

Custom Compensation & Benefits Survey For Tacoma Public Utilities

Supplemental Recommendations



Introduction

Milliman was retained by the City of Tacoma to conduct an analysis of total compensation for a select group of positions across the City. *Total Compensation* includes:

- ✓ Base salary/wages
- ✓ Short-term cash incentives (or bonuses)
- ✓ Medical benefits
- ✓ Dental benefits
- ✓ Life insurance benefits
- ✓ Disability benefits
- ✓ Retirement benefits

In addition Milliman was asked by the Director of Utilities to provide recommendations for changes based on “best practices” in the marketplace today among other utilities and government agencies. This supplemental report contains those recommendations.



Recommendations

■ Adopt a pay philosophy similar to the one outlined below:

Our mission at Tacoma Public Utilities requires that we are second to none in the quality of our service, in our management of costs, and in the reliability of our service. Excellence is what our customers expect from us and what we expect from ourselves.

Our employees are the reason for our past success and the promise of our ability to continue to provide the best—low cost, reliable, customer-centered—services to our community. To attract and retain the kind of employees we need to meet our high performance standards, Tacoma Public Utilities (TPU) strives to be an *employer of choice* in the Puget Sound region. For our customers/community that means our goal is to maintain our status as one of the best municipal governments in the nation. For our employees that means we are committed to:

- Providing a competitive total compensation package.
- Providing opportunities for our employees to grow and develop their skills, knowledge, and ultimately their careers.
- Making performance the touchstone of our total pay program so that our ability to attract and retain highly skilled and committed employees is not at risk.
- Ensuring that our best employees receive above average total compensation that reflects their contribution to our success. Performance matters to TPU and to our customers.
- Communicating openly with our employees about our business/mission, our successes and our failures, and opportunities for us to do things better.

The total compensation program at TPU is designed to assist us in creating and supporting a flexible, responsive and competitive organization. It is made up of salary/wages, performance pay, benefits, and other less tangible elements that are of value to our employees (e.g. work environment, security, career opportunities, etc.). Each element plays a role in our pay strategy.

Salary/wages: Our pay ranges are designed to provide at market median compensation to those employees who are strong performers and consistently make contributions to our success. We regularly assess our market to ensure that our salary ranges remain competitive.

Market: We define our market simply as the employers and locations where we look to secure labor talent. In general that means:

Hourly staff:	Local Tacoma labor market
Utility specific positions:	Local, regional and national utilities
Professional/Managerial:	Local, regional and national general industry and other public sector organizations

Benefits: We target our benefits in total to provide average or slightly above average value to our employees. Each of our benefit programs is designed to provide an employee with security in case of unforeseen events and for retirement.

Our goal is to attract, retain and motivate committed, hard-working, creative and thoughtful employees who support our mission to meet and exceed the expectations of our community, not only in service delivery but in building a better place for all of us to live and work.



Recommendations

- Adopt a “market based” pay system
 - ✓ A market-based pay system relies on market data to develop fair and competitive ranges of pay for each position. Such a system will require that TPU collect more competitive data than it has in the past on a systematic basis. This effort will likely include extensive use of published surveys and some use of targeted, “custom” salary surveys.
- Adopt the following set of guidelines for managing base pay
 - ✓ Establish pay ranges that have a market rate at approximately the market median percentile (proposed pay ranges are included on page 7).
 - ✓ Assign jobs to ranges based on which market rate is closest to the market median percentile for the position (included in the appendix is a preliminary assignment of the benchmark positions into the proposed pay ranges).
 - ✓ Allow employees to earn lump sum performance awards once their pay has reached the market rate of the pay range. These lump sums would be tied to individual performance and would not become part of base pay for future salary increases. The range of lump sum award should be between 0% and 15%. (The example on the following page illustrates the positive effect on fixed costs of such a system, as well as the significant opportunity to recognize and reward strong performance.)
 - ✓ Develop a “pay-for-performance” system to manage salary increases and lump-sum awards.
- Collect data on positions not included in the study so that they can be assigned to the appropriate pay range



