Koff & Associates
A Gallagher Company

October 4, 2022

Total Compensation Study
Draft Report

City of San José, Office of Retirement Services

KOFF & ASSOCIATES

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October 4, 2022

Mr. Prabhu Palani
Chief Investment Officer
Office of Retirement Services
City of San Jose
1737 N 1st Street, 6th Floor
San Jose, CA 95112

Dear Mr. Palani:

Koff & Associates is pleased to present the Total Compensation Study Draft Report to the City of San Jose's Office of Retirement Services (Office). This report documents the market compensation survey methodology, findings, and recommendations for implementation.

We would like to thank you for your assistance and cooperation without which this study could not have been brought to its successful completion.

We will be glad to answer any questions or clarify any points as you are implementing the findings and recommendations. It was a pleasure working with the Office and we look forward to future opportunities to provide you with professional assistance.

Very truly yours,

Katie Kaneko
Managing Director

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EXECUTIVE SUMMARY

Background

In July and August 2022, Koff & Associates ("K&A") conducted a comprehensive Total Compensation Study for the City of San Jose's Office of Retirement Services (Office). All compensation findings and recommendations are presented in this report.

This compensation review process was precipitated by:

- The concern of the Board of Directors and management that employees should be recognized for the level and scope of work performed and that they are paid on a fair and competitive basis that allows the Office to recruit and retain a high-quality staff;
- The desire to have a compensation plan that can meet the needs of the Office; and
- The desire to ensure that internal relationships of salaries are based upon objective, non-quantitative evaluation factors, resulting in equity across the Office.

The goals of the compensation study are to assist the Office in developing a competitive pay and benefit plan, which is based upon market data, and to ensure that the plan is fiscally responsible and meets the needs of the Office with regards to recruitment and retention of qualified staff.

Summary of Findings

This report summarizes the study methodology, analytical tools, and the total compensation (salary and benefits) survey findings. The results of the total compensation study showed:

- The Office's ***base salaries, overall, in comparison to the market median are 3.5% below the market***.
- The Office's ***total compensation, overall, in comparison to the market median is 8.5% below the market***.
- The Office's ***benefits package*** puts the Office in a less competitive position compared to the market and, therefore, salary decisions should be based on base salary market results versus total compensation. Benefits should be looked at separately.
- K&A considers a classification falling within 5% of the median to be competitive.

STUDY PROCESS

Benchmark Classifications

The study included 8 classifications, and of those 6 classifications were selected in order to collect salary and benefits data within the defined labor market. Classifications that we would expect to provide a sufficient sample for analysis were selected as "benchmarks" to use as the basis to build the compensation plan. Benchmark classifications are those classifications that are compared to the market, and these classifications are used as a means of anchoring the Office's overall compensation plan to the market. Other classifications not surveyed will be included in the compensation plan and aligned to the benchmark classifications using internal equity principles.

The benchmark classifications are listed in Table 1.

Table 1. Benchmark Classification

Classification Title
1. Chief Investment Officer
2. Retirement Investment Analyst II
3. Retirement Investment Officer
4. Retirement Investment Operations Supervisor
5. Senior Accountant
6. Staff Specialist

Comparator Agencies

An important step in conducting a market salary study is the determination of appropriate agencies for comparison. In developing the list of potential comparator agencies, K&A utilized agencies that the Office has historically used as comparator agencies for prior compensation studies. Additionally, K&A reviewed retirement agencies within the State of California, since they are the predominant agencies with whom the Office competes for talent. Comparators were selected based on the following factors:

1. **Organizational type and structure –** It is generally recommended that agencies of a similar size and providing similar services to that of the Office be used as comparators. For this study specifically, agencies which had investment related classifications were preferred since the purpose of the study was to identify market trends on how these jobs are paid in the market.

   When it comes to non-management classes, the size of an organization is not as critical, as these classes perform fairly similar work. The difference in size of an organization becomes more important when comparing classes at the management level. The scope of work and responsibility for management becomes much larger as an organization grows. Factors such as management of a large staff, consequence of error, the political nature of the job, and its visibility all grow with larger organizations. When it is difficult to find agencies that are similarly sized, it is important to get a good balance of smaller and larger agencies.

2. **Similarity in the size of assets managed, number of employees and members served in the retirement system** – These elements provide guidelines in relation to value of assets

for which the Office is responsible, staffing required to deliver services, and membership served.

3. **Scope of services provided** – For the majority of classifications, it is important to select agencies providing similar services. Organizations providing the same services are ideal for comparators and comparator agencies surveyed provide similar services to the Office.

