September 6, 2019

MEMORANDUM

TO: Brian Helminger, District Director

FR: Patrick Glynn, Senior Consultant

RE: Classification & Compensation Project – Executive Summary

Background

Heart of the Valley Metropolitan Sewerage District ("the District") retained our firm to systematically evaluate job content, conduct a market analysis, and produce a new classification and compensation plan, including implementation and plan management recommendations. The following summarizes our process, findings and recommendations.

Comparable Communities

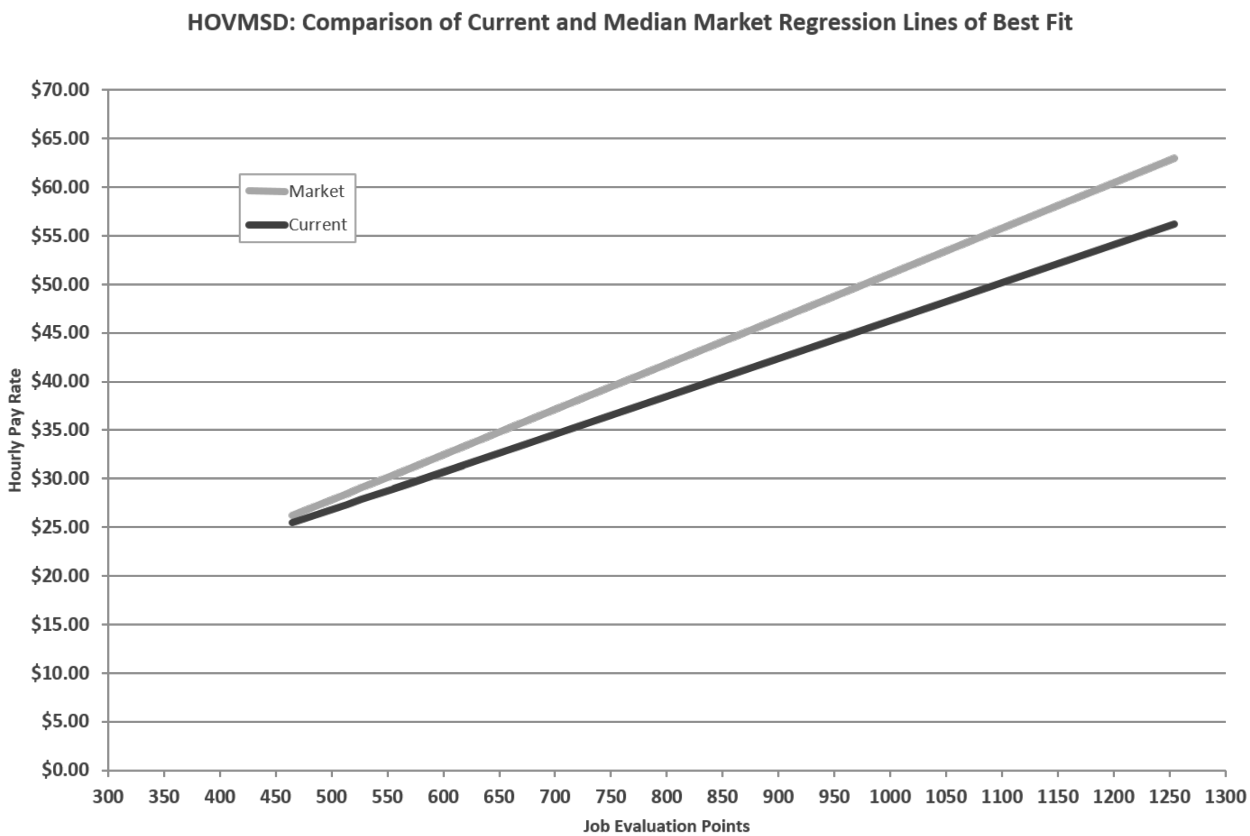
The following organizations are utilized for the pool of comparable communities for purposes of our recommendations to the District:

- Appleton; Beloit; Calumet County; De Pere; Fond du Lac; Green Bay; Kaukauna; Kenosha; Manitowoc; Oshkosh; Racine; Sheboygan; Stevens Point; Wausau

As the above list suggests, this is a comprehensive listing of communities, and it is representative of those communities that either compete for the talent the District is seeking, or are of a similar size/structure to allow for an adequate market comparison. Further, this list is similar to that which was utilized for prior District projects.

