

**BUDGET WORKING PAPER**

**TO:** W. Calvin Horton, Town Manager  
**FROM:** Patricia W. Thomas, Personnel Director  
**SUBJECT:** Employee Pay System Proposals  
**DATE:** April 26, 1999

**OVERVIEW**

The purpose of this report is to present information on compensation changes recommended for Town employees in Fiscal Year 1999-2000. These proposals are based on the Council's work since June, 1998, with Slavin Management Consultants to develop a simpler and fairer system for granting employee pay increases.

**SUMMARY OF PAY STUDY PROCESS AND CONCLUSIONS**

The Council contracted with Slavin Management Consultants of Norcross, Georgia to review the Town's system for granting pay increases and to recommend changes. The study process included:

June 18, 1998	Work session with Council to discuss Council ideas, concerns, objectives and priorities for a new pay system
mid-June	Consultant meetings with approximately 175 employees in 12 focus groups, for employee discussion of concerns with the current system and recommendations for changes. Based on concerns from focus groups, separate questionnaires were distributed to Council Members and to employees to assess concerns and priorities for a new pay system. 43% of employees responded to the questionnaire.
October 12	Consultant work session with the Council to discuss initial pay system recommendations; the Council requested that the Manager provide cost estimates and comment on proposals.
November 21	Second consultant work session with the Council to further discuss recommendations; the Council requested feedback from employees on system proposals.
mid-December	To obtain Council-requested employee feedback: consultant and Personnel Department meetings were held with 12 employee focus groups -- approximately 150 employees; in addition, questionnaires and system information were distributed to employees. Results of the meetings and questionnaire were that 82% of employees said the recommendations simplified the current pay system and 89% said they understood the system recommended.
January 16, 1999	Third meeting with consultant at the Council's retreat; the Council asked the Town Manager to summarize pay system changes for distribution to employees so that employees could comment at the January 27 <sup>th</sup> budget forum.
January 27, 1999	Council's budget forum held. The Council asks the Manager to include pay system changes for their consideration with the Manager's Recommended Budget for 1999-2000.

## RECOMMENDED REVISIONS TO THE PAY SYSTEM

**Council objectives for the pay system:** Through the pay study process the Council identified several objectives for a new employee pay system. These are addressed in the budget recommended for 1999-2000 in the following manner:

<b>Objective identified by Council for an improved pay system:</b>	<b>How objective is addressed in 1999-2000 budget recommendations:</b>
Address salary compression.	<ul style="list-style-type: none"> <li>• employees with 5 years of service moved to Job Rate, and employees with 1-4 years of service assigned to steps 1,2, and 3</li> </ul>
Provide for career advancement.	<ul style="list-style-type: none"> <li>• salary steps will show employees how their salaries will advance to the Job Rate in the first years of employment</li> <li>• current departmental career advancement and training initiatives are recommended to continue</li> </ul>
Reward long-term employees over newer employees.	<ul style="list-style-type: none"> <li>• 4.75% average salary increase recommended for employees above the Job Rate</li> <li>• no change is recommended in the current longevity pay plan (a flat annual payment which begins after 5 years of employment)</li> </ul>
Maintain market competitiveness	<ul style="list-style-type: none"> <li>• all rates in the current salary schedule are recommended to increase 3% based on market conditions and trends</li> <li>• consultant for labor market and classification study is recommended; study to be conducted during FY 1999-2000. Market data at the 50<sup>th</sup> and 75<sup>th</sup> percentile would be collected</li> </ul>
Reward good performance.	<ul style="list-style-type: none"> <li>• previous limits on Outstanding ratings eliminated; increases allocated based on performance ratings with a formula used to maintain budget controls</li> <li>• departments will work during the next year to update and improve work standards and supervisory training</li> </ul>
Provide a system that is affordable.	<ul style="list-style-type: none"> <li>• the cost of this year's recommendations are approximately the same as for last year's compensation increases</li> <li>• after transition to the 75<sup>th</sup> percentile (2000-2001), costs to maintain the system are anticipated to be approximately the same as this year's recommendations</li> </ul>
Provide a simpler system.	<ul style="list-style-type: none"> <li>• salary steps recommended (for more predictable salary movement and for ease in explaining system to new workers)</li> <li>• 89% of employees in group meetings understood the new system</li> </ul>

At the conclusion of this process, the Mayor and Council reached tentative agreement on revisions to the pay system. The main features of the new system would be:

- *Salary steps* in the lower half of the salary range for predictable salary movement.  
Employees' salaries would move up one step each year until the salary reached the mid-point of the salary range, called the Job Rate – in approximately 4 years.
- *Salary compression* among newer employees should be addressed in the first year, so that salaries paid to longer-term employees would be higher than salaries paid to newer workers
- *Annual salary increases based on performance* would be earned once salaries reached the Job Rate. Recommended average increase in 1999-2000 is 4.75%.
- *75<sup>th</sup> percentile of the local market*: To maintain competitiveness in the Research Triangle labor market, the Job Rate should be set to be approximately equivalent to the salaries paid at the 75<sup>th</sup> percentile of the local market. A market study would be conducted in 2000-2001 to determine competitive salary ranges.

More details on the recommendations for implementing the new pay system are discussed below.