4. **Labor market and geographic location** – In the reality that is today's labor market, many agencies are in competition for the same pool of qualified employees. No longer do individuals necessarily live in the communities they serve. The geographic labor market area, where the Office may be recruiting from or losing employees to, was taken into consideration when selecting comparator organizations. By selecting employers within a geographic proximity to the Office, the resulting labor market data generally reflects the region's cost of living, housing costs, growth rate, and other demographic characteristics to the same extent as competing employers to the Office. However, because of the very specialized services provided by the Office, K&A recommended the use of eleven agencies in different regions within the State of California to provide a balanced mixture of agencies across the State.

K&A compiled and analyzed data from a variety of potential comparator agencies based on the aforementioned factors. In collaboration with the Office's stakeholders, K&A refined the list of potential comparators to include those agencies determined to be most similar to the Office based on the preceding factors. The Office also requested that we gather data from CalPERS, Santa Clara University Endowment, and UC Regents Endowment. Our multiple attempts to contact and obtain information from the UC Regents Endowment were unsuccessful. While we were able to make contact with the Santa Clara University Endowment, the agency was unable to provide salary information for the one classification for which there was a comparator match; the Chief Investment Officer. The SC University Endowment informed K&A that there is not a salary range set for this classification, and that salary is determined upon hire based on market data, consisting of a compilation of data from various salary surveys the agency participates in. Attempts to obtain either the current salary for the CIO, or their current "market" salary were unsuccessful.

The eight (8) comparator agencies utilized for this compensation study are provided in Table 2.

Table 2. Comparator Agencies

Agency
1. Alameda County Employees' Retirement Association
2. Contra Costa County Employees' Retirement Association
3. Los Angeles City Employees' Retirement System
4. Orange County Employees Retirement System

Agency
5. San Bernardino County Employees' Retirement Association
6. San Francisco Employees' Retirement System
7. San Mateo County Employees' Retirement Association
8. California Public Employees' Retirement Association

Cost of Labor Differential

Use of a broader geographic survey group, as was done in this study, generally raises questions on the impact of regional differences in wages. Cost of Labor measures regional differences in wage trends and is an effective measure in drawing a comparison between salaries. To accomplish this, we used databases from the Economic Research Institute (ERI), a nationally recognized provider of data with respect to differences in the costs of living and cost of labor in counties with a population of over 10,000. The Cost of Labor percentages reflect regional differences in wages and are relevant to making compensation decisions because the focus is on what other employers are paying within the region rather than the differences in the cost of consumer goods. Cost of Living focuses on the difference in the cost of consumer goods including housing and therefore can fluctuate more dramatically between locations. Information regarding ERI's methodology can be found in Appendix I.

Cost of Labor differentials were applied to the top step salary of each of the comparator agencies outside of the Bay Area to ensure that wages reflect the regional pay levels of the Office. For those agencies where base salaries were adjusted, the Cost of Labor differential is displayed within the top monthly datasheets indicating the percentages by which base salaries were adjusted. The cost of labor utilized are as follows:

Table 3. Cost of Labor Differentials

Agency	Location	Salary Differential Applied
Alameda County Employees' Retirement Association	Oakland, CA	0%
Contra Costa County Employees' Retirement Association	Concord, CA	0%
Los Angeles City Employees' Retirement System	Los Angeles, CA	11%
Orange County Employees Retirement System	Santa Ana, CA	12.5%
San Bernardino County Employees' Retirement Association	San Bernardino, CA	15.7%
San Francisco Employees' Retirement System	San Francisco, CA	0%
San Mateo County Employees' Retirement Association	San Mateo, CA	0%
California Public Employees' Retirement System	Sacramento, CA	13.6%

Salary and Benefits Data

The last element requiring discussion prior to beginning a market survey is the specific benefit data that will be collected and analyzed. The following salary and benefits data was collected for each benchmark classification (the cost of these benefits to each agency was converted into dollar amounts and can be found in Appendix III [Benefit Detail] of this report; these amounts were added to base salaries for total compensation purposes).

1. Monthly Base Salary

The top of the salary range and/or control point. All figures are presented on a monthly basis.