We determined benchmarks and analyzed public-sector market data from the selected comparable communities. Other data, when appropriate, was obtained from the Bureau of Labor Statistics, American Water Works Association (AWWA), Carlson Dettmann Custom Water Survey, Northeast Wisconsin Chambers Survey, Willis Towers Watson, and CompData.

In terms of overall market competitiveness, as it relates to the benchmark positions utilized in the study, the District is currently paying slightly below the market throughout most of the measured market. We use a measure called a "market index" to compare a benchmark's base salary to the market estimate for the benchmark position. For the District, the **overall** market index is approximately 94%. This is not meant to suggest that all staff members are paid below market; the statistic is an average of the benchmark market indexes, so there are some jobs paid above the market and some below. However, the statistic provides us with a good measure of how competitive the District is on an **overall** basis.



Job Evaluation / Benchmark Jobs

CDC consistently recommends pay plans balanced for (1) internal equity, as measured by objective job evaluation, and (2) competitiveness, as measured by our market data. We also tailor our recommendations to the organizational culture and affordability.

We evaluated each piece of job documentation using our firm's Point Factor Job Evaluation System. Our system breaks jobs down into specifics related to five major evaluation factors: Decision-Making and its impact on the organization, Problem-Solving requirements, the nature and impact of Communication and Interaction inside and outside the organization, Working Conditions, and the required Training and Experience to do the job effectively. There are sub-factors for each of the five major factors, and our objective evaluation results in point scores that accumulate to a total point score for each job, allowing us to compare and contrast varied jobs using a common rating method.

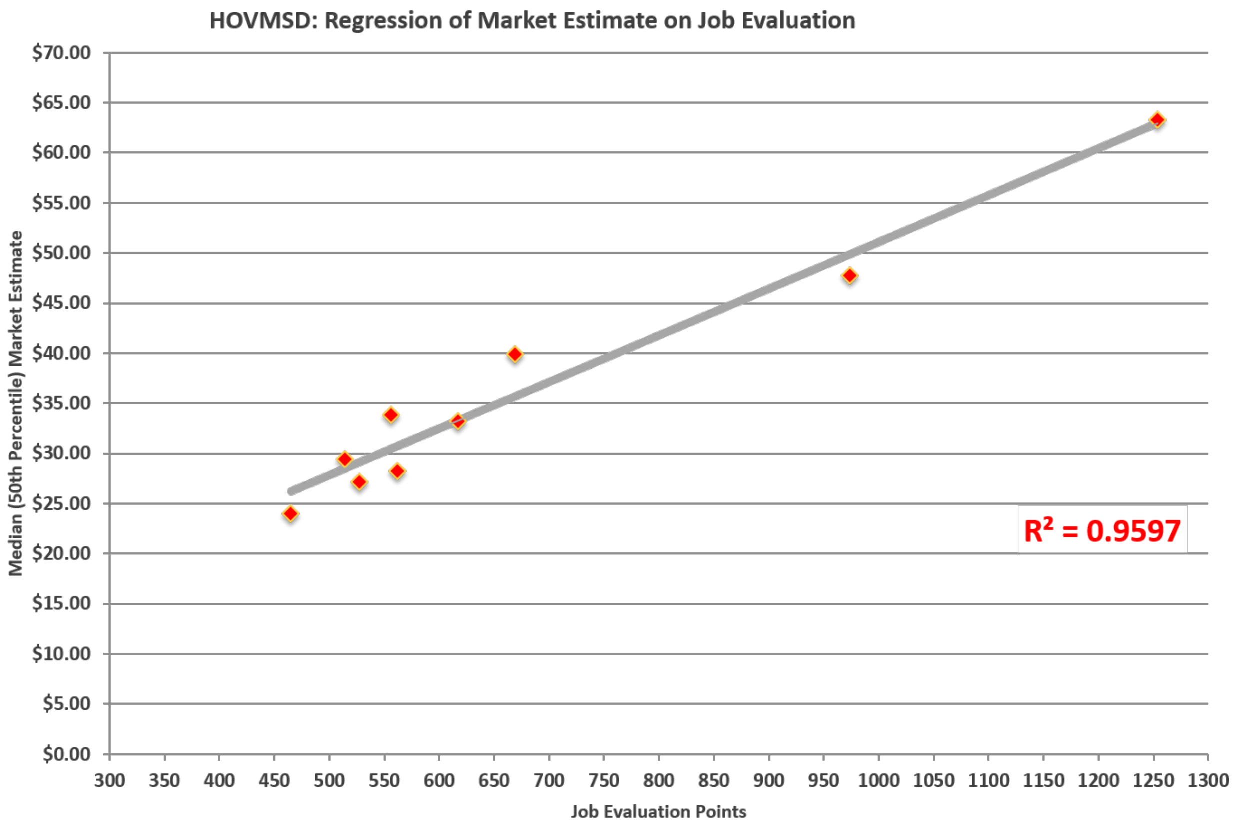
Due to a variety of reasons, it is not typically possible to match every position in the pay plan to a corresponding job in the selected marketplace. However, due to the size of the organization, we were able to use all of the District's jobs as "benchmark jobs". Benchmark jobs are those that have similar duties and responsibilities across different organizations. The ultimate goal with every project is to have benchmark jobs which span the entire pay plan, which are then used to serve as the anchors in the development of a structure which is both internally consistent and externally competitive. The benchmark jobs utilized for the study include:

