSCME employees (this schedule has been developed with the non-represented employees to ensure internal alignment), one for police and one for fire. Only the general non-union employee schedule is listed in this executive report. The other three are subject to negotiations and have been submitted under confidential cover. A number of title changes, as well as either adding levels or eliminating levels of positions have been recommended and discussed with Administration and Department Heads.

All recommended schedules have ties to the external Average Market Rate, steps that are more fiscally sustainable, have taken into account issues of Compression. Thus, recommended schedules will allow both the union and City to keep the schedules more in line with the external market now and in the future.

## **Benefit Analysis**

In addition to compensation, the City asked that a comparison of other benefits also be conducted. This included the following: health insurance, vacation, holidays, and sick leave. The following is a summary of these comparisons. Fourteen municipalities responded to this part of the benefits survey.

### **Health Insurance**

It is normally extremely difficult to compare health insurance, as the number of plans and the plan designs are significantly different among organizations. However, The City of Arlington purchases their insurance in large consortiums with other municipalities and the majority of comparable organizations also belong to this consortium so the types of plans offer are similar. What can be compared is the amount the City contributes toward the cost of that insurance. As the City is aware, the cost of health insurance is a large budget item for any organization.

### **Non-Uniformed Employees**

For non-uniformed employees, the City currently pays 80% for the Health First 250 Plan and 90% of the premium GH Copay \$10 Plan. For the purposes of the benefit analysis, the Consultant compared the base contribution of these Plans against comparable municipalities.

Because the plan designs are virtually the same across comparables, the Consultant was able to review percentage contributions per plan design for the two (2) plans offered by Arlington. The following summarizes the findings:

- Health First 250 Plan is not a very common plan to offer. Only two (2) municipalities offer this option, and a contribution rate of 100%/90% and 100%/75% - compared to 80% from Arlington.
- \$10 Copay plans are much more common, offered by ten (10) municipalities. Premium contributions range from 80%-100% for employee, and 75-96% for dependent plans. This is compared against Arlington, at 90%.

Based on the data received, Arlington's premium contributions for the GH Copay \$10 Plan is marginally within the market. 90% employer contributions are at market for plans with dependents,

but falls short for those plans that pay 100% for the employee. The Health First 250 Plan is also below market. Looking at participation between the two (2) plans, 38% of participants select the Health First 250 Plan.

In 2017, the City is introducing a HDHP, with premiums paid 100% for employees and dependents. With the introduction of this option, the City will be at market for this plan.

The Consultant's knowledge of health insurance plan design around the nation identifies the City's plan designs as one that is often abandoned by employers, given premiums typically associated with an enriched policy are not financially sustainable long term. Most comparable organizations have added higher deductibles and coinsurance limits, which push costs back onto the healthcare consumers. This also forces better and more active consumerism by those who utilize the health plan, so Arlington's move to provide a HDHP is a good move.

However, the City will be retaining low copay plans. The overall monthly premiums for these types of plans are typically higher than high deductible health plans (HDHP). This is because there is a low out of pocket risk to the employee – requiring the Plan to pick up the majority of expenses. It is common for municipalities to have lower employer contribution amounts for plans that have lower out of pocket expenses for employees to help shift costs back to employees. Employees are often financially better off to enroll in a HDHP to save on monthly premium costs, which then shifts their financial responsibilities from that of a guaranteed monthly premium deduction, to an actual expense should they need to use the health plan while being good consumer of health care. Implementing HDHP's can often times be unnerving for employees because they have to be better consumers of their health care, and manage the expenses as they occur, but the City is also offering a Health Savings Accounts to provide a financial cushion to the employee as they make this transition.

In the immediate future, it is recommended to the City that an intense education program be developed so employees understand the direct link between utilization of the Plan and the correlation to annual premiums. Often times, because a \$10 or \$20 copay is inexpensive, consumers do not think twice about visiting medical providers unnecessarily.

It is also recommended the City eliminate the low out of pocket plans as soon as possible. Any premium savings realized by the City can then be re-allocated to ensure wages and employer contributions are aligned with the market. The City should strive for premium contributions between 90-95% for all plans. The Consultant does not recommend the City consider a 100% contribution, even though the majority of comparables are at that level. It is not a sustainable level of benefit long term, and the City should use its financial resources to also ensure wages are competitive with the market, as well as to provide for an overall competitive package.