### COSTS

Costs for implementing the first phase of the pay system changes on October 1, would total about \$987,000 – salary and benefits – in all funds having budgeted positions, as shown below:

Fund:	Total:	Step increases & compression adjustments - -332 employees below the JobRate. <i>Includes the cost of compression adjustment based on employee years of service</i>	4.75% average performance increase <i>(238 employees over Job Rate)</i>	3% increase to the minimum or probationary step <i>(66 new or probationary employees)</i>
General	\$710,000	\$427,585 <i>(\$152,000 for compression)</i>	\$267,000	\$15,400
Transpt.	183,000	\$125,400 <i>(\$55,000 for compression)</i>	\$52,000	\$5,600
Housing	35,000	\$25,500 <i>(\$11,700 for compression)</i>	\$8,400	\$1,100
Parking	16,000	\$14,900 <i>(\$5,100 for compression)</i>	\$1,090	0
Landfill	43,000	\$25,900 <i>(\$9,800 for compression)</i>	\$18,200	\$1,100
		\$620,000		
TOTAL	\$987,000	<i>(includes \$233,600 for compression)</i>	\$347,000	\$23,200

If, as recommended by the Manager, increases were implemented on November 1, 1999 instead of October 1, the total program costs would be

General Fund	\$632,000
Transportation Fund	162,000
Housing Fund	31,100
Parking Fund	14,200
Landfill Fund	38,200

TOTAL: \$877,500

Throughout this paper, where October 1, 1999 is used as the implementation date, November 1, 1999 would be substituted.



## **SUMMARY OF PAY SYSTEM PROPOSALS**

### **Recommendation I. Changes to the salary schedule** (discussed on page 5)

Salary steps would be created in the first half of each pay grade, to provide a simple means of communicating to employees how their salaries would change from one year to the next with good performance.

The current salary schedule would be 3% higher effective October 1, 1999. This is recommended based on changes in the general labor market and employment trends in the Triangle (See Attachments 3 and 5).

### **Recommendation II. Compression adjustments:** (discussed on page 6)

As recommended by the pay consultant, employees with 5 years of service would move to the Job Rate (range midpoint) of their salary range, and employees with 1-4 years of service would be assigned to steps 1,2, and 3 within the salary range.

We expect that employees with salaries currently below the Job Rate would receive a combination of compression and merit adjustments that would be at least 4.75%.

### **Recommendation III. Pay increases received by individual employees** (discussed on page 7)

As recommended by the consultant, an average percentage merit increase for employees with salaries above the job rate would be established. This year we recommend an average increase of 4.75%, based on projections from other employers anticipating pay increases averaging 4-5%.

The amount an individual employee would receive would be based on his/her performance rating and would be allocated using a mathematical formula to distribute the total authorized by the Council – this year recommended to be 4.75%.

The "Outstanding" portion of employee ratings would be granted as a bonus, not built into base pay, while the amount of merit increase for meets and exceeds performance would be added to base pay.

### **Recommendation IV. Additional recommendations for implementing the pay system** (discussed on page 9)

Funds are recommended to contract with consultants specializing in conducting labor market and classification reviews (\$50,000) and in work with evaluation standards (\$15,000). Labor market data for the 75<sup>th</sup> percentile would be collected in this study, and recommendations for changes in salary ranges based on market data presented to the Council as a part of the 2000-2001 budget

More detail on the recommended changes in the pay system for 1999-2000 is provided on the following pages. We have attempted to keep explanations brief; however, we will be glad to provide more detail or background on any portion of the system recommendation if requested.

Supporting information, such as survey data and the recommended new salary schedule are included in attachments. Also, since the implementation of the consultant's recommendations for changes to pay system would be implemented over two fiscal years, information on additional recommendations which would be implemented in 2000-2001 is also included in Attachment 1.

## **RECOMMENDATIONS TO IMPLEMENT THE NEW PAY SYSTEM**

### **I. CHANGES TO THE SALARY SCHEDULE:**

- **Recommendation: salary schedule divided into steps**

A priority of both the Council and employees was for a simpler pay system -- a pay system that would be easy for employees to understand and for supervisors to communicate. The consultant recommended that a way to accomplish this objective would be to establish steps within the salary schedule.

Salary steps would also provide employees with predictable salary movement. With salary steps, employees would be able to see how their salaries would change from one year to the next with good performance. With steps:

- employees would normally be hired at the entry rate
- after 6 months of successful performance the salary would increase by 6% to the probationary step
- the next October 1, with successful performance the salary would move to step 1 (3.8% higher)
- the next three October 1's, with successful performance the salary would move from step 1 to step 2 to step 3 to the Job Rate. (Each step is 3.8% higher than the previous step.)

About 4 years after he or she was hired and with performance that met standards, the employee's salary would have moved along a predictable path -- by steps -- to the Job Rate. The employee would be paid at the 75th percentile in the market (as discussed later in this report). Compression of salaries of existing employees and new employees below the midpoint would no longer occur.

- **Recommendation: current salary schedule would be 3% higher October 1, 1999.**

Each year as a part of the budget process the Manager considers the need for adjustments to all of the rates within the salary schedule, based on anticipated market conditions. The current salary schedule was adopted in June, 1998, and reflects a 3.5% change over the 1997-98 rates.

During pay system work sessions the consultant told Council Members that, if a new, simpler pay system was adopted, in future years the Council would be asked to make two important decisions affecting employee pay:

- First, how much will the rates in the salary schedule be changed? This year the Manager recommends 3%.
- Second, how much average merit increase is recommended? As discussed later in this report, we recommend 4.75% as the average merit increase.

