

SAN JUAN WATER DISTRICT

Board of Director's Workshop Minutes

August 22, 2017 – 2:00 p.m.

BOARD OF DIRECTORS

Ken Miller	President
Ted Costa	Director
Dan Rich	Director
Pam Tobin	Director

SAN JUAN WATER DISTRICT MANAGEMENT AND STAFF

Paul Helliker	General Manager
Donna Silva	Director of Finance
Tony Barela	Operations Manager
Teri Grant	Board Secretary/Administrative Assistant
Greg Zlotnick	Water Resources Specialist

AGENDA ITEMS

- I. District Compensation Policy: Merit Increases and Cost of Living Adjustments**
- II. Public Comment**
- III. Adjourn**

President Miller called the meeting to order at 2:00 p.m.

I. District Compensation Policy: Merit Increases and Cost of Living Adjustments

Mr. Paul Helliker reminded the Board that they have discussed merit increases and Cost of Living Adjustments (COLAs) at three previous meetings and the Board requested that this workshop be scheduled to finalize the discussion. Mr. Helliker's goal is to come to an agreement on an ongoing compensation policy.

Ms. Donna Silva conducted a brief presentation and provided the Board with a staff report and additional handouts. Copies of each will be attached to the meeting minutes. She stated that the goal of the District's existing Compensation Policy is to "recruit and retain talented, results-driven employees to support the District's mission, values and goals". The Board agreed that this goal is correct and no changes were made.

Ms. Silva explained that there are currently three policies which address employee compensation - Policy 3080 Salary Ranges, Policy 3110 Compensation Studies, and Policy 4100 Cost of Living Adjustment (COLA). The Board discussed the assumed increases used by CalPERS which varies each year based on specific employee data. Mr. Helliker explained that the CalPERS table has years of service and employee age at time of hire with percentages of increases projected. This table is then used for each employee based on that data to determine the projected annual

salary increases. Ms. Silva used this table to calculate the CalPERS assumed increase in payroll, which she then compared to the District's budgeted increase in salary costs, noting that the budgeted increase is less than the CalPERS assumed increase. Mr. Helliker explained that using the table to project salary increases will keep the District salaries within the CalPERS projections and therefore will not add to the unfunded liability.

The Board discussed the target market position which is currently in the policy at 10% above average. Director Tobin commented that she was in support of the 10% above average in order to attract and retain new talent. Directors Rich, Costa, and Miller are not in support of the 10% and would like to change it. Director Costa voiced concern that if the District is at 10% above average then it creates an upward spiraling effect on salaries for the agencies in the region, including the District. Director Rich commented that he would like to see compensation studies completed more regularly and adjust salaries accordingly as needed. Mr. Tony Barela commented that he uses the "10% above average" as a motivator for employees since employees are expected to perform above and beyond their job expectations.

Ms. Silva explained that the District's salary ranges start at 10% below average and top out at 10% above average, with most new employees starting at the bottom of the range. The Board would like to remove the 10% above average from the policy and when compensation studies are performed, the Board will make a decision then about how to revise the salaries which would be at least the market average, and the goal of being 10% above market average will be something that they may revisit at those times.

Director Costa brought up the topic of the incentive program. The Board discussed this topic briefly and decided to table the discussion for a future meeting or workshop.

Ms. Silva reviewed the three general options that the Board could consider moving forward:

1. Current policy – most common
2. No COLA's – more frequent compensation studies (variations exist)
3. Modify policy to require inclusion of CalPERS assumed increase in each budget. Give General Manager authority to apply COLA and/or Merit as he/she sees fit, within the budget. Conduct compensation study every 5 years.

The Board discussed the options and prefer to change the policy to option 3 and change the compensation study to every 4 years. In addition, the Board would like to be informed of the General Manager's decisions at the beginning of every fiscal year.

Ms. Silva explained that the three policies on compensation could be combined into one policy which incorporates the changes discussed. The Board agreed that the

policies should be combined and a draft policy brought back to the September 13th Board meeting for review.

In response to President Miller's question, Ms. Silva explained that the Board adopted a budget with a placeholder for a 2.5% COLA (\$134,000) and \$52,000 for merit increases for FY 2017-18 which falls below the CalPERS target. Director Costa would like to wait until the end of the fiscal year before distributing the merit increases and the COLA in order to see where the budget to actuals come in. Director Rich suggested that the General Manager move forward at this time with the salary increases as approved in the budget. The Board discussed the recommendation and agreed that the General Manager should award the merit and COLAs for FY 2017-18 as approved in the budget and then review the revised compensation policy at the September 13th Board meeting.