2. Employee Retirement

The retirement reflects the benefits offered to the classic tier:

- **Retirement Formula:** The service retirement formula for each agency's Classic plan.
- **Enhanced Formula Cost:** The baseline PERS formula for miscellaneous employees is 2%@62. There is typically a cost to the employer for offering a formula with a higher benefit than the baseline formula. For each enhanced formula, the cost to the employer is based on a state-wide actuarial percentage calculated by PERS. The percentage value for each enhanced formula for miscellaneous employees is:
  - **2%@60: 1.6%**
  - **2%@55: 3.2%**
  - **2.5%@55: 5.4%**
  - **2.7%@55: 7.1%**
  - **3%@60: 8.1%**
- **Employer Paid Member Contribution:** The amount of the employee's required retirement contribution that is paid by the employer (Employer Paid Member Contribution) on behalf of the employee.
- **Single Highest Year:** The period for determining the average monthly pay rate when calculating retirement benefits. The base period is 36 highest paid consecutive months. When final compensation is based on a shorter period of time, such as 12 highest paid consecutive months, there is a cost to the employer. Similar to the enhanced formula, the cost to the employer is based on a state-wide actuarial percentage calculated by PERS – amounts range from 0.9% to 1.2% of salary.
- **Social Security:** If an employer participates in Social Security, then the employer contribution of 6.2% of the base salary up to the federally-determined maximum contribution of $759.50 per month for calendar year 2022.
- **Other:** Any other retirement contributions made by the employer.

The K&A methodology measures the value of enhancements to "Classic" retirement systems across the market, and it does not measure the value of the employer mandated contribution to the retirement system since these are highly variable amounts, determined by demographics and prior funding, factors unrelated to the value of the benefit to the employee, which change on an annual basis.

3. Deferred Compensation

Deferred compensation contributions provided to all employees of a classification with or without requiring the employee to make a contribution is reported.

4. Insurances

The employer paid premiums for an employee with family coverage was reported. The employer paid insurances included:

- Cafeteria/Flexible Benefit Plan
- Medical
- Dental
- Vision
- Other Insurance

5. Leaves

Other than sick leave, which is usage-based, the number of hours off for which the employer is obligated. All hours have been translated into direct salary costs.

- **Vacation**: The number of paid time off (or vacation) hours available to all employees who have completed five years of employment.
- **Holidays**: The number of holiday hours (including floating hours) available to employees.
- **Administrative:** Administrative (or management) leave is normally the number of paid leave hours available to Fair Labor Standards Act ("FLSA") Exempt and/or management to reward for extraordinary effort (in lieu of overtime). This leave category may also include personal leave which may be available to augment vacation or other time off.

6. Auto Allowance

This category includes either the provision of an auto allowance or the provision of an auto for personal use only. If a vehicle is provided to any classification for commuting and other personal use, the average monthly rate is estimated at $450. Mileage reimbursement is not included.

7. Other

This category includes any additional other benefits not captured above available to all in the class.

8. Additional Benefits

The Office requested that K&A collect additional benefits from the comparator group. The cost of these additional benefits was not factored into the total compensation calculations and is instead detailed in the tables contained in Appendix VI of this report; these supplemental benefits and premium pay practices included:

- Lump sum payments
- Education/Degree Incentive Pay
- Technology Allowance
- Executive Coaching
- Longevity Pay

All of the benefit elements are negotiated benefits provided to all employees in the classification. As such, they represent an ongoing cost for which an agency must budget. Other benefit costs, such as sick leave, tuition reimbursement, and reimbursable mileage are usage-based and cannot be quantified on an individual employee basis.

Data Collection

Data was collected during the months of July and August 2022 through comparator agency websites, conversations with human resources or other staff at each comparator agency to understand their organizational structure and possible classification matches, and careful review of agency documentation such as classification descriptions, salary schedules, benefits summaries, memoranda of understanding, organization charts, and other relevant documents.

As such, the data presented in the following narrative, and included in the appendices of this report, is representative of the base and total compensation practices of the market, and of the Office, as they were at the time data was collected.

Matching Methodology

K&A believes that the data collection step is the most critical for maintaining the overall credibility of any study and relied on the Office's classification descriptions as the foundation for comparison.

When K&A researches and collects data from the comparator agencies to identify possible matches for each of the benchmark classifications, there is an assumption that comparable matches may not be made that are 100% equivalent to the classifications at the Office. Therefore, K&A does not match based upon job titles, which can often be misleading, but rather analyze class descriptions before a comparable match is determined.