The 3% increase to the rates in the salary schedule is based on general employment trends anticipated by other employers in the Research Triangle area and by employers nationally. Average salaries have risen approximately 3.7% nationally in the last 12 months and individual salaries are anticipated to increase by an average of 4-5% in 1999. Therefore we believe it is reasonable to increase salary schedule rates – hiring rates, Job Rates, and maximums – by 3% effective October 1, 1999. Attachment 3 summarizes market data used in making the recommendation for a 3% increase in all of the rates in the salary schedule.

See Attachment 2 for a copy of the recommended new salary schedule

- with the first half of the range divided into salary steps, and
- with new rates reflecting a 3% increase over the current schedule.

## II. COMPRESSION ADJUSTMENTS:

- **Recommendation: move salaries onto steps based on years of service:**

Compression in salaries occurs as the salaries of new and longer-term current employees are very close together. Salary compression was one of the major concerns of both Council Members and employees during the pay system study.

The pay consultant recommended that a priority for implementation of a new pay system would be to reduce salary compression in the first half of the salary range. Compression adjustments would be implemented as follows:

Town service as of 10/1/99:

5 years

4 years

2-3 years

1 year

salaries adjusted:

to the new Job Rate

to the new step 3

to the new step 2

to the new step 1

Attachment 3 provides information on how Town employees' salaries would be distributed through the salary range following these compression adjustments.

- **Recommendation:** employees would receive a combination of compression and merit adjustments of at least 4.75%

We propose to implement compression adjustments based on employee service as of October 1, 1999. However, we propose two modifications to the compression adjustments based on fairness:

1. The compensation increases that employees below the Job Rate will receive should be at least 4.75%.

In cases where compression is greatest, employees may receive 5% - 7% or more in order to adjust their salaries to the service-related step in the new salary range.

However, in other cases employee current salaries may already be close to the appropriate service step. Adjusting those employees' salaries to the relevant step might only result in a 1-2% increase. In those cases we propose to implement salary increases as a combination of base pay increases and one-time salary increases totaling at least 4.75%. Employees' base salaries would be adjusted on to the nearest step that would provide at least a 4% base pay increase, with the remaining .75% paid as a one-time flat increase.

Paying increases in this manner in the transition year will assure that every employee's salary is adjusted on to a salary step.

2. Some employee's compression increases would be adjusted because of recent promotions:

For most employees, salaries would be raised to a step based on his or her years of service. However, five employees have been recently promoted into new jobs, and their current salaries have not been compressed over the last several years. Increasing these employees' salaries based on their total years of Town service would perhaps move their salaries equal to or ahead of employees who had been in the same job category several years. We do not believe this would be equitable.

Therefore, we propose that, where an employee was promoted between October 1, 1998 and September 30, 1999, their new salary would be adjusted to a lesser step. These employees would still receive at least a 4.75%, and most would receive 7% or more in adjustments based on their total Town service.

### **III. MERIT PAY INCREASES RECEIVED BY INDIVIDUAL EMPLOYEES**

- **Recommendation:** establish a 4.75% average percentage merit increase for employees whose salaries are above the mid-point.

When steps are adopted and put in place, employee's salaries would increase by one step each year until the salary reached the Job Rate (mid-point). This movement from minimum to Job Rate would normally take around 4 years. Then, after the employee's salary reaches the Job Rate, employees would receive an annual merit increase. The average amount that employees



would receive would be set by the Council each year as a part of the budget, and would vary each year depending on market conditions.

With the low unemployment rate in the Triangle area, the high cost of living in the area, and the difficulty the Town has experienced in recent years with filling positions, we believe it is important that the average increase for employees be at a competitive level. This year we recommend an average 4.75% merit increase based on projections for increases in other organizations. Survey information both locally and nationally indicates that organizations anticipate average increases of 4-5% for salaried positions and 4% for hourly positions \*\*.

See Attachment 3 for a summary of this survey information, and Attachment 5 for compiled area benchmark data.

• **Recommendations concerning distribution of performance increases:**

**An individual employee's increase would be based on his/her performance rating and would be allocated to individuals based on a mathematical formula.**

**The "Outstanding" portion of employee ratings would be granted as a bonus which is not built into base pay. The amount of merit increase of meets/exceeds would be added to base pay.**

Before October 1, 1999, supervisors will conduct performance evaluations and determine whether employees' performance falls within one of four categories:

- Below Expected Level
- Needs Improvement
- Meets/Exceeds Expectations \*\*
- Outstanding

All performance evaluations will be collected and tabulated and the 4.75% average increase allocated to employees based on the Townwide ratings by use of a mathematical formula. Using this formula will allow the Council to maintain controls over the budget allocated for performance ratings, while eliminating the previous 10% cap on Outstanding ratings. The 10% cap was one of the chief criticisms the consultant heard from employees during the pay study.

One of the major questions posed to employees during the review of the pay system was whether merit increases should be paid mostly to base pay, or paid 50% to base and 50% as a bonus. Over 80% of employees responded that they preferred that the increases would affect base pay.

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\* Salaried positions are professional, managerial, or administrative positions, while hourly positions are clerical, labor and trades, and technical positions.

\*\* These categories will be combined for performance evaluations conducted during fiscal year 1999-2000. Departments will work to improve their evaluation standards, and by FY 2000-2001, on October 1, 2000, the Meets/Exceeds category will be separated into separate performance ratings

As recommended by the consultant, most of the merit increase would be implemented to affect base pay. However, the portion of the increase related to the Outstanding rating would be paid as a one-time payment which is not built into base pay. For example, using the mathematical formula and based on the ratings Townwide, employees rated Exceeds Standards might receive a 4.4% salary increase. Using the same formula, an employee rated Outstanding might receive a 4.4% base pay increase and a one-time payment of 1.5% for the Outstanding rating. The 1.5% salary increase for the Outstanding performance rating would not be built into base pay.