The Board reviewed the direction given to staff as follows:

- Award the current 2.5% COLA and the budgeted merit increases.
- In future years, Mr. Helliker would bring the COLA information to the Board prior to awarding to staff, as an information item only.
- Remove the "10% above average" target market position from the policy and replace with language that the Board will decide the market position with each compensation study to maintain competitive salaries.
- Combine the three policies into one policy and include a compensation study every 4 years.
- Modify policy to require inclusion of CalPERS assumed increase in each budget. Give General Manager authority to apply COLA and/or Merit as he/she sees fit, within the budget.

II. PUBLIC COMMENT

There were no public comments.

III. ADJOURN

The meeting was adjourned at 3:40 p.m.

KENNETH MILLER, President
Board of Directors
San Juan Water District

ATTEST:

TERI GRANT, Board Secretary

Compensation Policy Review

August 22, 2017



Policy Goal:

Recruit and retain talented, results-driven employees to support the District's mission, values and goals.



Policy 3080 – Salary Ranges

- discusses the establishment of salary ranges and step increases
- constrains the General Manager's ability to grant step increases, without express Board approval, such that the total *merit* increase for all employees does not exceed the total assumed increase used by CalPERS for annual merit increases.



Policy 3110 – Compensation Studies

- sets the compensation policy described in Policy 3080
- requires compensation studies to be conducted approximately every five years or sooner as deemed necessary or as directed by the Board,
- describes the process and methodology for the studies,
- sets the desired market position for the top end of the salary range to be 10% above average
- describes the General Managers authority to implement the policy up to the limits of the approved compensation budget.

Policy 4100 – Cost of Living Adjustment

- declares that “it is the intent of the District to keep employee salaries at pace with inflation”.
- Sets the Consumer Price Index (CPI) for West Urban Size A as the guide for inflation.
- States that the Board will review and consider a COLA during the budgetary process
- establishes the COLA implementation date as the first pay period of the new fiscal year.



Background

- Staff prepared budget in accordance with the existing policies
- The Board has discussed a potential COLA for FY 2017-18 three times:
 - April 26, 2017
 - June 14, 2017
 - June 28, 2017
- Board directed staff to use a placeholder for a 2.5% COLA and adopted the budget with that placeholder on June 28, 2017.
- Board requested a review of their Compensation Policy in August.



Discussion

Does the Board wish to revise the overall goal of the Compensation Policy?

“Recruit and retain talented, results-driven employees to support the District’s mission, values and goals.”



Discussion

Does the Board wish to change its target market position?

Current policy is for the top of the range to be 10% above average



Discussion

How does the Board wish to ensure they maintain their selected market position?

Three general options:

1. Current policy – most common
2. No COLA's – more frequent compensation studies (variations exist)
3. Include CalPERS assumed increase in each budget. Give GM authority to apply to COLA and/or Merit as he/she sees fit.



Variation #1

Biennial comprehensive compensation study and biennial base salary study. No COLA's.

Approximate 4 year cost of \$20,500



Variation #2

Comprehensive compensation study every 3 years and an annual study including a handful of benchmark classifications. Use results to determine adjustments for all positions.