Recommendations

Costing Example

Job: Accounting Manager

Market median: \$75,600

Job offer starting salary: \$75,600

Performance level: Exceeds expectations - 5.0% increase until max of range is attained

Salary structures movement increases 2.5% per year

	<u>Minimum</u>	<u>Midpoint</u>	<u>Maximum</u>
Proposed	\$56,700	\$66,150	\$75,600
(33.3% range width. Max set at market median.)			
Company ABC	\$60,480	\$75,600	\$90,720
(Traditional range: 50%, Midpoint set at market median)			

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>	<u>Yr 7</u>	<u>Yr 8</u>	<u>Yr 9</u>	<u>Yr 10</u>	<u>Totals</u>
Traditional Range Max	\$75,600	\$77,490	\$79,427	\$81,413	\$83,448	\$85,534	\$87,673	\$89,865	\$92,111	\$94,414	
Employee Salary	\$75,600	\$77,490	\$79,427	\$81,413	\$83,448	\$85,534	\$87,673	\$89,864	\$92,111	\$94,414	\$846,974
Salary Increase %		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	24.9%
Employee Lump-sum	\$0	\$1,890	\$1,938	\$1,985	\$2,036	\$2,086	\$2,138	\$2,192	\$2,247	\$2,303	\$18,814
Employee Total Pay	\$75,600	\$79,380	\$81,365	\$83,398	\$85,484	\$87,620	\$89,811	\$92,056	\$94,358	\$96,717	\$865,788

	<u>Yr 1</u>	<u>Yr 2</u>	<u>Yr 3</u>	<u>Yr 4</u>	<u>Yr 5</u>	<u>Yr 6</u>	<u>Yr 7</u>	<u>Yr 8</u>	<u>Yr 9</u>	<u>Yr 10</u>	<u>Totals</u>
ABC Range Max	\$90,720	\$92,988	\$95,313	\$97,696	\$100,138	\$102,641	\$105,207	\$107,838	\$110,534	\$113,297	
Employee Salary	\$75,600	\$79,380	\$83,349	\$87,516	\$91,892	\$96,487	\$101,311	\$106,377	\$111,696	\$117,280	\$950,889
Salary Increase %		5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	55.1%
Employee Lump-sum	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Employee Total Pay	\$75,600	\$79,380	\$83,349	\$87,516	\$91,892	\$96,487	\$101,311	\$106,377	\$111,696	\$117,280	\$950,889

At the end of ten years, the proposed pay program has paid out a cumulative total of \$865,788 and still pays base salary at market rate (remember that jobs cannot be paid over the maximum of the salary range and the salary range maximum is always set equal to the current market rate). During the same time Company ABC has paid out a cumulative total of \$950,889; presumably for the same level of performance. The savings over Company ABC's is nearly 10%. Note that the proposed program allows significant lump sum awards which could be even greater and still not cost the organization any more.



Recommendations

- Adopt a policy that allows for all benchmark positions to be reviewed every three to four years. Many organizations will study one-third of their benchmarks each year so that after three years, all benchmarks have been reviewed. This approach can be used by job category—non-exempt, exempt, managerial—or by functional area—accounting, finance, economic development, etc.
- Adopt the salary ranges on page 7



Recommendations

Proposed Salary Ranges

Grade	Market Minimum	Market Median	Market Maximum (Lump Sum)
1	\$25,532	\$30,000	\$34,500
2	\$29,362	\$34,500	\$39,675
3	\$33,766	\$39,675	\$45,626
4	\$36,501	\$45,626	\$52,470
5	\$41,976	\$52,470	\$60,341
6	\$48,272	\$60,340	\$69,391
7	\$55,513	\$69,391	\$79,800
8	\$63,840	\$79,800	\$91,770
9	\$73,416	\$91,770	\$105,536
10	\$84,428	\$105,535	\$121,365
11	\$97,092	\$121,365	\$139,570
12	\$111,656	\$139,570	\$160,506
13	\$128,405	\$160,506	\$184,582
14	\$147,666	\$184,582	\$212,269
15	\$169,815	\$212,269	\$244,109
16	\$195,287	\$244,109	\$280,726
17	\$224,581	\$280,726	\$322,835
18	\$258,268	\$322,835	\$371,260