> District Director; Director of Operations & Maintenance; Regulatory Compliance Manager; Chemist/Process Control Technician; Foreman; Mechanic/Process Control Technician; Process Control Technician (Operator); Office Manager; Accounts Payable/Asset Coordinator

However, even if a job were not to be deemed a benchmark job, it would be placed into proper grade on the wage schedule based on its job evaluation score or, in exceptional circumstances, based on its unique market value.

Methodology for Developing Plan Recommendations

A scatter graph of job evaluation scores and market rates for the District's benchmarks are below. The graph shows that as the internal value of jobs increase, measured by job evaluation scores, market pay increases, as well. As the graph indicates, the trend is very clear.



Each data point on the graph is one of the benchmark positions, representing the job evaluation score for that benchmark and the corresponding measured market estimate. The trend line through these data points for the benchmark jobs is called a line of best fit, or regression line. The $r^2 = 0.9597$ shown below the equation on the graph is the coefficient of determination. The coefficient of 0.9597 is very high and means that the job evaluation scores are reasonably predicting market pay. One way to interpret the result is that nearly 96% of the variance in pay is explained by differences in job evaluation values. The significance is that we can use these relationships to develop a pay plan solution for the District that is strong internally and externally.

Knowing that we have confidence in the model used to measure and approximate the marketplace, we are then able to build a structure that meets the needs of the District. [1]

1 A copy of the proposed wage schedule is attached.

Market Competitiveness

The District has a history of paying competitively in the market, largely due to the complexity of its facilities and small size of its staff. The adopted approach with the prior study was to adjust market rates upward by 5% to provide an slight edge in the marketplace. We continue that approach with these recommendations, and such an approach results in the control points (C/P) being set at the approximated 60th percentile. For the salary ranges to be manageable, the recommended pay schedule utilizes a concise number of pay ranges so that pay remains competitive and internal pay management is relatively easy to accomplish.

Change in Structure

The District currently operates under a model where employees move from a starting rate to the control point in annual increments, and beyond the control point based on performance to the maximum rate of pay. As we understand it, the plan is not working as intended, specifically in the performance ranges. As we were able to learn more from both the management team, as well as our brief meetings with the Commission, we believe a step-based structure will still meet the needs of the organization and maintain a measure of fiscal responsibility. This is not to say that performance of employees receives decreased priority, but rather the linkage between pay and performance is removed—for the most part. It is believed that such a move will improve the quality of the employee-development conversations.

Progression Through the Wage Schedule

The design of the structure is such that employees starting at the first step of the structure will progress to the control point in 2.5% increments in a 5 year period. [2] Progression from the control point to the maximum of the range will take longer due to the 1.25% step increments. It is not at all uncommon for pay structures to slow down wage growth in the upper half of the structure. [3]

Although we are proposing a step-based structure, we strongly recommend requiring performance evaluations on an annual basis in order for an employee to progress in the range. We recommend requiring performance from an employee that "meets expectations" in order to move to the next step in the range, which should be accompanied by a written performance review which meets the criteria for advancement.

Further, we recommend that if an employee's performance is unsatisfactory (e.g. discipline, performance improvement plan, substandard performance review, etc.) all wage increases should be withheld, including any "structural adjustment" (i.e. "general wage increase", "across the board adjustment", "market adjustment", etc.) approved by the Commission.

Note Regarding the Proposed Wage Structure

The anchor for all of our pay structures is the Control Point (C/P). With the C/P in place, the minimum (87.5%) and maximum (112.5%) can be calculated. It's not uncommon for a client to

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2 There will be instances where the District may desire to hire an employee above the starting rate of the pay range due to market conditions, experience/education of the applicant, etc. We recommend granting the District Director the appropriate authority to hire new employees at the appropriate wage level to meet the needs of the District, and taking the placement of incumbent employees into account.