K&A's methodology is to analyze each class description and the whole position by evaluating factors such as:

- Definition and typical job functions;
- Distinguishing characteristics;
- Level within a class series (i.e., entry, experienced, journey, specialist, lead, etc.);
- Reporting relationship structure (for example, manages through lower-level staff);

- Education and experience requirements;
- Knowledge, abilities, and skills required to perform the work;
- The scope and complexity of the work;
- Independence of action/responsibility;
- The authority delegated to make decisions and take action;
- The responsibility for the work of others, program administration, and for budget dollars;
- Problem solving/ingenuity;
- Contacts with others (both inside and outside of the organization);
- Consequences of action and decisions; and
- Working conditions.

In order for a match to be included, K&A requires that a classification's "likeness" be at approximately 70% of the matched classification.

When an appropriate match is not identified for one classification, K&A often uses "hybrids" which can be functional or represent a span in scope of responsibility. A functional hybrid means that the job of one classification at the Office is performed by two or more classifications at a comparator agency. A "hybrid" representing a span in scope means that the comparator agency has one class that is "bigger" in scope and responsibility and one class that is "smaller," where the Office's class falls in the middle.

If an appropriate match could not be found, then no match was reported as a non-comparable (N/C).

Data Spreadsheets

The Market Compensation data sheets (Appendix III) present the top monthly (base salary) and total monthly (base salary and benefits) findings for the study classifications. To address the regional differences in cost of labor of the comparator market, the actual salaries of the matches have been adjusted based on the comparator's cost of labor in relation to the Office (as displayed in Table 3 above).

All documents comprise columns displaying top monthly salary, benefits package cost, total monthly compensation, effective dates of salaries, and the timing and amount of next increases, when known.

The Benefits Detail, part of Appendix III, provides the monthly costing/value of the different elements of total compensation; the monthly total cost of benefits was added to the top monthly salaries to produce the total monthly compensation.

The Results Summary data sheets (Appendix II) on each of the Market Compensation Data Sheets displays the average (mathematical mean of all data arrayed) and median (middle of all data arrayed) of all comparator data; in all cases, the Office's top monthly and total monthly amounts are excluded from the analyses.

The market compensation data includes two different comparisons to the market agencies; one figure includes CalPERS as a comparator agency, and the other excludes CalPERS. CalPERS was initially included as a comparator agency as an informational reference. Due to the difference in its size, scale of operations, and investments managed, it is likely not representing a body of work at least 70% similar to the Office's CIO and should be excluded from further market analysis for this classification only.

MARKET COMPENSATION FINDINGS

The following table represents a summary of the market top monthly (base) salary and total compensation (base salary plus benefits [retirement, insurance, leaves, and allowances]) findings. For each benchmark classification, the number of matches (agencies with a comparable position) and percent above or below the top monthly salary market median and total compensation market median is listed. The table is sorted by top monthly salary in descending order from the most positive percentile (above market) to the most negative (below market).

Table 4. Market Compensation Results Summary

Classification Title	# of Matches	Adjusted Top Monthly % Above or Below	Total Compensation % Above or Below
Chief Investment Officer*	7	7.0%	2.3%
Senior Accountant	8	6.9%	-4.9%
Staff Specialist	6	-2.4%	-5.0%
Retirement Investment Operations Supervisor	4	-8.8%	-19.8%
Retirement Investment Officer	7	-11.6%	-13.3%
Retirement Investment Analyst II	6	-12.0%	-10.2%

**Market data and results displayed above exclude data obtained from CalPERS for the Chief Investment Officer classification only.*

Base Salary

Base salary market results show that four classifications are paid below the market median and two classifications are paid above the market median.

# of Classifications	<5%	5-10%	10-15%	Total
Below the Market Median	1	1	2	4
Above the Market Median	0	2	0	2

Total Compensation

Total compensation market results show that five classifications are paid below the market median and one classification is paid above the market median.

# of Classifications	<5%	5-10%	10-15%	15-20%	Total
Below the Market Median	1	1	2	1	5
Above the Market Median	1	0	0	0	1

Generally, a classification falling within 5% of the median is considered to be competitive in the labor market for salary survey purposes because of the differences in compensation policy, actual scope of work, and position requirements. However, the Office can adopt a different standard.

Overall, the differences between market base salaries and total compensation indicate that the Office's benefits package puts the Office at a less competitive advantage. Further analysis indicates that, on average, classifications are 3.5% below the market median for base salaries, while that figure changes to 8.5% below the market median for total compensation, which is a 5.0% difference (i.e., the Office "loses" a 5.0% competitive advantage when taking benefits into consideration).