Approximate 4 year cost of \$22,500



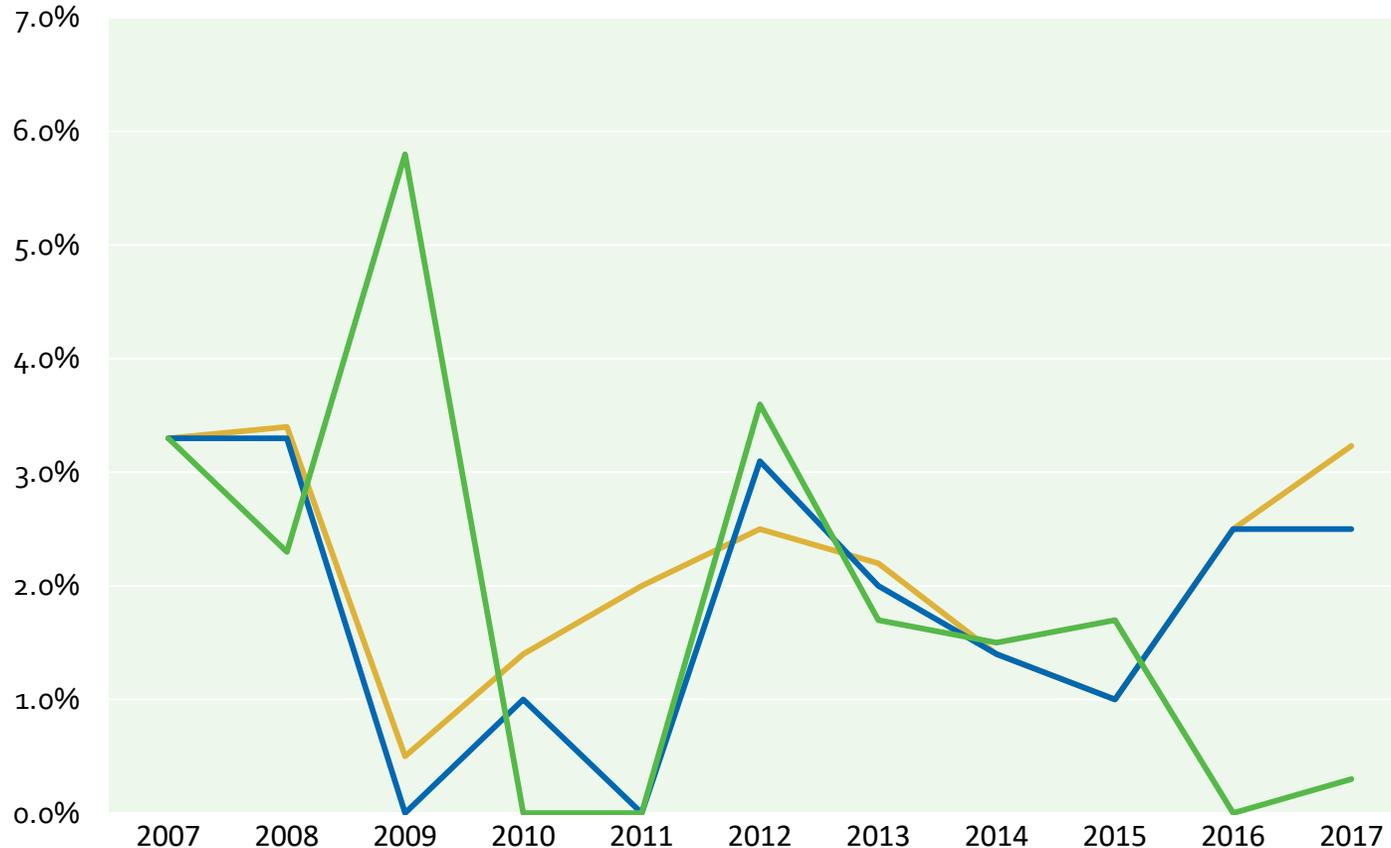
Option 3

Modify policy to require inclusion of CalPERS assumed increase in each budget. Give GM authority to apply to COLA and/or Merit as he/she sees fit, within the budget. Conduct compensation study every 5 years.

- Eliminates annual angst over COLA decision
- Streamlines the process
- Keeps salaries relatively current with market
- Saves consulting costs
- Doesn't create an unintended pension liability