### **Uniformed Employees**

The City participates in the LEOFF Trust for uniformed employees. The City currently offers one (1) plan for the police, and (1) plan for firefighters. The City pays all but 1% of the top officer/firefighter step for the employees share. This is charged to employees in a flat rate, not a percentage, regardless of the plan. This is problematic because the flat rate on a single plan is a significantly higher percentage contribution than on plans with dependents.

Premium contributions should include charging more for dependents, since more individuals use the plan. In this case, on a percentage basis, employees with dependents will pay less than single plans.

For the purposes of the benefit analysis for uniformed personnel, the Consultant compared the base contribution of these Plans against comparable municipalities. Based on the data received, Arlington's premium contributions for uniformed personnel is marginally within the market. Arlington's contributions are at market for plans with dependents, but falls short for those plans that pay 100% for the employee.

### **All Plans**

With the Affordable Care Act as a major employer concern across the nation, health insurance is a fluid benefit that will need constant review to ensure the plan design and contribution levels remain in compliance with the federal standards in order to avoid costly penalties, so the City should remain cognizant of compliance. The City will also need to evaluate the total cost of their plan against the Cadillac Tax maximums to ensure the City is not on pace to incur this 40% excise tax penalty in 2020.

Finally, because the City defines full time status for the purpose of health insurance as 40 hours per week, the federal government threshold is only 30 hours per week. It is recommended the City review this with their insurance provider, in the event the insurance company requires coverage for employees who are meeting the federal hour's requirement, even though the City has not offered coverage.

### **Wellness Program**

Although the City participates in the health promotions program offered by the insurance consortium, and results in an overall 2% premium discount on premiums, this discount is not viewed as a benefit because the savings is applied to the overall Plan. This program provides for such items as wellness challenges, webinars, education, assessments, and planning tools. While these are great resources for employees, there is not a personal incentive for individual employee/dependent participation. The City should offer additional wellness services for employees which will provide individual rewards for participation. A Wellness Program is an effective method to promote health and wellness amongst employees and spouse/dependents. Programs can be developed to encourage awareness of health related issues, improve productivity and morale, decrease absenteeism and injury, and often times reduce cost of healthcare. However, employees often will only participate for a reward or outcome that has an impact to them. Since the City already receives a premium discount for their participation in such a program, incentives can be further rolled down to employees to better increase participation. There are various programs already developed that could be implemented, or Third Party Administrators (TPA) can develop a plan specific to the needs of the City.

The Equal Employment Opportunity Commission (EEOC) recently released new regulations on how employers can define the wellness programs as voluntary and remain in compliance with all federal standards. For that reason, utilizing a TPA to assist with this process, is highly recommended. One important aspect of an employee wellness program is that the program is voluntary, as intended to be viewed by employees as an enhancement benefit.

### **Paid Time Policies**

The City currently has traditional sick and vacation programs, as well as holiday, bereavement, jury, and shared leave, in which there are various rules for the use of each type of leave category. Having

that many variations may be confusing and frustrating for employees and managers, and it is very likely a significant administrative burden to the administrative staff who setup and monitor the use of these forms of leave. In a union environment however, because this type of benefit is negotiated, the City may always have some variations in these benefits. It is understood that any changes to paid time policies are subject to bargaining, and quid quo pro likely applies to any changes. The recommendations of the Consultant are not intended to disrupt the overall negotiating strategy for the City, but is intended simply to provide a comparison of the City against other municipalities. There may be many other negotiated factors which ultimately led to the paid time benefit levels the City has today. This report does not consider those factors.

### **Vacation**

There are two (2) vacation schedules for non-uniformed personnel. AFSCME has seven (7) levels, and reaches maximum accrual levels in 15 years, whereas the non-represented employees have five (5) levels and reach maximum accrual levels in 20 years. The maximum accrual level for both schedules is 240 hours, and the payout provisions are up to 240 hours combined between vacation and sick time. The City policy indicates employees may begin using vacation only after six (6) months employment. Use of vacation should start immediately upon hire, and not be subject to the current six (6) month waiting period. This is a small but impactful change identifying the City as a more flexible employer.

