

November 10, 2003

TO: Honorable Mayor and Members of the City Commission
FROM: Alan D. Ash, City Auditor
SUBJECT: CWA Pay Study

In May 2001, the City Commission received a status report from the Pay Study Team and requested that the Charter Officers provide solutions to resolve the issues concerning the Pay Study. After much discussion, a decision was made to terminate the City's contract with the original pay study consultant. Earlier this year, management informed us that they were working on a classification and compensation study with implementation anticipated for Fiscal Year 2003/2004. At that time, we discussed the general progress of the study and the anticipated involvement of the City Auditor's Office in reviewing the process utilized and the results obtained. We agreed that the City Auditor's Office would audit the results of the classification and compensation study in order to provide reasonable assurance to the City Commission that the methodologies and processes used by management were reasonable, adequately documented and supported, and consistently and accurately applied to data collected.

We have completed our review of the CWA Pay Study and have recently communicated results of our findings to management, documenting issues where we believe the methodologies and processes established by management were not always consistently and accurately applied to data collected. Management has indicated that these issues cannot currently be addressed for the CWA pay study due to the collective bargaining process and has summarized the issues raised and their responses in the accompanying memo. Management has also indicated that the issues raised by our review of the CWA pay plan are being addressed in the final development of the upcoming management, administrative and professional pay plan. The City Auditor's Office will complete a review of that process as soon as it is finalized and we are provided access to management's documentation supporting their upcoming recommendations.

To: Honorable Mayor and Members of the City Commission

From: Michael L. Kurtz, General Manager for Utilities
Wayne Bowers, City Manager

Subject: CWA Pay Study

Date: November 10, 2003

Since 1996 there has been a requirement in the CWA contract to do a pay study to update the study done by Cody and Associates, Inc. in 1987. In 1999 we attempted to complete a pay study using an outside consultant, but the end result was unsatisfactory and was not implemented. Last year we made the decision to do the pay study with in-house personnel. Over the last few years, three of our employees assigned to this project have earned nationally recognized certification from the American Compensation Association.

Our staff began building the framework for a pay system in 2002. Although considerable judgment is required to do any pay structure, our staff designed the basic framework and methodology well within the boundaries of accepted compensation practices. In early 2003, the group working on the pay structure was expanded to include some representatives of CWA, and ultimately the whole Interest Based Bargaining Team (IBBT) in April. In the final analysis the union contract is a negotiated instrument that must be approved by a majority of the bargaining unit. Therefore, at the point that CWA became more actively involved, the emphasis in the pay study shifted from "pure" compensation practice to two other major criteria: the affordability for the City and the "salability" of the structure to employees thereby avoiding a prolonged impasse.

The City Manager and General Manager contracted with Charles Pascual of Mercer Consulting, Inc. to oversee the work of the pay study team. Mr. Pascual is highly respected in his field and teaches compensation to other professionals on the national level. His report is attached.

The City Manager and General Manager also asked the City Auditor to review the basic methodology used in building the new pay structure. Management especially wanted their comments because we expected to use a similar process of data gathering and analysis when developing the pay structure for Managerial, Administrative, and Professional (MAP) positions. The major difference between the CWA and MAP processes is that in the Union there is a major emphasis on internal equity with a secondary emphasis on market. Due to the higher career mobility of the MAPs, in that structure there is a primary emphasis on market and a secondary one on internal equity. In most other respects the general principles applied have been the same.

In the course of his subsequent analysis, the Auditor shared a number of concerns with the Management and Union about the pay structure. Some of these concerns are a result of the negotiation process, and some are simply due to the fact that updating the pay structure after 16 years is a huge undertaking. In the CWA contract we have provided for ongoing maintenance, refinement and updating of the pay plan so that we never find ourselves in this position again.

We will invite the Auditor to attend the IBBT negotiations at the appropriate time in the joint review process so that any issues of concern to the Auditor may be fully considered in future negotiations. A summary of the Auditor concerns is presented below.

- Several of the concerns relate to inconsistencies in the aging process of data, the application of the geographic differential factor, the application of benchmarks to the regression analysis, and comparisons of the resulting pay lines to the final pay structures. These "inconsistencies" occurred during the "negotiation" phase of the contract rather than during the "pure" development phase, and are a direct product of the negotiations. We will be happy to have these concerns discussed with the IBBT as we continue to refine and update the process.

- The Auditor has asked about the apparent creation of several new position titles. These areas have been identified during the pay study process and were agreed to by the IBBT as needing a more in-depth look. That process is underway. This was disclosed in the executive session and to the employees at the employee meetings. When that review is completed, Management will bring the appropriate changes to the P&O Committee for consideration, much as was done in the Staff Assistant process.
- The Auditor has expressed concern about the philosophy of the aging process as applied to CWA. Specifically, market median data as of January 1, 2003 was aged by 11% for the first year of the contract and 2% for each of the remaining years. On paper, this puts the CWA contract ahead of the market's fiftieth percentile. This was very important to CWA because it reduced the number of first year "redlines" from over 200 to a now salable 80. However, the contract also provides that in the first two years of the contract, employees who are not otherwise redlined or "topped out" will receive a salary increase equal to 4.75% of their range midpoint. This means that many employees will not even hit the minimums of their new ranges until year three of the contract. This implementation plan also keeps the total cost of the contract in the same range as the old "business as usual" and/or the contracts for Police and Fire. CWA would have much preferred an implementation plan whereby employees were phased into the new pay ranges at the same point where they are in the present ranges. However, this was not affordable and therefore was not agreed to by management in the negotiations. It is probably important to note that a more conservative data-aging plan has been applied to the MAP pay structure.
- As has been previously discussed with the City Commission, there are a few employees who will receive substantial pay increases in year three of the contract in order to bring them to the minimum of their pay ranges.
- The Auditor has also pointed out that many factors have changed since our original documentation of the process used to develop this pay structure. We will update the documentation so that it reflects the reality of what was done in the final month of negotiations so that this process is reproducible in the future.

We are pleased with the work that our in-house staff has done, saving the City consulting fees easily upwards of \$200,000. We would also like to commend CWA for their willingness to approach compensation in a systematic way.

Mike Kurtz
General Manager for Utilities

Wayne Bowers
City Manager

Attachment