Historical COLA's and CPI Data

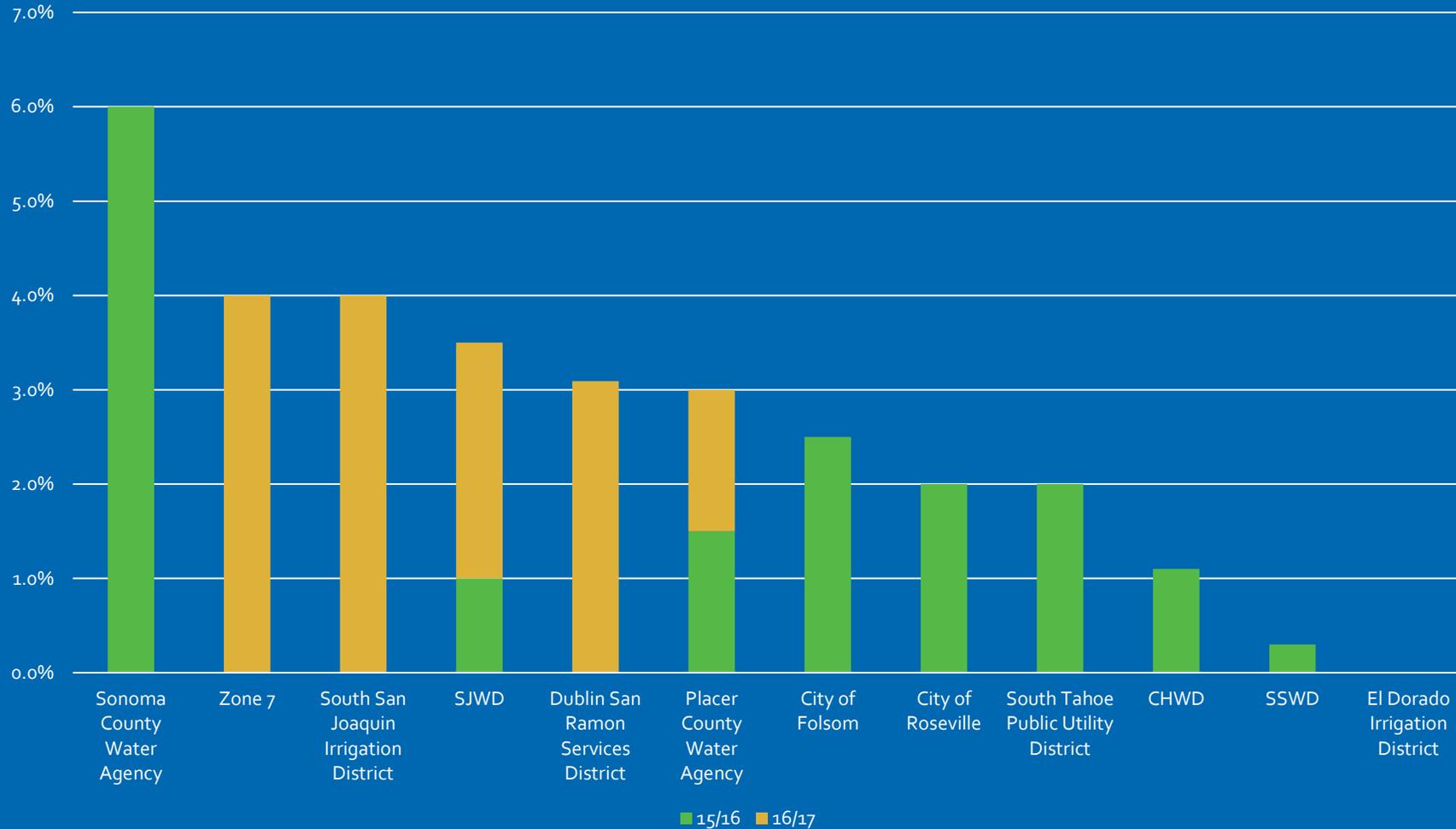


CPI-U Western Cities A	3.3%	3.4%	0.5%	1.4%	2.0%	2.5%	2.2%	1.4%	1.0%	2.5%	3.2%
COLA SJWD	3.3%	3.3%	0.0%	1.0%	0.0%	3.1%	2.0%	1.4%	1.0%	2.5%	2.5%
COLA Social Security	3.3%	2.3%	5.8%	0.0%	0.0%	3.6%	1.7%	1.5%	1.7%	0.0%	0.3%