Benefits

The market benefits data reveals the major contributing factors impacting the Office's competitiveness within the comparator market are overall retirement, health insurance, and management/administrative leave. The following analysis excludes data from CalPERS for matches to the Chief Investment Officer benchmark.

Retirement: The following table represents the average retirement contributions, by agency, across all benchmark classifications for which there were market matches at each respective agency. The "Total Retirement Benefit" figures are inclusive of any applicable enhanced retirement formula costs (for formulas offering a higher benefit than the baseline 2% @ 62), any employer-paid contributions toward an employee's retirement obligation, employee cost-sharing provisions (employee pick up of employer's required retirement costs), enhancements for offering a retirement formula based on single highest year of earnings (as opposed to highest 36 months), participation in Social Security (FICA), and any employer paid contribution toward a deferred compensation plan.

Table 5. Average Retirement Benefits by Agency

Comparator Agency	Total Retirement Benefit Contribution	Classic Benefit Formula	Social Security	Employee Cost Sharing	Employer Paid Member Contribution
San Bernardino County ERA	$3,224	2%@55	No	N/A	7%
Orange County ERS	$1,984	2.7%@55	No	-5.37%*	N/A
Contra Costa County ERA	$1,424	2%@55	Yes	N/A	N/A
Alameda County ERA	$1,113	2.43%@65	Yes	N/A	3%
San Mateo County ERA	$848	1.725%@58	Yes	N/A	N/A
CalPERS	$744	2%@60	Yes	N/A	N/A
Los Angeles City ERS	$543	2.16%@55	No	N/A	N/A
City of San Jose ORS	**$486**	**2.5%@55**	**No**	**N/A**	**N/A**
San Francisco ERS	$189	2.3%@65	Yes	-2.5 – 3%**	N/A

*OCERS OCEA represented general employees and supervisory management employees cost share; management and executive management do not.
**SFERS cost sharing % varies according to base salary.

Social Security: Five of the eight comparator agencies surveyed participate in Social Security (FICA). Since the federal maximum is the same for all participating agencies, there is little additional analysis which can be provided related to this benefit.

Cost Sharing and Employer Paid Member Contributions: The majority of the comparator agencies (six of eight) did not require employees in at least one bargaining group to participate in cost-sharing provisions (i.e. each agency paid the full agency required contribution toward employee's retirement costs). Likewise, only two comparator agencies provided an employer paid member contribution (i.e. agency contribution toward employee's cost of retirement). Since the majority of the comparator agencies did not participate in these special retirement provisions, the Office did not gain nor lose significant placement within the market based on these specific retirement benefits.

Deferred Compensation: The majority of the comparator agencies did not provide an employer contribution, match or otherwise, toward employees' deferred compensation. Of the three agencies which provide this benefit, only two agencies make an employer contribution for all classifications, while the third provides this benefit to executive management staff only. The "total retirement benefit contribution" figures in Table 5 above are inclusive of the deferred compensation contribution practices at each comparator agency. While these figures represent the average total retirement contribution across all benchmark classifications for which matches were determined, it is important to note that the Chief Investment Officer at OCERS receives an employer-paid deferred compensation contribution of 7%, while employees at SBCERA receive a contribution based on employee group, with the unrepresented staff (Chief Investment Officer and Retirement Investment Officer) receiving a 9% employer contribution and SEIU represented staff receiving a 1% employer contribution. Of the classifications included in this study, market practices related to deferred compensation indicate a greater contribution for executive level classifications, specifically the Chief Investment Officer.

While the deferred compensation practices of the comparator market do not significantly impact the Office's market competitiveness (across all benchmark classifications) related to deferred compensation alone, it is evident that when deferred compensation practices are factored into total retirement benefits, this contribution, or the lack thereof, becomes more impactful to market competitiveness; particularly at the Chief Investment Officer level.

Health Insurance. Market data indicates that the average monthly employer contribution toward health insurance premiums is $2,309, excluding the Office. The Office's current health insurance contribution (combined medical, dental, and vision contributions) of $2,033 is $276 less, or 13.6% lower, than the market average. Table 6 below summarizes all agency health insurance contributions, which include any employer paid contributions toward medical, dental, vision, and/or cafeteria plans.

