



MEMORANDUM

To: MCWD Board of Managers

From: James Wisker

Date: December 20, 2018

Re: Item 12.1 – Implementation of 2018 Classification and Compensation Study

Purpose:

To facilitate Board discussion related to the proposed implementation of the 2018 Classification and Compensation Study results.

Background:

Over the last year and a half, the MCWD Board of Managers has invested significant effort in strategically planning for the future of its human resources. Following an organizational realignment, the Board initiated a systematic effort with Springsted Inc. to classify its positions, and determine a market competitive salary structure.

Following discussion by the Operations and Programs Committee on December 13, 2018, a proposed pay structure will be considered for adoption by the Board of Managers at the December 20, 2018 Board Meeting.

To implement the proposed pay structure, the Board will also be asked to consider:

- Options regarding the 2019 cost to implement the proposed MCWD salary structure
- A draft compensation policy which frames the District’s compensation philosophy and authorities

Pending discussion at the December 20, 2018 meeting, these items will be brought forward for final consideration at the January 10, 2018 Board Meeting.

The MCWD considers its compensation comprehensively, and as part of the 2018 Classification and Compensation Study a survey was conducted to evaluate MCWD’s employee benefits against the market place. The Board will evaluate and consider the District’s position on employee benefits relative to the market in the first quarter of 2019, in advance of the annual benefit renewal in June 2019.

Options for Cost to Implement:

Two options were framed for discussion by the Operations and Programs Committee on December 13, 2018. Those options are:

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- Option 1 – Implement in 2019 within budget
- Option 2 – Implement in 2019 with a budget amendment (*requires no change in levy)

As part of the 2019 budget development, the Board of Managers established a total personnel budget including salary, benefits, payroll tax, PERA, and an estimated adjustment for implementing the findings from the Classification and Compensation Study. This estimate was made prior to having market data results from the Study. The 2019 personnel budget represented a net decrease from the 2018 personnel budget of \$2,357.

Option Parameters:

The following parameters are factored into the options for cost to implement:

- Adjustment to minimum range
- Flexibility in placing new hires
- Budget for additional adjustment

Adjust to Minimum Range:

A significant fraction of MCWD positions are currently paid below the minimum salary range proposed in the classification and pay structure. This is due primarily to two reasons (1) MCWD’s restructuring resulted in the development of a number of new position descriptions; and (2) MCWD has not benchmarked its salaries or adjusted its pay system against the market for nearly five years. Both options recommend that all positions currently paid below the minimum salary range be adjusted to the minimum.

Flexibility in Placing New Hires:

Three positions currently remain unfilled, (1) Research and Monitoring Seasonal Field Assistant, (2) Planner-Project Manager, (3) Geographic Information Systems (GIS) Technician. To allow for the potential placement of these positions slightly above the minimum range, it is recommended that approximately \$10,000 be allocated for flexibility. Both options recommend this flexibility.

Budget for Additional Adjustment:

On December 13, 2018 the Operations and Programs Committee discussed components of a draft MCWD compensation philosophy and draft criteria to be considered by the Administrator in placing and moving individuals through the proposed salary structure. These concepts and criteria have been integrated into a draft Compensation Policy (Attachment A).

In part, the draft Compensation Policy frames the District’s thinking regarding salary range penetration based on a philosophy of moving individuals efficiently towards the mid-point of the salary ranges based on criteria including experience, tenure, proficiency, performance, teamwork, mission driven outputs, etc.

Correlated to this draft policy, Option 2 provides for additional salary range penetration, thereby requiring a budget amendment, whereas Option 1 makes these adjustments within the proposed budget. These options are summarized below

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- Option 1 – Implement within Budget
 - Adjust positions to minimum range
 - Reserve \$10,000 for flexibility in placing new hires
 - Provides approximately \$13,000 within budget for remaining adjustments
 - Includes 1-2% adjustment for Administrator

- Option 2 – Implement with Budget Amendment (~ \$32,000 amendment)
 - Adjust positions to minimum range
 - Reserve \$10,000 for new flexibility in placing new hires
 - Provides approximately \$41,000 in total for remaining adjustments
 - Approximately \$28,000 in adjustments beyond Option 1
 - ~ \$32,000 over budget with associated payroll tax and PERA increases
 - Provides additional movement in 2019 based on philosophy and criteria
 - Provides Board discretion of Administrator adjustment above 2%
 - Would be funded in 2019 through use of operational reserves

The Board will be asked to discuss these options at the December 20, 2018 Meeting, and provide direction to staff to frame a final recommendation on January 10, 2018.

Draft Compensation Policy:

MCWD has historically lacked a defined policy regarding the implementation of employee compensation. The purpose of a compensation policy is to provide guidance and clarity on how much MCWD pays (salary structure), the way MCWD pays (movement through ranges) and why (MCWD’s compensation philosophy).