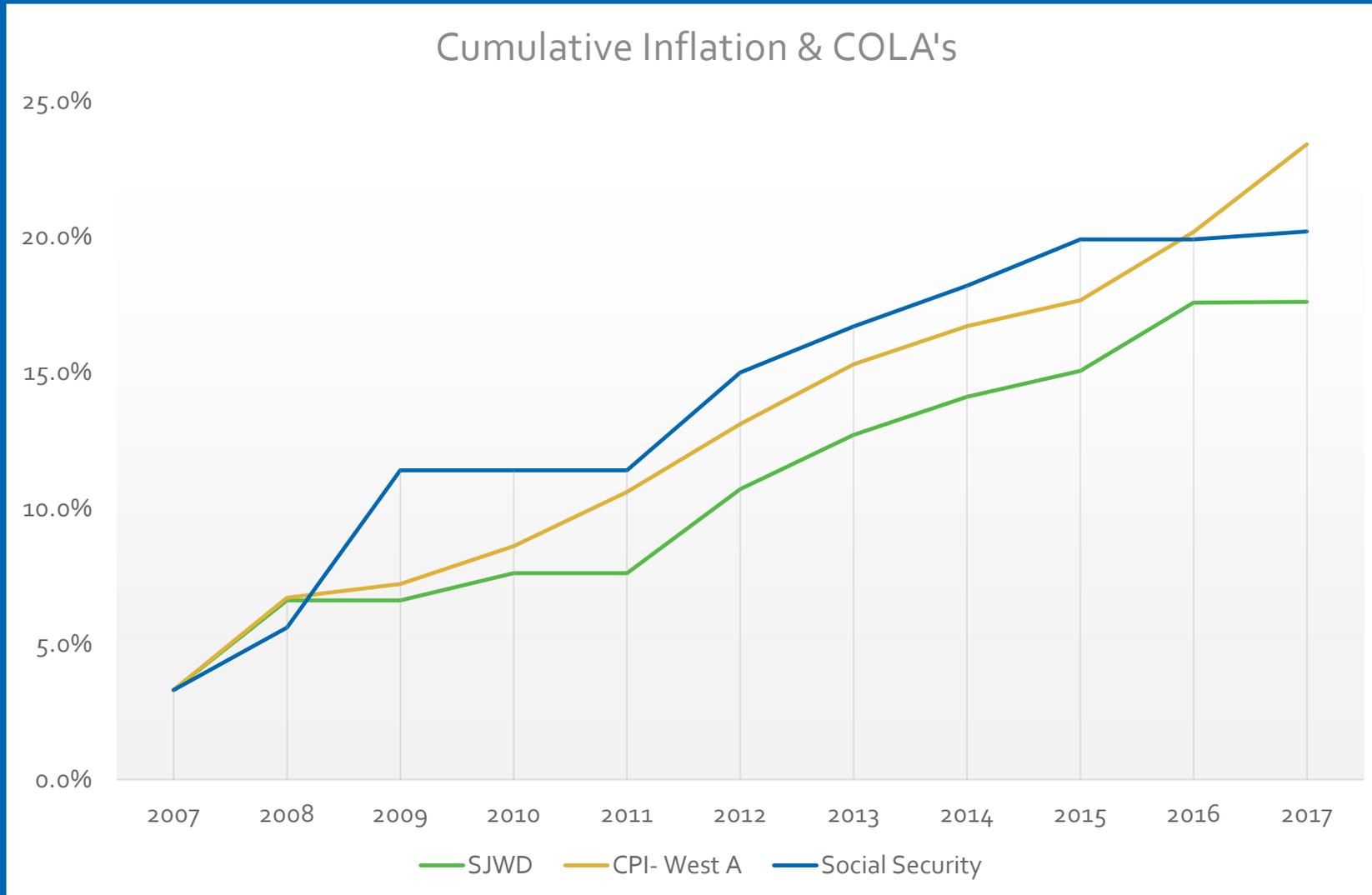


Historical COLA's and CPI Data

Cost of Living Adjustments (COLA) Since July 2015



Historical COLA's and CPI Data



STAFF REPORT

To: Board of Directors
From: Donna Silva, Director of Finance
Date: August 22, 2017
Subject: District Compensation Policy: Merit Increases and Cost of Living Adjustments (COLA's)

RECOMMENDED ACTION

Discuss District Compensation Policy and provide direction to staff on potential changes to the policy and COLA's for Fiscal Year 2017-18.

BACKGROUND

The goal of the Districts existing Compensation Policy is to ***“recruit and retain talented, results-driven employees to support the District’s mission, values and goals”***.

There are currently three board policies which address employee compensation, Policy 3080 Salary Ranges, Policy 3110 Compensation Studies, and Policy 4100 Cost of Living Adjustment (COLA), all of which are attached for review. A summary of the policies, as they pertain to this discuss is below:

- Policy 3080 – Salary Ranges, discusses the establishment of salary ranges, step increases and constrains the General Manager’s ability to grant step increases, without express Board approval, such that the total merit increase for all employees does not exceed the total assumed increase used by CalPERS for annual merit increases.
- Policy 3110 – Compensation Studies, sets the compensation policy described above, requires compensation studies to be conducted approximately every five years or sooner as deemed necessary or as directed by the Board, describes the process and methodology for the studies, sets the desired market position for the top end of the salary range to be 10% above average, and describes the General Managers authority to implement the policy up to the limits of the approved compensation budget. One of the General Manager’s authority described is to “establish annual pay/salary adjustments, including annual merit increases and COLA’s”. It will be clear later in the analysis that this granting of authority is in conflict with Policy 4100 Cost of Living Adjustment (COLA).
- Policy 4100 – Cost of Living Adjustment (COLA), declares that “it is the intent of the District to keep employee salaries at pace with inflation”. It also sets the Consumer Price Index (CPI) for West Urban Size A as the guide for inflation. It further states that the Board will review and consider a COLA during the budgetary process, and establishes the COLA implementation date as the first pay period of the new fiscal year.

In accordance with Policy 4100 – COLA, the board reviewed the compensation budget during the Fiscal Year 2017-18 budget process. Discussions were held over three meetings, April 26, 2017, June 14, 2017 and June 28, 2017. The Budget was adopted on June 28, 2017 with a placeholder for a 2.5% COLA but it was not specifically approved by the Board. The Board requested a workshop in August 2017 to discuss the compensation policy in general and determine the COLA for fiscal year 2017.

DISCUSSION AND ANALYSIS

The purpose of this meeting is for the Board to review its policies concerning compensation and determine if changes are needed, providing for a clear policy that can be easily administered from year to year.

Questions to discuss:

- Does the Board wish to revise the overall goal of the Compensation Policy?