Table 6. Monthly Employer Health Insurance Contributions

Agency	Average Monthly Health Insurance Contribution
San Mateo County ERA	$3,737
Alameda County ERA	$3,270
Contra Costa County ERA	$2,605
San Francisco ERS	$2,316
City of San Jose ORS	**$2,033**

Los Angeles City ERS	$1,890
CalPERS	$1,726
Orange County ERS	$1,679
San Bernardino ERA	$1,250

Five of the eight comparator agencies offered the same contribution toward health insurance premiums for all employees. Only three of the comparator agencies offered different contribution amounts by bargaining unit, however the differences in contribution were insignificant; $38/month difference, $47/month difference, and $159/month difference based on bargaining unit at each of the three respective agencies.

Leaves: In comparing the average hours of holiday, vacation, and administrative/management leave hours by agency within the comparator market, across all bargaining units reflected by this study, the Office's holiday and vacation hours are above the market average, while administrative/management leave hours are in line with the market average. However, since not all bargaining units receive administrative/management leave, the average of these hours across all employee bargaining units represented by this study is not the most accurate assessment of market competitiveness, and further analysis related to these specific leave hours will be discussed in further detail below. When comparing the average of total leave hours across all bargaining groups, by agency, the Office provides employees with an average of 20 hours more per year than the market average of 281 hours. The following table reflects the average leave hours, across all bargaining units, by agency.

Table 7. Average Horus of Leave

Comparator Agency	Average Total Leave Hours	Average Holiday Hours	Average Vacation Hours	Average Admin Hours
San Bernardino ERA	312	112	120	80
City of San Jose ORS	301	120	147	35
San Mateo ERA	301	128	130	43
Alameda County ERA	296	120	120	56
Los Angeles ERS	284	112	132	40
Orange County ERA	284	96	188*	0
Contra Costa ERA	275	108	120	47
San Francisco ERS	267	133	120	13
CalPERS	225	96	129	0

Comparator Agency	Average Total Leave Hours	Average Holiday Hours	Average Vacation Hours	Average Admin Hours
Market Average	*281*	*113*	*132*	*35*

*Two of the four bargaining units included in this study at OCERS receive annual leave hours (inclusive of vacation, sick, and administrative/management leave hours) instead of traditional vacation leave.

Administrative/Management Leave: To more accurately represent and compare the administrative/management leave hours offered at each comparator agency to the Office, Table 8 below reflects the actual administrative/management leave hours at each agency by employee group (i.e. general and confidential employees, supervisory, management, and executive management). An "N/A" indicates that the benchmark matches did not include any classes represented by the particular employee group indicated.

Table 8. Administrative/Management Leave Hours by Employee Group

Comparator Agency	General & Confidential Employees	Supervisory	Management	Executive
Alameda County ERA	N/A	N/A	56	56
CalPERS	0	0	0	0
City of San Jose ORS	24*	N/A	40	40
Contra Costa ERA	0	94	94	94
Los Angeles ERS	40*	40*	40*	40*
Orange County ERA	0	0	0	0
San Bernardino ERA	80	N/A	80	80
San Francisco ERS	0	N/A	N/A	40

Comparator Agency	General & Confidential Employees	Supervisory	Management	Executive
San Mateo ERA	0	N/A	130	130

*Personal Leave

The Office's practice of providing personal leave to general employees is more generous, and therefore more competitive than over half the market competitors who do not offer this benefit to their general and/or confidential employees. However, the Office loses competitiveness when comparing the amount of administrative/management leave hours provided to their management and executive staff as compared to the market. Of the six comparators who provide administrative/management/personal leave to their management and executive employees, the Office, provides 15 fewer (or 37.5% less) hours annually than the average of those agencies offering this benefit.

Performance Incentive: While the market varied related to the practice of performance/bonus pay for staff across the board, there are at least three agencies which offer some type of performance-based incentive/bonus pay to staff. Most commonly this incentive pay is tied to the performance of the internal investment teams, with actual bonus pay provisions varying significantly by agency and overall investment performance. Information related to these market practices is summarized in Appendix VI.

While the preceding data and analysis summarizes the benefits most impactful to market competitiveness overall, K&A recommends a careful review and analysis of all of the benefits data for the study classifications.

INTERNAL SALARY RELATIONSHIPS

Building from the salary levels established for identified benchmark classes, internal salary relationships were developed and consistently applied in order to develop specific salary recommendations for all non-benchmarked classifications.

In the future, the Office may need to utilize internal alignment practices if the number of staff grows and additional classifications are added or classifications change. While analyzing internal relationships, the same factors analyzed when comparing the Office's classifications to the labor market are used when making internal salary alignment recommendations.

In addition, the following are standard human resources practices that are commonly applied when making salary recommendations based upon internal relationships:

- A salary within 5% of the market average or median is considered to be competitive in the labor market for salary survey purposes because of the differences in compensation policy and actual scope of the position and its requirements. However, the Office can adopt a closer standard.