Also, as recommended by the consultant, when an employee's salary reaches the maximum of the pay range, he or she would remain eligible to receive merit increases. But these increases would be paid all as a bonus and would not change the employee's base pay. For example, if an employee in grade 16 might have been eligible for a \$1000 merit increase based on their performance rating; however, the employee was already being paid \$31,774, the maximum for that range. Therefore, the employee would receive a one-time payment of \$1000 for their performance. This \$1000 would not be built into the employee's base pay.

#### **IV. ADDITIONAL RECOMMENDATIONS FOR IMPLEMENTING THE PAY SYSTEM:**

##### **Recommendation: Classification and Pay review consultant (estimated \$50,000) for labor market review**

One of the recommendations of the pay consultant was that the Town consider setting salaries at the 75<sup>th</sup> percentile point in the market. The consultant's September, 1998, report (presented to the Council on October 12, 1998) said:

"The pay structure should be designed around the market. To be competitive with the market, and because of the high cost of living in Chapel Hill and the surrounding communities, we recommend the pay structure be set at the 75<sup>th</sup> percentile for all jobs. At this level, the Town should be able to recruit and retain well qualified employees and may not find it desirable to maintain the cost of living formula for determining lowest level pay, because the structure will accomplish this without the formula." \* (Slavin September 30, 1998, page 7).

The policy would be accomplished by linking the Town's Job Rate to the 75<sup>th</sup> percentile.

The consultant's recommendation was that this market policy would take effect in FY 2000-2001, after up-to-date market data is collected. If adopted, this market policy would mean that

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\* The formula referred to here is the resolution setting salaries for the lowest 4 grades based on the federal poverty wage for a family of four indexed for Chapel Hill's cost of living, plus \$1000. The salary schedule recommended for FY1999-2000 does not recommend continuing the labor market policy for the lowest 4 grades and recommends a 3% increase to all of the rates in the schedule. Following the policy in previous fiscal years created significant compression in salaries in the lowest grades and contributed to the complexity of the current pay system.

employees would be paid in the top quartile of the local market after 4-5 years successful performance with the Town.

Benchmark salary data analyzed at the Council's request in November, 1998, indicated that the cost of using the 75<sup>th</sup> percentile to determine market competitiveness was estimated at approximately \$124,000 in fiscal year 2000-2001:

- \$77,000 (costs to raise the salaries of newer employees to the new minimums resulting from the 75<sup>th</sup> percentile)
- \$47,000 (costs to bring salaries of employees to the new range midpoint for their job)

However, more up-to-date market data collected next year in an extensive market review could find different costs associated with the potential move to the 75<sup>th</sup> percentile.

We recommend that \$50,000 be budgeted for a contract with consultants specializing in conducting labor market and classification reviews. This study would begin soon after July 1, 1999, with market data and recommendations presented in time for inclusion in the 2000-2001 budget. (The Town last conducted a comprehensive review of labor market and classifications four years ago.)

Recommendations for changes in salary ranges based on market data would be presented to the Council as a part of the 2000-2001 budget. The consultant would be asked to collect data at both the average/ median of the market and the 75<sup>th</sup> percentile, and to recommend strategies to reduce or spread out implementation costs.

**Recommendation: Consultant for assistance in review of evaluation standards (\$15,000)**

The consultant recommended that performance evaluations be conducted based on 5 evaluation levels:

- Below Expected Level
- Needs Improvement
- Meets Expectations
- Exceeds Expectations
- Outstanding

Currently the Meets and Exceeds categories are combined into one large category.

All departments currently use work standards or work plans to evaluate the work of their employees. However, most departments believed that their standards could be improved and requested that the split in the Meets Expectations and Exceeds Expectations category not be implemented until they had time to improve these standards.

The Transportation Department has already contracted with a consultant to assist in the review of the work standards used to evaluate Bus Drivers. (Slavin Management from Georgia, the same firm that conducted the pay system study, will work with employees and supervisors on this project, and hopes to begin work during May, 1999.) Other departments may benefit from

consultant assistance as they work with their employees to improve works standards, and we recommend \$15,000 be budgeted for this purpose.

Employees would be evaluated for their work during a portion of FY 1999-2000 using newly updated standards, and the Meets Expectations and Exceeds Expectations categories would be specified in these work standards.

### **CONCLUSION:**

We believe the recommended package of salary adjustments reflects the objectives of Council Members and of employees for a better and simpler system. These recommendations implement a major portion of the study proposals in the first year of a two year implementation process. We look forward to discussions with the Council as the budget process continues

### **Attachments:**

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|----------------------|--|
| <b>Attachment 1:</b> | Transition to the new pay plan: 1999-2000 and 2000-2001                                      |
| <b>Attachment 2:</b> | Recommended new salary schedule, including salary steps                                      |
| <b>Attachment 3:</b> | Sources of information for increases to the salary schedule and for average merit increase % |
| <b>Attachment 4:</b> | Distribution of employees in the salary range, including chart                               |
| <b>Attachment 5:</b> | Summary labor market data for benchmark positions  |

## Attachment 1

**Transition to the new pay system:** The new pay system is proposed to be implemented over two fiscal years. As described below, some of the elements are recommended to be implemented on October 1, 1999. Other components – those requiring significant staff time for research or development, or time for implementation – would be put into effect October 1, 2000.