The goal of the Districts existing Compensation Policy is to ***“recruit and retain talented, results-driven employees to support the District’s mission, values and goals”***.

- Is the Board comfortable with their desired market position of 10% above average for the top of the range? If not, what is the preferred market position?
- How does the Board wish to ensure they maintain their selected market position?

According to Shellie Anderson, with Bryce Consulting, most organizations will conduct compensation studies every 5 years, or longer, to ensure that their compensation is consistent and competitive with the market and then apply cost of living increases in the years that they do not conduct a compensation study to ensure they maintain consistent with the market. This is generally consistent with the District’s current policy.

Some organizations do not award cost of living increases at all and set their compensation based solely on compensation studies. If the Board chooses this approach there are two general options.

Option 1 – Biennially, conduct a comprehensive total compensation study and biennially, conduct a base salary study. Over a four year period the approximate cost would be \$20,500:

- ◆ The estimated costs for a comprehensive compensation study is \$14,000
- ◆ The estimated costs for a base salary only study is \$6,500

Option 2 – Conduct a comprehensive study every three years and conduct a compensation study including only a handful of benchmark classifications annually and use the results to determine adjustments for all classifications. Over a four year period the approximate cost would be \$22,800:

- ◆ The estimated costs for a comprehensive study is \$14,000
- ◆ The estimated costs for a benchmark study consisting of select benchmark classification to be used as a baseline is \$2,200

The cost of the District's current policy is approximately \$14,000 every five years. Both of the above options would be more expensive, in terms of consulting costs than the current policy. The results may or may not be offset by salary savings, depending upon the results of the studies.

Another Option would be to modify the existing policies requiring the annual compensation budget to include the CalPERS assumed increase, instead of assumed merits increases and CPI driven COLA's. The General Manager would then have the authority to grant a mixture of COLA's and merit increases as he/she deems appropriate so long as the total does not exceed the compensation budget, which as stated above, mirrors the CalPERS assumption. CalPERS assumes an increase of \$201,200 for FY 2017-18. The approved budget contains an increased in payroll of \$185,900 for merits and COLA's, well within the CalPERS assumed increase.

Under this approach, the General Manager may or may not utilize the entire amount each year, but would have a maximum budget to operate within. This would eliminate the need for the annual COLA discussion in the budget process, streamline the budgeting process, keep salaries relatively current with the market, save on consulting costs and not create an unintended pension liability. The District would continue to conduct comprehensive compensation studies approximately every five years.

Attachments:

Compensation Data Sheet
Policy 3080 – Salary Ranges
Policy 3110 – Compensation Studies
Policy 4100 – Cost of Living Adjustment

SAN JUAN WATER DISTRICT
EMPLOYEE MANUAL

POLICY TYPE : Payroll Practices and Hours of Work
POLICY TITLE : Salary Ranges
POLICY NUMBER : 3080
DATE ADOPTED : May 12, 2002
DATES AMENDED : February 14, 2007
March 23, 2011

3080.00 SALARY RANGES

The District has established pay ranges for the various job classifications of employees. In doing this, several factors were considered, including the prevailing rates for similar positions in other water districts, the level of responsibility, technical qualifications and the relative degree of interaction/decision-making. Employee salary ranges may be changed from time to time by the Board of Directors.

3080.01 STEP INCREASES

Each position at the District has a salary range. The low end of the range is designed to correspond to an apprentice level for the position. The high end of the range is designed to correspond to a journey level for the position. An employee progresses through the salary range based on their performance in the position.

When an employee is not at the top of their salary range, they are eligible for a step increase. The amount of the step increase is based on their performance the previous 12 months. Any step increase applied to an employee's salary increases the base salary amount for that employee.

Step increases are provided to eligible employees during the first pay period in February. Those employees that are paid at the top of their salary range are not eligible for any salary step increases.

3080.02 ANTI-SPIKING POLICY RELATED TO SALARIES

The assumptions used by CalPERS in calculating the actuarial projections in retirement costs includes a component related to the amount of increase in salary each employee will receive. The assumptions are based on the age of employee, and number of years of service. Each year, the actuarial valuation is updated using actual salary costs, so the actuarial assumptions are not interdependent from year to year.

The intent of the Board of Directors is to reduce the possibility of increasing the retirement

liability of the District, as well as forbid the policy of spiking salaries for the purpose of increasing retirement. The Board of Directors recognizes the benefits of allowing the General Manager the authority to award step increases based on actual work performance and merit. Directly implementing the CALPERS assumptions and mandating a merit increase for each individual employee does not provide adequate flexibility for the General Manager to effectively manage the District.