- Certain internal percentages are often applied. Those that are the most common are:
  - The differential between a trainee and experienced (or journey) class in a series (I/II or Trainee/Experienced) is generally 10% to 15%;
  - A lead or advanced journey-level (III or Senior-level) class is generally placed 10% to 15% above the journey-level.
  - A full supervisory class is normally placed at least 10% to 25% above the highest level supervised, depending upon the breadth and scope of supervision.
- When a market or internal equity adjustment is granted to one class in a series, the other classes in the series are also adjusted accordingly to maintain internal equity.

Internal equity between certain levels of classifications is a fundamental factor to be considered when making salary decisions. When conducting a market compensation survey, results can often show that certain classifications that are aligned with each other are not the same in the outside labor market. However, as an organization, careful consideration should be given to these alignments because they represent internal value of classifications within job families, as well as across the organization.

For the purposes of this study, K&A utilized market data to develop the salary recommendations for all of the benchmarked classifications, and used internal equity principles to make the salary recommendations for two (2) classifications that were not benchmarked. For the non-benchmarked classifications, internal alignments with other classifications will need to be considered, either in the same class series or those classifications that have similar scope of work, level of responsibility, and "worth" to the Office. Where it is difficult to ascertain internal relationships due to unique qualifications and responsibilities, reliance can be placed on past internal relationships. It is important for Office management to carefully review these internal relationships and determine if they are still appropriate given the current market data.

Since this study was limited to select classifications within the Office, some of which are utilized throughout the City, it will be important for the Office to analyze market data and internal relationships within class series as well as across the City, and make adjustments to salary range placements, as necessary, based on the needs of the organization. It will be particularly important for the Office to assess these recommendations for any potential compaction issues City-wide. Compaction was only assessed in instances where study benchmark classifications had a direct reporting relationship with other classifications included in this study.

It is also important to analyze market data and internal relationships within class series as well as across the organization, and make adjustments to salary range placements, as necessary, based on the needs of the organization.

The Office may want to make internal equity adjustments or alignments, as it implements the compensation strategy. This market survey is only a tool to be used by the Office to determine market indexing and salary determination.

RECOMMENDATIONS

Pay Philosophy

The Office has many options regarding what type of compensation plan it wants to implement. This decision will be based on what the Office's pay philosophy is, at which level it desires to pay its employees compared to the market, whether it is going to consider additional alternative compensation programs, and how great the competition is with other agencies over recruitment of a highly-qualified workforce.

Proposed Salary Structure

Currently, the Office has a salary structure with inconsistent percent differences between ranges. Each salary range has a minimum and maximum, with a spread ranging from approximately 21.5% to 55.9% for the study classifications. It is recommended that the Office adopt a consistent salary structure, such as the one proposed with ranges that are approximately 2.5% apart with a range spread of 21.5%. Appendix IV contains the recommended salary range structure.

It is important to note that the salary range structure connects all salary ranges, and their steps, by formula, thereby allowing for COLAs to be applied to only one-dollar figure in the table/matrix, which then automatically updates the entire table. Due to the formula that connects each range to the next (with 2.5% differentials between each range), there is a compounding effect when drawing relationships that span several ranges. For example, with 2.5% differentials between ranges, four ranges should represent a 10% differential. However, because the compounding effect of 2.5%, on top of 2.5%, on top of 2.5%, and so on, the differential between Range 1 and Range 5 is not exactly 10%, but it is slightly greater.

Proposed Salary Range Placements

Appendix V illustrates the proposed salary range placement for each classification based on the market data as well as the internal relationship analysis. The recommendations are based on the adjusted base salary market results. The following calculation was used:

1. Multiplied the Office's current top monthly salary by the percentage difference between the Office's current base salary and the base salary market median to calculate the Market Placement Salary.

2. The classification was then placed within the proposed salary range with maximum monthly salary closest to the Market Placement Salary.

K&A also modified the current internal alignment in certain instances where it seemed warranted based on market-supported groupings and/or compaction issues.

For all classifications, this primary implementation procedure must be completed only at the initial time of implementation. In the future, if the Office decides to implement annual across-the-board cost of living adjustment increases, only the salary schedule that was developed and included herein needs to be increased by the appropriate percentage, and each individual salary range will move up with this adjustment. This will ensure that the internal salary relationships are preserved and the salary schedule remains structured and easily administered.