Recommendation	Effect on employees in 1999-2000 if recommendations are adopted	Effect on employees in 2000-2001 and in subsequent years
<b>I. Changes to the salary schedule:</b>	<p>3% increase in schedule rates implemented effective October 1, 1999, including salary steps. New employees hired after October 1 would be hired at the new rates on the schedule.</p> <p>All personnel policies would be implemented so that employee salaries are adjusted onto established steps.</p> <p>Employees whose salaries are in the first half of the salary range would have their salaries adjusted to a step in the new range based on their service. (These adjustments are discussed in the section dealing with "Compression".)</p>	<p>The Council would consider how much the rates in the salary schedule would be changed based on market conditions at the time. A new schedule would be adopted effective 10/1/2000.</p> <p>With acceptable performance, on 10/1/2000, employees' salaries would be moved to the next step in the new salary range. Example: employee's salary would move from step 2 to step 3, a 3.8% increase. If the salary schedule again increased by 3% (as in 1999-2000) the employee would receive a 6.8% increase. These increases would continue each year until that employee's salary reaches the Job Rate of the salary schedule in effect at that time.</p>
<b>II. Dealing with Compression:</b>	<p>Compression adjustments in 1999-2000 would be one-time adjustments as a part of implementing the new pay system. Current compression in salaries in the first half of the salary range would be significantly reduced. Salaries of longer-term employees would be greater than those of newer employees, and compression adjustments would have the effect of transitioning employee' salaries on to a step within the new salary range.</p>	<p>No need for further compression adjustments to deal with compression in salaries among new employees. (Compression among salaries of longer-term workers could be considered.)</p>
<b>III. Pay increases for individual employees</b>	<p>Average 4.75% merit increases would be based on one of 4 rating levels: Below Expected Level, Needs Improvement, Meets/Exceeds Expectations, or Outstanding. The percent received by individuals would be calculated using a mathematical formula which allocates 4.75% based on departmental ratings.</p>	<p>Following a year's work on improving work standards, merit increases would be based on 5 levels: the Meets/ Exceeds category would be separated into 2 categories.</p> <p>The mathematical formula would continue to be used.</p> <p>The Council would determine the appropriate average merit based on market conditions at the time.</p>
<b>IV: Additional recommendations for implementing the new pay system</b>	<p>Contracts with consultant to conduct classification and pay review (with data collected at the 75<sup>th</sup> percentile), and to assist in improving the work standards used to evaluate positions. Work conducted during 1999-2000.</p>	<p>Classification and market-related changes considered as a part of the 2000-2001 budget, for implementation 10/1/2000. New work standards would be used to evaluate employee performance for 10/1/2000 merit increase</p>



**Recommended salary schedule effective October 1, 1999:** includes steps in the first half of the range and reflects a 3% increase to all rates over the current schedule:

GRADE	HIRING		PROB		JOB		OPEN RANGE *	MAXIMUM RATE *
	RATE *	STEP *	STEP 1	STEP 2	STEP 3	RATE *		
11 **			19,958	21,155	21,955	22,785		24,896
12 **	HIRING RATE *	PROB STEP *	STEP 1	STEP 2	STEP 3	JOB RATE *		26,141
	20,129	21,337	22,144	22,981	23,850			
13	20,332	21,552	22,367	23,212	24,089	25,000		27,448
14	20,812	22,061	22,895	23,760	24,658	25,590		28,820
15	21,276	22,553	23,406	24,291	25,209	26,162		30,261
16	22,087	23,412	24,297	25,215	26,168	27,157		31,774
17	22,861	24,233	25,149	26,100	27,087	28,111		33,363
18	24,004	25,444	26,406	27,404	28,440	29,515		35,031
19	25,204	26,716	27,726	28,774	29,862	30,991		36,783
20	26,464	28,052	29,112	30,212	31,354	32,539		38,622
21	27,787	29,454	30,567	31,722	32,921	34,165		40,553
22	29,176	30,927	32,096	33,309	34,568	35,875		42,581
23	30,635	32,473	33,700	34,974	36,296	37,668		44,710
24	32,167	34,097	35,386	36,724	38,112	39,553		46,946
25	33,775	35,802	37,155	38,559	40,017	41,530		49,293
26	35,464	37,592	39,013	40,488	42,018	43,606		51,758
27	37,237	39,471	40,963	42,511	44,118	45,786		54,346
28	39,099	41,445	43,012	44,638	46,325	48,076		57,063
29	41,054	43,517	45,162	46,869	48,641	50,480		59,916
30	43,107	45,693	47,420	49,212	51,072	53,003		62,912
31	45,262	47,978	49,792	51,674	53,627	55,654		66,058
32	47,525	50,377	52,281	54,257	56,308	58,436		69,361
33	49,901	52,895	54,894	56,969	59,122	61,357		72,829
34	52,396	55,540	57,639	59,818	62,079	64,426		76,470
35	55,016	58,317	60,521	62,809	65,183	67,647		80,294
36	57,767	61,233	63,548	65,950	68,443	71,030		84,309
37	60,655	64,294	66,724	69,246	71,863	74,579		88,524

\* Hiring Rate is the minimum of the range, and is the salary at which most new hires should be paid.

Prob Step is the probationary salary which is paid upon completion of 6 months probation; the rate reflects a 6% increase over the hiring rate.

Job Rate is the mid-point of the range; salary increases above this rate vary based on performance ratings of the employee.

Open Range is the range of salaries between the Job Rate and the maximum rate. There are no designated salary rates or steps in the open range.

Maximum rate is the maximum that an employee within the salary grade would be paid.