Based on the data received by comparables, the vacation schedules for non-uniformed employees are within market. Arlington provides for the highest maximum accrual rate of all those surveyed. However, it should be noted when comparing the non-represented schedule, it starts with a higher accrual amount annually, then has a minimal increase in the accrual during the first 10 years, and then falls behind the union schedule by year 15. Non-represented positions should receive benefits similar to those benefits that are bargained in order to maintain internal equity as much as possible.

Therefore, the schedule should be restructured to provide for a steady increase in accruing vacation, without falling behind the pace the benefit is being accrued by union employees.

In addition, it is not uncommon for Department Heads to receive additional vacation at a higher amount than all other positions. This is often the single difference in benefit offered these high level

positions. As a result, each department head should be provided an additional 24.0 hours of accrued vacation annually.

**Table 3: Proposed Vacation Schedule for Non-represented and Department Heads**

YEARS OF SERVICE	NON-REP VACATION HOURS	DEPT HEAD VACATION HOURS
< 5 years	160 hours	184 hours
5 – <8 years	176 hours	200 hours
8 - <10 years	200 hours	224 hours
10 -<15 years	224 hours	248 hours
15+ years	240 hours	264 hours

### **Sick Leave**

At Arlington, an employee earns one (1) day of sick time per month with some exception due to scheduling within uniformed personnel, in which accrual is at 12 hours per month. This is comparable to other municipality accrual rates, with a few exceptions, again for scheduling considerations in the police/fire area. Non-represented employees can earn up to 1,000 sick hours whereas Collective Bargaining Agreements allow between 1,000 to 1,440 hours on the books, depending on the agreement. In this case, non-represented employees have again slipped behind in benefits currently being provided union employees. Comparable organizations reported maximum hours between 960-1,440 hours on the books, while other municipalities report no limit to accrual but cap the payout process. So although Arlington is comparable to other organizations regarding the size of its sick bank, the non-represented employees fall short internally. The non-represented sick balance should be increased at least to 1,200 hours, so all non-uniformed employees are internally equitable.

The current provision for payout of this accrued leave is up to 240 hours between available sick and vacation time. This could lead to patterns of sick time abuse, but City data demonstrated current employees utilize little of their sick leave, so this is not currently a trend, but only a future possibility. If employees do not see a financial benefit for not using the sick leave benefit, employees will simply use the benefit, even if not needed, creating higher absenteeism and sick time abuse in the workplace. The City should consider increasing the amount of time eligible to be paid out, based on number of

years of service, and reason for termination. Comparables reported paying between 20-100% of sick time balances, and associated those percentages with years of service and reason for termination. There is not a consistent pattern of this with the comps other than this payout is separate and in addition to their vacation payout. This is the single largest difference between Arlington and other municipalities, which is why combining sick and vacation in employee payouts puts the City out of alignment with the market. Alternative methods of payout will be discussed in Payout Provisions section.

The City's policy provides for employees on Workers Compensation to be paid the difference between worker's compensation payments and the employees regular salary with the use of the shared sick leave bank, or access his/her own sick leave bank (if that option is taken, the employee turns over the Worker's Compensation check to the City). The City should consider discontinuing any practice that grants 100% compensation through a combination of the worker's compensation check and sick leave usage because worker's compensation payments are 2/3 of an employee's regular pay, as a non-taxed benefit, so the worker's comp payment should be similar to an employee's net pay. Additional pay via sick leave actually causes an employee to bring in a higher income while on worker's compensation. This does not financially encourage an employee to return to work as quickly as possible.

### **Holidays**

The City's Holiday schedule is comprised of ten (10) full day holidays, and two (2) personal days, for a total of 12 days (some police may receive three (3) personal days depending on schedule).

Based on these findings, the City is in line with the market for holidays. The City could consider Christmas Eve as a holiday in lieu of a personal day, or add it as an additional holiday. The City would then be at the top of comparables in this category. It is likely this day is at minimal staffing in most departments, as it is often highly sought after to be off for personal commitments.

## **Payout Provisions**

Currently, the City's payout provisions are consistent across CBA and Policy with up to 240 hours between vacation and sick time combined. Overall, the total hours eligible for payout is low. The City should separate the amount of eligible payout between vacation and sick. Vacation should be paid out 100%, while sick time can be paid out in a percentage of hours based on years of service and reason for termination, based on the City's financial resources. Retirement could have a higher percentage payout than resignation for example. Providing for a higher amount of payout at time of termination is incentive for the employee to save their time from frivolous use, especially sick time.