Options for Implementation

While the Office may be interested in bringing all salaries to the market median, in most cases this goal may not be reached with a single adjustment. In this case, one option is to move employees into the salary range that is recommended for each class based on this market study and to the step within the new range that is closest to their current compensation. If employees' current salaries are significantly below market so that their current compensation falls below the bottom of the newly recommended range, then larger adjustments would be needed to move those employees at least to the bottom of the new salary range.

Another option is to use a phased implementation approach. Normally, if the compensation implementation program must be carried over months or years, the classes that are farthest from the market median should receive the greatest equity increase (separate from any cost of living increase). If a class falls within 5% of the market median, it would be logical to make no equity adjustment in the first round of changes. However, if a class is more than 5% (or in this case, more than 20%) below the market median, a higher percentage change may be initially warranted to reduce the disparity.

For example, if the Office decided to implement the recommendations over a three-year period, then the following guidelines could be applied for the initial increase of the three-year implementation plan:

Table 9. Three-Year Implementation Proposal

Market Disparity	% Increase
0 to 4.99%	0 to 2.49%
5.0% to 9.99%	2.5% to 4.99%
10.0% to 14.99%	5.0% to 7.49%
15.0% to 19.99%	7.5% to 9.99%
20.0% and above	10.0%

The initial first year adjustment would provide a portion of the equity increase and place the class into the closest step (but not below) where they are now. Subsequent increases would be spaced on a similar schedule (at annual intervals) based upon the remaining disparity after each adjustment.

Please note that typically, for those classes that had a market disparity of 0 to 4.99%, we recommend a 0% increase in the first year and an adjustment in the second year. Depending upon the Office's financial situation, which will have to be reviewed before each further adjustment is made, all market disparity adjustments are intended to be completed by the third year. The Office may also consider a similar implementation plan over a longer period of time, like a five-year implementation plan.

The Office may spend additional time to go through a process of deliberation and decision-making as to what compensation philosophy it should implement to attract, motivate, and retain a high-quality workforce. However, the Office may want to consider adjusting those classifications' salaries that are currently below the market median as soon as possible, assuming that incumbents' performance meets the Office's level of expectation.

When classifications are over market, K&A typically recommends Y-rating employees whose current pay exceeds the maximum of the recommended range until the market numbers "catch up" with their current salary. To Y-rate an employee means to keep the employee's salary frozen and to provide no salary increases (including no cost of living adjustments) until the employee's current salary is within the recommended salary range. This will result in no immediate loss of income, but will delay any future increases until the incumbent's salary is within the salary range.

Other options to "freezing" a classification's salary in place until the market catches up are:

- "**Grandfathering" of salary ranges:** This means that the salary range for the classification is adjusted down to what the market numbers are. However, current incumbents would continue being paid at the current rate of pay (which would put them outside of the new and adjusted salary range for the class) until they separate from employment with the Office. Any new-hires would be paid within the newly established salary range.
- **Single-incumbent classes:** If a class only has one incumbent, an option would be to wait until the person separates from employment with the Office and then adjust the salary range for the class according to the market.
- **Recent hires:** Some employees who have recently been hired may still be at one of the lower steps within their current salary range. So, even if the top of their current salary range is above market, the incumbents are currently still paid below the market maximum because they are not at the top of their current salary range. In this case, an immediate salary range adjustment could be made to bring the salary range within the market. This would bring the affected incumbents either to the top of the market range or very close to it, but they would not technically be Y-rated or lose any pay.

Another option, of course, is to actually reduce salaries down to the market. However, from an employee relations perspective this may not be a viable option.

USING THE MARKET DATA AS A TOOL

K&A would like to reiterate that this report and the findings are meant to be a tool for the Office to create and implement an equitable compensation plan. Compensation strategies are designed to attract and retain excellent staff; however, financial realities and the Office's expectations may also come into play when determining appropriate compensation philosophies and strategies. The collected data presented herein represents a market survey that will give the Office an instrument to make future compensation decisions.

It has been a pleasure working with the Office on this critical project. Please do not hesitate to contact us if we can provide any additional information or clarification regarding this report.

Respectfully submitted by,
Koff & Associates

Consultant Electronic Signature
Katie Kaneko
Managing Director

Appendix I

Geographic Assessor Methodology

Appendix II

Results Summary

Appendix III

Market Compensation Data

Appendix IV

Proposed Salary Range Schedule

Appendix V

Salary Range Placement Recommendations

Appendix VI

Additional Benefits