The Board has provided the General Manager the authority to determine the specific advancement within the salary range for each employee, under the condition that the total increase for all employees does not exceed the total assumed increase used by CalPERS for merit increases. The assumed step increase used by CalPERS is defined as the total assumed increase in payroll costs for the district. Should the total increase in payroll costs for recommended step increases exceed the estimated assumed merit increase used by CalPERS, the General Manager will obtain Board approval prior to implementation.

SAN JUAN WATER DISTRICT
EMPLOYEE MANUAL

POLICY TYPE : Compensation, Payroll Practices and Hours of Work
POLICY TITLE : Compensation Studies
POLICY NUMBER : 3110
DATE ADOPTED : August 15, 2013
DATES AMENDED :

3110.00 Compensation Philosophy

It is the intention of the District to recruit and retain talented, results-driven employees to support the District's mission, values and goals. A compensation program is necessary to provide each employee with fair and equitable compensation for the skills the employee brings to the District and the position in which they serve. In order to provide each employee with fair and equitable compensation, the District has developed a systematic method to establish and maintain a compensation program by defining the process and clarifying the role and responsibility of the General Manager in that process. Pursuant to California Government Code sections 61051(d) and 61060(f), the General Manager has the responsibility to determine the compensation of employees subject to approval by the Board as given during the annual budget process.

3110.01 Process

To ensure consistency in setting compensation, it is necessary to compare the District to other survey agencies in the appropriate labor market. In order to achieve that goal, the District will conduct a compensation survey with oversight and approval by the Personnel Committee at regular intervals (approximately every five years or sooner as deemed necessary or as directed by the Board). Following the methodology prescribed below, the standard process will consist of:

- a) Selection of a study lead (consultant, agency, staff member, etc.);
- b) Determination of classes to be surveyed (or all as required);
- c) Prepare survey criteria and contact survey agencies;
- d) Collect, analyze and determine comparability of survey data; and
- e) Present recommendations of study lead.
- f) Recommendations will be evaluated and implemented at the Board of Directors' discretion, taking to account the District's standard methodology criteria as outlined in section 3110.02.

3110.02 Methodology

In order to maintain a fair and equitable compensation program, the District has established a standard methodology to be used in conducting compensation studies.

- a) Total compensation program includes: base salary; longevity and other specialized pay (such as, but not limited to auto allowance and incentives); District contribution towards health, dental, or vision insurance(s); and District payment of employee retirement or deferred compensation contribution. In addition, studies may include life insurance, short and long term disability, retirement formula, paid time off (holidays, vacation, sick and administrative leave) and training/educational programs. The total compensation program will be used when comparing the District's pay level to survey agencies as described below, which may include public and private sector when data is available. The intent of utilizing total compensation is to determine modifications other than salary which may be determined necessary.
- b) Survey agencies will include those providing similar services of similar size (number of employees, connections, population and budget) or otherwise deemed to be comparable within a radius identified based on position to the extent possible. For example, staff level positions could have the intent to search within approximately a 35 mile radius, managers within an 80 mile radius, and for the assistant general manager the search will be statewide. If a sufficient number of similar survey agencies are not available within the survey radius, a balanced number of smaller and larger agencies will be included to minimize skewing the results.
- c) The District will maintain a labor market position at 10% above average using the top of the range unless the sample size or other factors warrant further evaluation.
- d) Cost of living differences between surveyed agencies and the Sacramento Metropolitan Area will be evaluated to determine if significant wage differences require an adjustment to the data.

3110.03 Authority and Responsibility

The General Manager (or his/her designee) is responsible for preparing a compensation budget in accordance with this Policy, as well as all applicable District Policies, which will be included as part of the annual budget review process. The General Manager will have the authority to fix and alter employee compensation in accordance with the intent of this policy and within the budgetary guidelines approved by the Board of Directors.

The General Manager may change or alter the compensation budget during the year by either: 1) requesting the Board of Directors to authorize the General Manager to make such changes at budget adoption; or 2) submitting an amended compensation budget, explaining reasons and recommendations for the change, and receiving Board approval for the change.

The General Manager will have full operational authority to implement this policy up to the limits of the approved compensation budget, which includes:

- a) Determining staffing requirements, titles, positions, responsibilities and organization structure.
- b) Establishing pay/salary ranges and/or total compensation.
- c) Setting goals and conducting performance reviews.
- d) Establishing annual pay/salary adjustments, including annual merit increases and cost-of-living adjustments (COLA).
- e) Creating incentive pay programs.
- f) Creating programs for position upgrades and special assignments.
- g) Providing pay/salary and benefit benchmarking information and studies for Board review.
- h) Creating dual or multiple grade positions as needed.