In addition, any payouts are in the form of cash on the employee's final check. This payment is then considered taxable to the employee, and the City pays related employment taxes on these amounts. The City could consider enhancing the payout at termination or retirement in a way that will assist employees with their future health care needs since the main reason employees choose not to retire is because they financially are not able to, or cannot afford to continue health care coverage. These payouts could be developed to create a medical trust for the employee in which deposits are tax free for both the employee and employer, is not considered income to the employee, and is to be used for medical expenses by the employee/qualified beneficiaries. The City could also, as an alternative, use a deferred compensation 457(b) program, in which the payouts could be placed into a qualified tax deferred retirement plan for the employee. The Consultant cautions this last option may be restrictive since the IRS provides for annual contribution limits on individual deferred compensation accounts, and large payouts may exceed annual IRS limits.

## **Summary Benefit Recommendations**

Overall, the benefits are marginally within or have fallen below the market. The City has put additional resources into the benefit program in recent years when finances could not be allocated to wages, so the additional resource shifted to the benefits has helped to keep benefits from falling far below market. However, the City will need to make some adjustments to the benefit program both for internal equity and market competitiveness. The following is a summary of benefit recommendations:

- The City should continue its effort to implement a HDHP. Placing the 100% employer contribution on the plan will put the City within the Market. The City should work to eliminate all low copay/low deductible health plans. This will further encourage healthy behaviors and habits as well as consumerism with individual health care. The City should also develop an education program between utilization of health care and its correlation to premiums. The uniformed personnel should move away from a flat rate insurance contribution onto a percentage. A low percentage is necessary to keep the plan competitive with the Market. The City is recommended to consider some type of Wellness Program, even a basic program to start, to encourage healthy behaviors and positive employee impacts. This can be arranged through a TPA.
- The City can enhance its vacation benefit by increasing the maximum vacation accruals for the non-represented employees to be more in alignment with the market and internal comparability. A separate schedule has been recommended for Department Head level positions.
- The City can enhance the sick leave policy by separating the vacation from sick time in the payout provision and provide for a new formula to pay out sick time. The City can increase the maximum accrual of sick hours for non-represented employees for internal comparability. The City should consider removing the use of sick time with workers comp payments to encourage employees to return to work quicker.
- The City could provide Christmas Eve as a recognized holiday, in lieu of a personal day, or as an addition.
- A payout option for any type of sick and vacation payout has been recommended for tax savings for both the employee and employer, and allows for the development of future health care savings opportunities.

## Appendix A: Non-Represented Employee 2017 Recommended Schedule

New PG	Recommended Title	Step 1	Step 2	Step 3	Step 4	Step 5M	Step 6	Step 7	Step 8	Step 9	Step 10	Step 11	Step 12
			3.00%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
A	Seasonal Maintenance Laborers	\$12.50	\$12.75	\$13.00	\$13.25	\$13.50							
B	Airport Intern	\$20.52	\$21.14	\$21.77	\$22.43	\$23.10	\$23.56	\$24.03	\$24.51	\$25.00	\$25.50	\$26.01	\$26.53
		\$42,690	\$43,971	\$45,290	\$46,649	\$48,048	\$49,009	\$49,989	\$50,989	\$52,009	\$53,049	\$54,110	\$55,192
G	Engineer Technician	\$27.21	\$28.02	\$28.86	\$29.73	\$30.62	\$31.23	\$31.86	\$32.50	\$33.15	\$33.81	\$34.48	\$35.17
G	Executive Analyst	\$56,590	\$58,288	\$60,036	\$61,837	\$63,692	\$64,966	\$66,266	\$67,591	\$68,943	\$70,322	\$71,728	\$73,163
H	Executive Admin Specialist II	\$29.38	\$30.26	\$31.17	\$32.11	\$33.07	\$33.73	\$34.41	\$35.10	\$35.80	\$36.51	\$37.24	\$37.99
H	Human Resource Analyst	\$61,117	\$62,951	\$64,839	\$66,784	\$68,788	\$70,164	\$71,567	\$72,998	\$74,458	\$75,947	\$77,466	\$79,016
I	City Clerk/Communications Mgr	\$31.73	\$32.69	\$33.67	\$34.68	\$35.72	\$36.43	\$37.16	\$37.90	\$38.66	\$39.43	\$40.22	\$41.03
I	Community Relations Liaison	\$66,006	\$67,987	\$70,026	\$72,127	\$74,291	\$75,777	\$77,292	\$78,838	\$80,415	\$82,023	\$83,664	\$85,337
I	Finance Accountant												
I	PW Accountant												
J	Engineer I	\$34.27	\$35.30	\$36.36	\$37.45	\$38.57	\$39.35	\$40.13	\$40.94	\$41.75	\$42.59	\$43.44	\$44.31
J	GIS Supervisor	\$71,287	\$73,426	\$75,628	\$77,897	\$80,234	\$81,839	\$83,476	\$85,145	\$86,848	\$88,585	\$90,357	\$92,164
J	M&O Supervisor												
KA	Airport Operations Supervisor*	\$37.01	\$38.12	\$39.27	\$40.45	\$41.66	\$42.49	\$43.34	\$44.21	\$45.09	\$46.00	\$46.92	\$47.85
K	Police Services Manager	\$76,990	\$79,300	\$81,679	\$84,129	\$86,653	\$88,386	\$90,154	\$91,957	\$93,796	\$95,672	\$97,585	\$99,537
K	Water Utility Supervisor												
K	WW Utility Supervisor												
L	Assistant Finance Director	\$39.98	\$41.17	\$42.41	\$43.68	\$44.99	\$45.89	\$46.81	\$47.75	\$48.70	\$49.68	\$50.67	\$51.68
L	Building Official	\$83,149	\$85,644	\$88,213	\$90,859	\$93,585	\$95,457	\$97,366	\$99,313	\$101,300	\$103,326	\$105,392	\$107,500
L	Engineer II (Sr)												
L	M&O Manager												