Attachment A is a draft compensation policy which begins to frame:

- The District’s compensation philosophy
- Accountability for administering the District’s compensation plan
- How positions will be (re)evaluated and (re)classified
- The District’s practice of maintaining market competitive salary ranges
- New hire salary placement
- How individuals may move through the salary ranges

The Board will be asked to discuss the primary components of this draft policy and provide feedback at the December 20, 2018 Meeting. Based on that discussion, staff will refine and present for final consideration at the January 10, 2018 Meeting.

Next Steps:

Pending discussion, staff will refine the following items for final consideration by the Board of Managers at the January 10, 2018 Meeting:

- Options regarding the 2019 cost to implement the proposed MCWD salary structure
- A draft compensation policy which frames the District’s compensation philosophy and authorities

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If there are questions in advance of the meeting, please contact James Wisker at Jwisker@minnehahacreek.org or 952-641-4509.

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MCWD DRAFT Compensation Policy

1. Compensation Philosophy

The Minnehaha Creek Watershed District (MCWD or District) strives to be an elite organization, and envisions a landscape of vibrant communities where natural and built environments exist in balance to create value and enjoyment.

The District has set high standards of excellence, and is committed to achieving outstanding results that honor its partners in protecting and improving land and water for future generations. MCWD is guided in this pursuit of a balanced urban ecology for the watershed, by sound science, service, partnership, and a spirit of innovation where flexibility and creativity combine to create a culture of continuous improvement. To achieve its audacious goals, the District recognizes that its most important assets are its people.

In order to attract and retain the talented people needed to accomplish its mission, the Minnehaha Creek Watershed District is committed to establishing and maintaining a compensation package that is both competitive with the public and private market within the region, and reflects the organization's standards of excellence and unique strategic priorities.

MCWD's compensation policy is designed to:

- Attract and retain the talent the District needs to achieve its mission
- Remain competitive with public and private market
- Reflect the organization's strategic priorities
- Provide for internal equity by consistently evaluating jobs and pay programs
- Reward employees on the basis of mission driven performance
- Maintain a plan that is clear and easy to communicate
- Comply with all state and federal laws and regulations

MCWD also believes that compensation is more than just a salary, and is committed to maintaining a total compensation package that considers how salary and employee benefits combine to competitively position the organization in the market for talent.

2. Administration of the Compensation Plan

The District's Compensation Plan (Plan) consists of systematically classified positions, and corresponding salary ranges for each position that are derived from a market analysis of comparable positions from benchmark organizations (Attachment A).

The Board of Managers maintains overarching authority over the Plan, as outlined in the District's Governance Policies, by providing approval of the Plan, any periodic re-baselining of the Plan, and any significant adjustments to the Plan to meet the strategic needs of the organization.

The District Administrator oversees the implementation and administration of the Plan as approved and directed by the Board of Managers, and in a manner consistent with this policy.

3. Maintaining the Compensation Plan

Salary ranges within the Plan are developed based on an analysis of market data of comparable positions from benchmark organizations. The mid-point of the salary ranges will be competitively set based on the mid-point of the market data (comparable positions from benchmark organizations).

Salary ranges will be reviewed and updated annually as part of the District's budget process, to ensure that the ranges remain competitive with market variation over time. The District will utilize the Bureau of Labor Statistics, Employment Cost Index (ECI) to guide the annual adjustments in salary ranges. From this index the District will use the data from the all workers category of state and local government workers.

Adjustments will be based on the percent change for the 12 month period ending in June of each year. The percent adjustment will be made to the minimum, mid, and maximum amount for each range. An example follows for a minimum range adjustment:

$$\begin{aligned} \text{Percent Change} \times \text{Minimum Range} &= \text{Adjustment Amount} \\ \text{Minimum Range} + \text{Adjustment Amount} &= \text{New Minimum Salary} \end{aligned}$$

These annual adjustments to salary ranges, to maintain market competitiveness, must be approved by the Board of Managers as part of the annual budget process. Downward adjustments will not be made to the pay scale. If a negative percent change is realized, the salary scale will remain the same as the previous year.

Adjustments to the salary ranges does not guarantee an annual salary adjustment for individual employees. Salary adjustments for individuals will be based on performance, as detailed in Section 5.

A formal compensation and classification study will be conducted as needed, but no less frequent than every five years, to revalidate and baseline the salary ranges and grade assignments. Authorization to initiate this work must be provided by the Board of Managers.

4. New Hire Salary Placement

Starting salaries for new employees will be set within the salary range for that position, based on the individual's skills, knowledge and experience in relation to the proficiency requirements of the position. The starting salary will be recommended by the Department Manager, and approved by the District Administrator, before any offer of employment is made.

