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TO: Chairperson Jeff Jirschele and Members of the Human Resources Committee
Chairperson Plank and Members of the Finance Committee

CC: Chairperson Joe Martin and Members of the Utilities Committee

FROM: Human Resources Director Sandra Behnke
Utilities Director Chris Shaw

DATE: March 6, 2014

RE: *Recommended Compensation Adjustments for Specific Utilities Department Personnel (attachment)*

Approve 2014 Budget Adjustment: Water Utility Salary Adjustments to Market Rates +\$21,400 Salary, +\$3,190 Fringe Benefits - \$24,590 Fund Balance

BACKGROUND

The City of Appleton recently completed a City-wide Compensation Plan that identified market-centered control points and pay ranges for City employees. The Utilities Department positions were identified in the plan, and the revised Salary Administration Policy provides for individual annual pay adjustments within established pay ranges based on evaluated performance. The Salary Administration Policy also provides for adjustments due to unusual circumstances such as actual prevailing labor market conditions or compressed supervisor/subordinate wage differentials. Circumstances such as these require mitigation to sustain the long term integrity of the over-arching Compensation Plan and avoid increased mission-related risks.

Because the facilities, treatment processes, and regulatory compliance regimes managed by the Utilities Department are technologically complex, the Department's staffing strategy meets its mission and pursues productivity by:

- Maintaining a lean staffing complement
- Fostering an environment of continuous improvement

- Recruiting and retaining previously experienced, credentialed industry technicians

By attracting and retaining personnel with demonstrated knowledge and technical competencies, the Department has been able to shorten training trajectories and support development of vital institutional knowledge and experience. This strategy has translated directly into mission successes in terms of safety, regulatory compliance, and cost-efficiency.

CURRENT SITUATION

Recent Utilities Department employee turnover data and experience indicate a widening retention gap. This result may be attributed to the water industry moving forward after ACT 10 and Utility employees receiving lower or zero dollar pay increases since 2010. Other factors point to the delay and unknowns of future increases. While retirements will continue as previously projected, over the past four years resignations have now substantially increased as technicians pursue employment elsewhere. In 2014 to date, there have been four potential turnover instances. Two of these resignations were successfully retained as a consequence of a compensation adjustment. As the department's ability to retain experienced technical personnel has diminished, the probability of organizational risks is increasing. These potential risks factors include:

- Safety and liability exposure (e.g., chemical, electrical and explosive)
- Regulatory non-compliance (e.g., drinking water production)
- Reduced productivity and process cost-efficiencies

In order to forestall and reverse the trends pointing to increased organizational risk due to labor market forces, compensation adjustments are considered a prudent step.

PROPOSED APPROACH

The Compensation Plan identified market-centered control points that were aligned with labor market conditions sampled at the time of plan development. Under current circumstances, twenty employees are being compensated at rates below control point. This proposal adjusts and normalizes the compensation of these employees to control point.

Of particular importance are employees hired during the development of the Compensation Plan. During the hiring process they were advised the Compensation Plan development had not been completed. Now that the plan and related policy have been completed and implemented, pay for these employees which had been frozen at starting pay rates can be adjusted. The proposed adjustment places them at market levels closing the retention gap.

Furthermore, the proposed adjustment significantly reduces the likelihood of losing other, more experienced senior staff. Despite the shortened training trajectories enjoyed by hiring previously experienced and credentialed technicians, there remains a significant training investment for new employees to master the unique aspects of the department's complex equipment and operations. Loss of fully trained staff squanders training investment and removes accumulated institutional knowledge and experience from the department.

RECOMMENDATION

Adjust the pay of the Utilities Department employees identified in the attached “2014 Utility Compensation Evaluation” to the rate identified in the Recommendation column. This adjustment is considered a one-time labor market normalization event which permits full engagement of the pay-for-performance program contained in the Salary Administration Policy.