3 It is understood that the Utility may desire to draft procedures and criteria for movement through the pay structure in instances where performance is well above the performance expectations. We would expect that this would be the exception, rather than the rule. Further, the District may be well-served to develop a spot bonus program for those situations where employees rise to the challenge.

inquire as to why 87.5% and 112.5% are used to develop a plan. First, there are no rules that require such a "range spread". In fact, our performance-based plans often range from 80% to 120%, and we have developed many alternative approaches for other clients.

However, the 87.5% to 112.5% spread does have a logical basis. When working with many of our survey sources, we typically receive four data points for the jobs we're analyzing: 25th percentile, average (mean), 50th percentile (median), and 75th percentile. Since our public sector data doesn't always provided a sufficient n-count (i.e. number of jobs) to reliably calculate percentiles for each job, we have conducted analyses to verify the distribution of the market data.

Using data set comprised of [1] the top 40 jobs from the CDC public sector database, and [2] the top 100 jobs from the BLS data, we conducted an analysis of the distribution of the median wage data for each of these sources. Our observation is that the 25th percentile of the data was between 10% and 15% below the median (hence 87.5%) and the 75th percentile of the data was between 10% and 15% above the median (hence 112.5%).

Finally, we frequently are questioned during the course of deliberations of our pay plans as to why an employer would pay more than the Control Point (market estimate). Using Grade 6 as an example, our intent in recommending a range of pay of $31.19 to $40.11 is to make the District competitive across the entire measured market. If the District were to stop the range at $35.65–the Control Point–then it only would be competitive with the lower half of the market. Having the range reflect the breadth of the measured market will keep the District competitive for some time without having to re-measure the market annually.

Implementation

One of the typical challenges with which an organization is faced during a project is developing an equitable and affordable implementation strategy. Of the implementation options presented to the District for consideration, we recommend placing employees on the step that provides at least a 2% increase. This would guarantee a wage increase that would fall in line with that which would otherwise (presumably) be granted, but not amplify the wage growth of an employee receiving greater than a 2% increase due to moving to Step 1 of the structure. Full-implementation of the new plan is being proposed for January 1, 2020, and a reasonable implementation estimate for base-wage costs is in the neighborhood of $40,000.

Ongoing Maintenance

We understand and appreciate the costs associated with a project such as this, and the effect it can have on an organization. With proper care and maintenance, the need for this type of project—a comprehensive review of the entire classification and compensation system—can be minimized. From our experience, employers that treat compensation as a strategic component of its operations typically engage in the following practices:

- Rigorous adherence and discipline as it relates to the underlying assumptions and principles on which the pay plan is developed. In other words, all job changes should be documented and no reclassification requests should be granted unless the job evaluation system indicates as such, or there is a demonstrated market condition that would warrant such an adjustment.
- To that end, we recommend a process where any employee whose duties change substantially over the course of a year could ask for a classification review. In many instances, this coincides with the budget process to allow for the District to plan for any increase in compensation. This differs from a management-initiated reorganization, or

new position creation, which could conceivably occur at any point in the year. As noted above, all duties—or changes in duties—should be documented prior to being evaluated.

- Annual review of the pay structure for adjustment based upon market conditions, changes in the cost-of-living, and the District's ability to pay for any resulting changes in base salary costs. While we understand that an organization's ability to increase the structure by any significant amount is limited, it is still necessary to adjust ranges periodically to keep up with the labor market and inflation.
- Periodic measurement of benchmark positions to the established marketplace. This is markedly different—and less expensive—than a comprehensive study. Simply stated, this is an evaluation of those jobs that anchored the compensation structure described herein. Such a review provides the assurance needed to maintain market competitiveness, to stay on top of "hot jobs", and to serve as a "health check" to ensure that the pay plan is functioning as intended
- To the extent that pay is dictated by performance, a solid commitment to funding the performance-based pay. An employee should have a formal evaluation on an annual basis, and any progression through the structure should be predicated on—at a minimum—meeting the expectations of the District. We understand that the public sentiment for "automatic" pay increases is waning. To that end, the focus on employee development is even more important in that the District only retains employees dedicated to furthering the mission of the organization.

CDC is available to provide all of these services to the District. At a minimum, we recommend our clients adopt a regular classification review process utilizing our assistance. The service works with the client submitting revised job documentation for our analysis. We evaluate the responsibilities, rate the job, and recommend a pay grade allocation. Doing so allows the District to maintain an unbiased review of the jobs in question.