A new hire will not be eligible for a salary adjustment until after 180 days of employment. Department managers will complete 90 and 180 day performance reviews of newly hired employees. If a new hire demonstrates consistent and steady growth, cultural alignment, and is performing at a level equal to or exceeding expectations of the position at the 180 day review, the Manager may recommend a salary adjustment to the District Administrator.

5. Movement through Salary Ranges

To achieve its strategic priorities the District is committed to investing in and retaining high quality people that meet the District's standards of excellence. In addition to aligning individuals with

meaningful mission driven work, and providing a culture of collaboration, camaraderie and accountability, a component of the District's retention strategy is compensation.

To effectively incentivize the retention of employees that meet or exceed the District's performance standards, adjustments to compensation will be made annually to move individuals through the salary range for their respective position.

The District recognizes that it is important that its employees not only understand what they are being paid, but also understand the reasons why. As stated in the goals of this compensation policy, the District provides compensation to retain the talent it needs to accomplish its mission, reward mission driven performance that meets the organization's standards of excellence, remain competitive with the market and ensure internal pay equity.

Salary Range Penetration:

Regarding salary range penetration, the District has established the mid-point of its salary ranges as market competitive for comparable positions, from benchmark organizations, for individuals that have demonstrated market competitive proficiency, have the necessary trainings/certifications, and a consistent track record of performance.

Therefore, it is the District's intent to move employees towards the mid-point of the salary range for their grade in an efficient and timely manner consistent with work performance and demonstrated proficiency (knowledge, certifications, skills, abilities, etc.). Salary adjustments beyond mid-point of the salary range will be taken at a more gradual and deliberate pace, for individuals consistently performing at a level higher than what the position requires.

Performance Considerations:

Employee performance will play a key role in guiding the implementation of the District's philosophy regarding range penetration, and the pace at which employees move through a position's salary range.

The District recognizes that performance is multi-faceted, and is committed to providing employees with operational frameworks that clearly articulate, and routinely evaluate, key performance indicators including priority initiatives, and the knowledge, skills, abilities, and cultural values that must be demonstrated to meet standards of proficiency. In assessing whether performance is met or exceeded, and its influence on range penetration and pace of movement, the District will consider:

- Mastery of the required knowledge, skills, abilities to meet proficiency
- Achievement of key performance indicators for the year, and record of continuous improvement
- Independence, autonomy, initiative and proactivity
- Strategic critical thinking, problem and solution identification, creativity and innovation
- Engagement, dedication, collaboration and teamwork
- Contribution to departmental or organizational strategic priorities, organizational impact
- Cultural alignment – growth mindset, transparent, idea meritocratic, receptive to critique, positivity, mentorship and leadership at all levels

*This list serves as policy guidance and is not intended to be an exhaustive or metric based list on which performance will be assessed at an operational level.

Compensation Ratios:

To synchronize the District's philosophy regarding range penetration and the use of performance criteria, the District will consider an employee's compensation ratio. Compensation ratio is defined as the percentage obtained by dividing the actual salary paid to an employee by the midpoint of the salary range for that position.

$$\text{Compensation Ratio} = \frac{[\text{Employee Salary}]}{[\text{Midpoint of Pay Range}]} \times 100$$

An individual with a compensation ratio of 100% is paid at midpoint and is viewed as being competitive with an individual in the market who is proficient and has a track record of consistently meeting expectations.

When combining MCWD's philosophy regarding range penetration, with performance, with compensation ratios, a broad definition of each zone is therefore:

- 83 – 89% - new, limited experience, not proficient, or unsatisfactory performing incumbent
- 90 – 96% - gaining experience, consistent performance, not fully proficient
- 97 – 103% - consistent performance and fully proficient
- 104 – 110% - consistently performing at a higher level than required
- 111 – 116% - universally recognized as outstanding performers, inside and outside MCWD

*Compensation ratios are not intended as fixed brackets, but policy guidance to inform the implementation of the District's Compensation Plan. Compensation ratios will be used to inform whether no adjustment is needed, cost of living adjustment is needed, or whether a more sizable adjustment is needed to ensure individuals remain market competitive commensurate with performance.

6. Position Classification and Reclassification

The MCWD uses the Systematic Analysis and Factor Evaluation (SAFE®) system to consistently evaluate the classification of positions, and the placement of positions within the District's Compensation Plan.

The District seeks to maintain the alignment of its organizational structure and human resources in a manner that directly supports its strategic priorities. In accordance with the District's Governance Policies, the Administrator will routinely assess the District's human resource needs against the organizations strategic objectives, and make recommendations to the Board of Managers. These recommendations will be informed by Department Managers, and evaluated and prioritized by the District Administrator and Board of Managers through an organizational lens.

Recommendations may range from individual position reclassification, the creation of new positions, or departmental/organizational realignment. Positions affected through these recommendations will be evaluated using SAFE®, and placed within the District's compensation structure. The District Administrator will advise, and the Board of Managers must approve, the fiscal and organizational impact of the recommended changes.