Appendix – Proposed Job Hierarchy

Prop Grade	Job Title	Market Minimum	Market Median	Mkt Max Performance Pay Zone
3	Sales & Service Representative	\$33,766	\$39,675	\$45,626
4	Administrative Asst Aft 1/1/88	\$36,501	\$45,626	\$52,470
5	Marketing Coordinator	\$41,976	\$52,470	\$60,341
6	Community Relations Officer	\$48,272	\$60,340	\$69,391
	Telecommunications Network Technician	\$48,272	\$60,340	\$69,391
7	Administrative Services Manager I	\$55,513	\$69,391	\$79,800
	Financial Supervisor	\$55,513	\$69,391	\$79,800
	Management Analyst II	\$55,513	\$69,391	\$79,800
8	Engineer, Professional	\$63,840	\$79,800	\$91,770
	Principal Engineer, Sr	\$63,840	\$79,800	\$91,770
9	Financial Manager	\$73,416	\$91,770	\$105,536
	Power Analyst	\$73,416	\$91,770	\$105,536
	Project Manager	\$73,416	\$91,770	\$105,536
10	Engineer, Principal	\$84,428	\$105,535	\$121,365
	Telecommunications Manager, Asst	\$84,428	\$105,535	\$121,365
11	Customer Services Manager	\$97,092	\$121,365	\$139,570
12	Telecommunications Manager	\$111,656	\$139,570	\$160,506
	Utilities Director Deputy Water Superintendent	\$111,656	\$139,570	\$160,506
13	Energy Conservation Manager	\$128,405	\$160,506	\$184,582
	Power Manager	\$128,405	\$160,506	\$184,582
	Transmission & Distribution Manager	\$128,405	\$160,506	\$184,582
14	Generation Manager	\$147,666	\$184,582	\$212,269
16	Utilities Director Deputy Power Superintendent	\$195,287	\$244,109	\$280,725
18	Utilities Director	\$258,268	\$322,835	\$371,260



Appendix - Cost

Amount to Grade Minimums

Adopting the recommended salary ranges would require moving employees into the appropriate range. In the following cases, that represents a “cost” to TPU since current pay for this group is below minimum.

Prop Grade	Position Title	Base Pay	Job Code	Mkt Min	Mkt Median	Amt to Min
3	Sales & Service Representative (.9 position)	\$28,226	55110-608	\$33,766	\$39,675	\$2,163
3	Sales & Service Representative	\$24,768	55110-608	\$33,766	\$39,675	\$8,998
3	Sales & Service Representative	\$32,656	55110-608	\$33,766	\$39,675	\$1,110
3	Sales & Service Representative (.9 position)	\$26,695	55110-608	\$33,766	\$39,675	\$3,694
13	Energy Conservation Manager	\$120,307	06190-903	\$128,405	\$160,506	\$8,098
14	Generation Manager	\$142,293	20800-904	\$147,666	\$184,582	\$5,373
16	Utilities Director Deputy Power Superintendent	\$164,736	08250-902	\$195,287	\$244,109	\$30,551
18	Utilities Director	\$243,277	08220-901	\$258,268	\$322,835	\$14,991
					Total:	\$74,978



Appendix - Employees Over Proposed Market

There will be employees whose current rate of pay is above the “market rate” of the proposed ranges. For these employees, TPU will need to evaluate the best approach to handling future increases. There are a number of possible approaches that can be considered depending on the priorities of TPU.