The General Manager will insure the equitable and uniform implementation of this policy including reporting to the Board at least annually, typically during the budget process.

The Board of Directors is responsible for reviewing the compensation budget as part of the District's annual budget and has the authority to consider, amend as needed, and approve that budget.

SAN JUAN WATER DISTRICT
EMPLOYEE MANUAL

POLICY TYPE : Employee Insurance Benefits
POLICY TITLE : Cost of Living Adjustment (COLA)
POLICY NUMBER : 4100
DATE ADOPTED : May 12, 2002
DATES AMENDED : February 14, 2007

4100.00 COST OF LIVING ADJUSTMENT (COLA)

It is the intent of the District to keep employee salaries at pace with inflation. The Cost of Living Adjustment (COLA) is reviewed on an annual basis by the Finance and Administrative Services Manager. The Consumer Price Index (CPI) for West Urban Size A is used as a guideline. Any recommendations are then submitted to the District's Board of Directors for review and consideration.

The COLA approved during the budgetary process is implemented during the first pay period of the new fiscal year.

Compensation Data Sheet

Current Policy:

Market Position for Top of Range	10% above Average
Date of Last Compensation Study	2015
Next Study Due by	2020
Annual COLA's tied to Western Cities A Index (subject to Board Approval)	
Western Cities A CPI Index 2017	3.2%
Placeholder in Budget	2.5%
Average Cumulative COLA of Comparator Agencies Since Compensation Study Performed	3.0%
SJWD Cumulative COLA since Compensation Study Performed	3.5%
Social Security COLA for 2017	0.3%
Total Number of Budgeted Positions	47
Number of Employees at Top Step (30%)	14

FY 2017-18 Cost of Potential COLA's				
	Wholesale		Retail	Total
3.2% COLA & Merits	\$	61,652	\$ 80,626	\$ 142,278
2.5% COLA & Merits	\$	48,119	\$ 62,958	\$ 111,077
2.25% COLA & Merits	\$	43,367	\$ 56,751	\$ 100,117
2% COLA & Merits	\$	38,589	\$ 50,434	\$ 89,023
1.5% COLA & Merits	\$	28,892	\$ 37,810	\$ 66,702
1% COLA & Merits	\$	19,281	\$ 25,186	\$ 44,468
.3% COLA & Merits	\$	5,763	\$ 7,615	\$ 13,378

Comparison to CalPERS Assumed Salary Growth

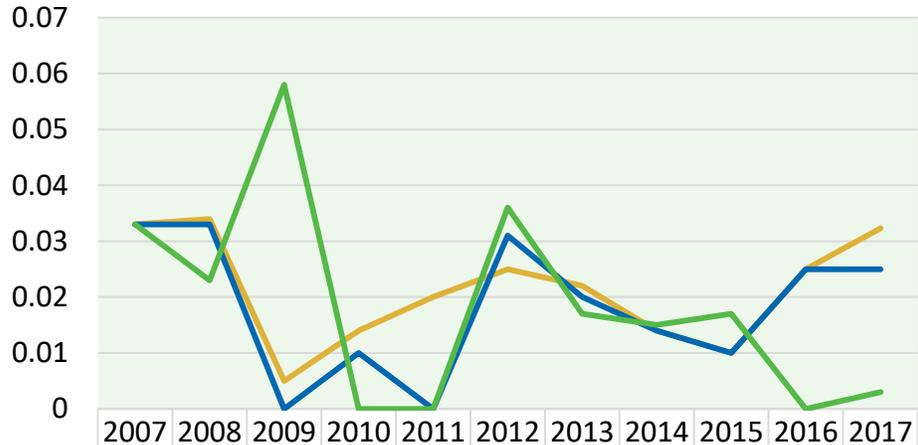
CalPERS Assumed Increase in Salaries	\$ 201,200
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Per Budget:

Mertis for Feb - June. Costs include impact on payroll taxes, PERS contribution, etc.

	Wholesale	Retail	Total
Merit Pay In Budget	29,800	22,200	52,000
COLA In Budget 2.5%	57,900	76,000	133,900
Total Increase in Payroll	87,700	98,200	185,900
	less than CalPERS Assumption		\$ (15,300)

Historical COLA's and CPI Data



— CPI-U Western Cities A	0.033	0.034	0.005	0.014	0.02	0.025	0.022	0.014	0.01	0.025	0.0323
— COLA SJWD	0.033	0.033	0	0.01	0	0.031	0.02	0.014	0.01	0.025	0.025
— COLA Social Security	0.033	0.023	0.058	0	0	0.036	0.017	0.015	0.017	0	0.003

Cost of Living Adjustments (COLA) Since July 2015