New PG	Recommended Title	Step 1	Step 2	Step 3	Step 4	Step 5M	Step 6	Step 7	Step 8	Step 9	Step 10	Step 11	Step 12
L	Stormwater/Natural Resources Manager												
M	No Position	\$43.17	\$44.47	\$45.80	\$47.18	\$48.59	\$49.56	\$50.56	\$51.57	\$52.60	\$53.65	\$54.72	\$55.82
		\$89,801	\$92,495	\$95,270	\$98,128	\$101,072	\$103,093	\$105,155	\$107,258	\$109,404	\$111,592	\$113,823	\$116,100
N	City Engineer	\$45.76	\$47.14	\$48.55	\$50.01	\$51.51	\$52.54	\$53.59	\$54.66	\$55.75	\$56.87	\$58.01	\$59.17
N	IT Manager	\$95,189	\$98,045	\$100,986	\$104,016	\$107,136	\$109,279	\$111,465	\$113,694	\$115,968	\$118,287	\$120,653	\$123,066
N	Permit Center Manager												
O	Deputy Fire Chief	\$52.88	\$54.47	\$56.10	\$57.78	\$59.52	\$60.71	\$61.92	\$63.16	\$64.42	\$65.71	\$67.03	\$68.37
O	Deputy Police Chief	\$109,991	\$113,291	\$116,690	\$120,190	\$123,796	\$126,272	\$128,797	\$131,373	\$134,001	\$136,681	\$139,414	\$142,203
P	Airport Director	\$55.52	\$57.19	\$58.91	\$60.67	\$62.49	\$63.74	\$65.02	\$66.32	\$67.64	\$69.00		
P	Administrative Services Director	\$115,491	\$118,955	\$122,524	\$126,200	\$129,986	\$132,585	\$135,237	\$137,942	\$140,701	\$143,515		
Q	CED Director	\$58.30	\$60.05	\$61.85	\$63.71	\$65.62	\$66.93	\$68.27	\$69.63	\$71.03	\$72.45		
Q	Public Works Director	\$121,265	\$124,903	\$128,650	\$132,510	\$136,485	\$139,215	\$141,999	\$144,839	\$147,736	\$150,691		
Q	Finance Director												
R	Fire Chief	\$60.95	\$62.78	\$64.67	\$66.61	\$68.60	\$69.98	\$71.37	\$72.80	\$74.26	\$75.74		
R	Police Chief	\$126,783	\$130,586	\$134,504	\$138,539	\$142,695	\$145,549	\$148,460	\$151,429	\$154,458	\$157,547		
AA	City Administrator	\$67.41				\$77.52					\$85.27		
		\$140,213				\$161,245					\$177,370		