\*\* grades 11 and 12 have fewer steps because the minimums of these ranges were raised to provide a living wage.





**Sources of information for increases to the salary schedule and average merit increase:**

- **3% increase recommended to the rates in the salary schedule:**

*Local data:*

NC Office of State Personnel: 1998-99 Compensation Report: survey of 74 NC and southeast employers – 2.73% average increase anticipated to salary structures (range minimums, midpoints, maximums).

*National data:*

Bureau of Labor Statistics: January 28, 1999 report on Employment Costs found that nationwide, compensation costs –salaries and benefits -- rose 3.4% between December 1997 and 1998. Salaries in the same period were up 3.7%, with private sector salaries increasing 3.9% and public sector salaries increasing 3.1%.

- **4.75% average merit increase recommended :** See also local benchmark salary data in Attachment 5

<b>Source:</b>	<b>Exempt / salaried employees</b>	<b>Non-Exempt (hourly) employees</b>
<i>Local data:</i>		
City Council in Raleigh has approved:	5% for all employees + a step / merit on anniversary date; additional for law enforcement officers and fire personnel	
Capital Associated Industries in Raleigh : survey of 210 Research Triangle private sector employers	5% (executive)	4.2% for employees
NC Office of State Personnel survey of 74 NC and southeast employers		3.95% for employees
<i>National trend data:</i>		
William H. Mercer, Incorporated, survey of 1800 companies nationally	4.2%	3.9%
Buck Consultants <u>1998-99 Compensation Budget Survey of Fortune 1000 Companies</u>	4.1%	4%
Institute of Management and Administration, reporting survey by PriceWaterhouse (for the Southeast)	4.2%	4%
Institute of Management and Administration	4.21% (top executives 5.3%)	
Wall Street Journal, reporting on "1998-1999 Total Salary Increase Budget Survey" by the American Compensation Association	4.4% (officers / executives 4.6%)	



**Distribution of employees in salary range:**

One of the goals of the recommended new pay system is predictable salary movement for employees by steps, so that employees' salaries reach the range midpoint, the Job Rate, after approximately 4 years of successful performance. Currently 27% of the workforce – 169 employees – have 5 or more years of service but have salaries below the Job Rate. Recommended salary adjustments would spread employee salaries throughout the range based on service, correcting much of the compression in salaries between newer and longer-term employees in the same job categories.

If compression adjustments are implemented as recommended, the distribution of employees in the range on October 1 will be: \*

<u>Minimum</u>	<u>Probationary Step</u>	<u>Step 1</u>	<u>Step 2</u>	<u>Step 3</u>	<u>Job Rate</u>	<u>Performance Range</u>	<u>Total</u>
33	(33)*	74	61	59	169	238	634
5%	(5%)	12%	10%	9%	27%	38%	

See attached chart depicting this distribution

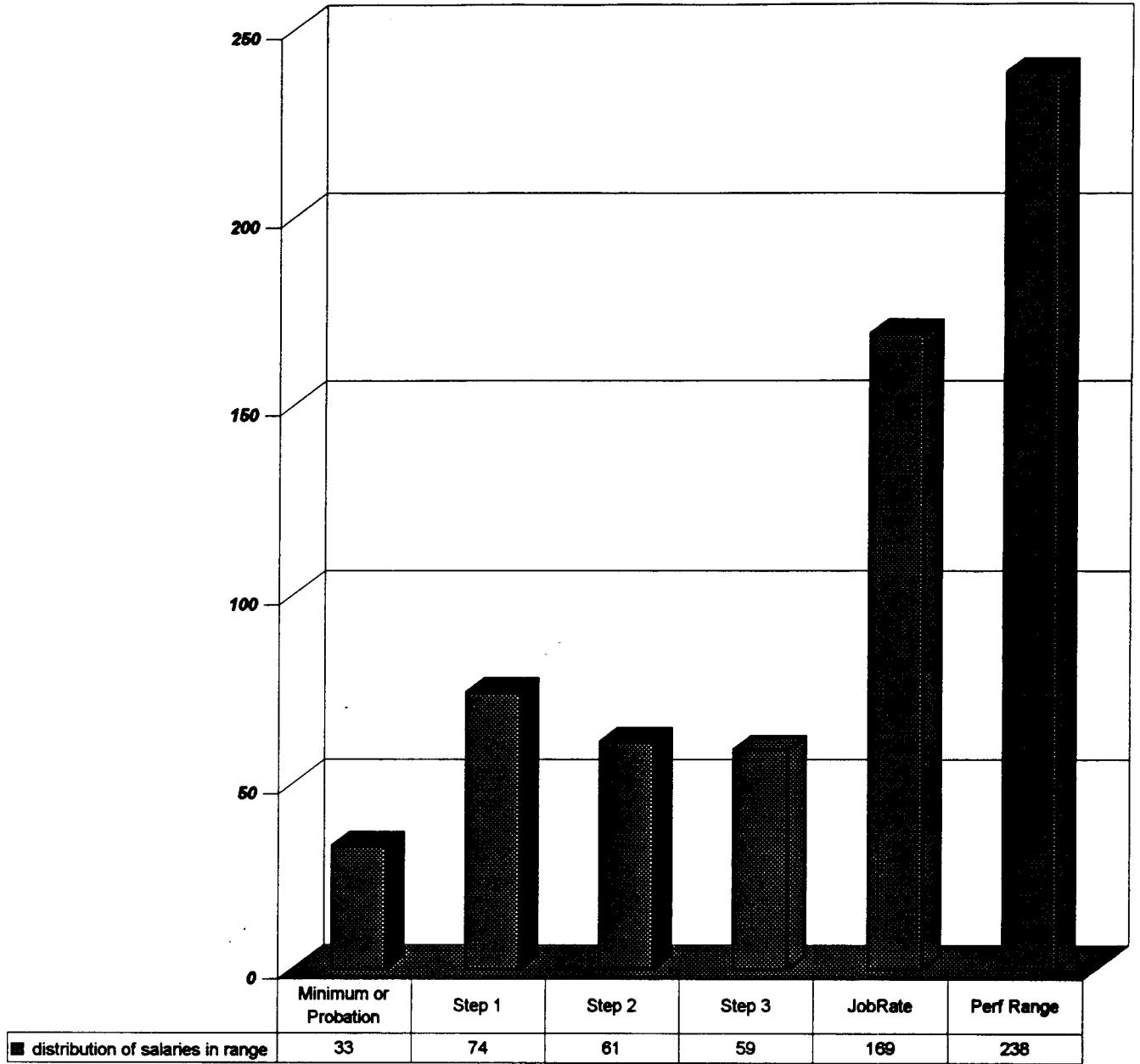
The current distribution is:

<u>Minimum</u>	<u>Probationary Step</u>	<u>Developmental Range</u>	<u>Job Rate</u>	<u>Performance Range</u>	<u>Total</u>
33	72	280	0	249	634
5%	11%	44%		39%	

\* Information based on current workforce and salary: changes such as turnover, promotions, and career advancement will change these numbers; some employees currently at the minimum will have been advanced to the probationary step by that date.



**Distribution of Employees in Salary Range after 10/1 compression adjustments**



**Point of employee salary within the salary range**



**Additional information: summary labor market data for benchmark positions**

The following summary information is based on responses by area governmental organizations to Town surveys of salaries paid for 26 benchmark (representative) positions in February, 1999. Summaries of the benchmark salary data are on the next page, with the details of data following this summary.

We note some changes in the Town's relative position in the market in comparison to data collected on the same positions last year:

- In 1998 the Council increased the lowest rate at which the Town would pay employees from \$17,694 to \$19,377 – a living wage based on local cost of living and the federal poverty wage. Because of this policy, all 3 benchmark positions in the lowest salary categories (Secretary I, Sanitation Collector, and Library Assistant I) are paid approximately 10% above the local market for these positions.
- In 1998 we reported to the Council a concern that the Town's salaries appeared to have lost some ground in the local market, with several jobs having slipped from being competitive to being low in the local market. In that survey 50% of the benchmark positions surveyed were 2% or more lower than the labor market average, while 20 % were approximately equivalent to the market and 30% were 2% or more higher than the market.

In 1998 we urged the adoption of a 3.5% adjustment to the rates in the salary schedule to keep Town ranges reasonably competitive. The Council adopted the 3.5% schedule change, and this measure appears to have helped the Town's competitive position in hiring new employees in the market. This year benchmark positions are more closely divided:

- 6 surveyed jobs are more than 2 % lower than the labor market average
- 8 surveyed jobs are roughly equivalent to the labor market average
- 8 surveyed jobs are more than 2% higher than the labor market average

This year the Manager recommends a 3% schedule adjustment, due to labor market trends and in anticipation of the schedule changes planned by other employers.

- The Town's salary survey requested two different sets of data – hiring rates for new employees and the average of salaries actually paid. In analyzing this data, we compared the Town's listed hiring rate to the hiring rates of other employers, and compared the average actually paid to the midpoint of the Town's salary range.

As the attached summary of the data shows, the Town's listed hiring rates are often competitive with the local market. However, when information on salaries actually paid by other organizations is considered, the Town is less competitive. Implementation of recommended changes to the pay system – changes such as steps in the salary schedule and compression adjustments – would help the Town's competitive position in this area.

**(1) Summaries of benchmark data for lowest 4 salary grades** (By Council resolution, salaries for the lowest 4 salary grades are to be competitive at the 75<sup>th</sup> percentile / third quartile of the market, with the lowest salary set using the federal poverty wage, indexed for Chapel Hill's living costs, plus \$1,000.)

*Benchmark positions where Town salaries are more than 2% higher than the 75<sup>th</sup> percentile/ third quartile of the labor market:*

Sanitation Collector I

Secretary I

Library Assistant I

**(2) Summaries of benchmark data for positions in other salary grades** (by Council resolution, salary ranges are to be competitive at the approximate middle of the market:

Benchmark positions where Town salaries are within 2% of the average of the labor market (comparing hiring rates to hiring rates, and comparing averages paid to the Town's range midpoint):

Personnel Technician  
Fire Equipment Operator  
Mechanic II

Planner II  
Inspector II

Police Officer I  
Maintenance Mechanic II

*Benchmark positions where Town salaries are more than 2% higher than the average labor market:*

Administrative Analyst  
Recreation Specialist  
Sanitation Equipment Operator

Police Officer II  
Secretary II  
Accounting Clerk

Executive Secretary  
Drafting Specialist

*Benchmark positions where Town salaries are more than 2% lower than the average labor market:*

Finance Director  
Police Lieutenant

Buyer  
Construction Worker IV

Fire Captain  
Planning Director

The details of the salary information follow on the next pages.



**Attachment 5 continued: Summary of Salary Data Collected on Specific Positions:**

In the following chart Chapel Hill's hiring rate is compared to the weighted average of the hiring rates of other Research Triangle area public sector organizations and Chapel Hill's range mid-point is compared to the average actually paid in the market. The percentage by which Chapel Hill's salaries are either ahead of or behind the market are shown for both comparisons, and a summary which combines the two comparisons for each job is also shown. Where the summary shows "Above", the Chapel Hill range is above the market average by the percentage shown; where the summary notes "Below" the Chapel Hill range is below the market average by the percent shown.

**JOBS in GRADES 11 - 14** Jobs in grades 11 through 14 are surveyed for as hourly and compared to the weighted third quartile paid in our Labor Market

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>		<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Secretary I</u></b>			<b><u>Sanitation Collector I</u></b>		
Chapel Hill:	10.12	11.89	Chapel Hill:	9.40	10.80
Market	8.89	11.00	Market	7.93	10.26
<b>CH average 10% above</b>	<b>12%</b>	<b>8%</b>	<b>CH average 10% above</b>	<b>16%</b>	<b>4%</b>
<b><u>Library Assistant I</u></b>					
Chapel Hill:	10.12	11.89			
Market	9.29	10.98			
<b>CH average 8% above</b>	<b>8%</b>	<b>8%</b>			

**GRADES 15 THROUGH 17** Jobs in grades 15 through 17 are surveyed as hourly, and compared to the weighted average hourly wage paid in our labor market

<b><u>Accounting Clerk</u></b>			<b><u>Sanitation Equipment Operator II</u></b>		
Chapel Hill:	10.59	12.83	Chapel Hill:	9.93	12.57
Market	9.89	12.92	Market	9.17	12.61
<b>CH average 3% above</b>	<b>7%</b>	<b>-1%</b>	<b>CH average 5.5% above</b>	<b>11%</b>	<b>0%</b>
<b><u>Bus Driver</u></b>			<b><u>Secretary II</u></b>		
Chapel Hill:	9.93	12.03	Chapel Hill:	10.59	12.83
Market	9.93	12.17	Market	9.31	11.70
<b>CH average equivalent</b>	<b>0%</b>	<b>-1%</b>	<b>CH average 9% above</b>	<b>12%</b>	<b>6%</b>
<b><u>Construction Worker IV</u></b>					
Chapel Hill:	10.31	12.57			
Market	10.24	13.31			
<b>CH average 3% below</b>	<b>-0%</b>	<b>-6%</b>			

**GRADE 18 AND ABOVE** Jobs in grade 18 and above are surveyed by annual salary. Our annual salaries are compared to the weighted average annual salaries in our labor market.

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>		<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Administrative Analyst</u></b>			<b><u>Executive Secretary</u></b>		
Chapel Hill:	34,430	42,339	Chapel Hill:	23304	28,657
Market	30,548	41,485	Market	21,784	29,298
CH average 6.5% above	11%	2%	CH average 2% above	6%	-2%
<b><u>Buyer</u></b>			<b><u>Finance Director</u></b>		
Chapel Hill:	25,693	31,594	Chapel Hill:	53,411	65,681
Market	28,274	38,004	Market	55,004	77,019
CH average 15% below	-10%	-20%	CH average 10% below	-3%	-17%
<b><u>Drafting Specialist</u></b>			<b><u>Fire Captain</u></b>		
Chapel Hill:	24,469	30,090	Chapel Hill:	32,791	40,323
Market	22,264	31,046	Market	33,701	43,208
CH average 3% above	9%	-3%	CH average 5% below	-3%	-7%
<b><u>Fire Equipment Operator</u></b>			<b><u>Planning Director</u></b>		
Chapel Hill:	28,326	34,832	Chapel Hill:	56,081	68,965
Market	27,828	34,034	Market	53,331	76,801
CH average 2% above	2%	2%	CH average 3% below	5%	-11%
<b><u>Inspector III</u></b>			<b><u>Police Lieutenant</u></b>		
Chapel Hill:	31,229	38,402	Chapel Hill:	36,152	44,456
Market	30,239	39,792	Market	36,179	48,283
CH average .5% below	3%	-4%	CH average 4.5% below	0%	-9%
<b><u>Maintenance Mechanic II</u></b>			<b><u>Police Officer I</u></b>		
Chapel Hill:	23,304	28,657	Chapel Hill:	26,977	NA*
Market	23,092	29,405	Market	26,758	
CH average 1% below	1%	-3%	CH average 1% above	0%	

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Mechanic II</u></b>		
Chapel Hill:	25,693	31,594
<i>Market</i>	<i>23,432</i>	<i>33,527</i>
<b>CH average 1.5% above</b>	<b>9%</b>	<b>-6%</b>

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Personnel Technician</u></b>		
Chapel Hill:	23,304	28,657
<i>Market</i>	<i>23,157</i>	<i>29,757</i>
<b>CH average 1.5% below</b>	<b>1%</b>	<b>-4 %</b>

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Planner II</u></b>		
Chapel Hill:	34,430	42,339
<i>Market</i>	<i>32,680</i>	<i>43,629</i>
<b>CH average 1% above</b>	<b>5%</b>	<b>-3%</b>

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Police Officer II</u></b>		
Chapel Hill:		NA*
		29,034
<i>Market</i>		<i>26,100</i>
<b>CH average 10% above</b>		<b>10%</b>

	<u>HIRING</u>	<u>MIDPOINT/ Avg PAID</u>
<b><u>Recreation Specialist</u></b>		
Chapel Hill:		33,173
		26,977
<i>Market</i>		<i>30,979</i>
		24,934
<b>CH average 7.56% above</b>	<b>8%</b>	<b>7 %</b>

