



STAFF REPORT

DATE: December 6, 2022

AGENDA ITEM: Compensation Plan Update and Implementation

TO: Mayor and Council

SUBMITTED BY: Kristina Handt, City Administrator

BACKGROUND:

The city last updated their compensation policy in 2018. As mentioned in October during the presentation of the updated pay plan, the compensation policy should be reviewed and updated as well. In developing the proposed changes I consulted the League of Minnesota Cities model policy, reviewed and talked to other cities, and had the city attorney review the proposed changes.

ISSUE BEFORE COMMISSION:

Should Council approve the proposed changes to the compensation policy effective 1/1/23?

PROPOSAL DETAILS/ANALYSIS:

The changes on the first page come straight from the League of MN Cities and is found in other cities' policies. They expand upon the objectives of the plan to include an objective of a clear and easy to understand plan to communicate to employees. The accountability section was similarly taken from those sources. This would end the practice of Council approving individual pay changes but would keep their accountability at the policy level. This will allow the plan to be more efficiently carried out.

The changes on the second page under compensation plan were also incorporated from other cities' policies and updated to reflect the current pay plan prepared by Baker Tilly and adopted by the council at the October 18th meeting. The last paragraph on page 2 was updated to provide clarity on roles of supervisors, City Administrator and City Council. It also moves the annual increase to January 1st of each year from July 1st as previously discussed.

The last change to the policy is to remove the performance-based compensation section. This system has not been very effective over the last four years. It is challenging to implement and creates conflict amongst employees that outweighs any perceived benefits. Also, given that the city is taking an aggressive market approach (setting the pay plan at the market average of cities larger than Lake Elmo), it may not be fiscally responsible to add another layer of compensation above that.

With respect to implementing the new pay plan prepared by Baker Tilly, I would recommend non-union employees be moved into the next step in their newly assigned grade unless that step provides less than a 2% increase in which case they should be placed in the next step in the plan January 1st, subject to a satisfactory performance review. Additionally, those employees who would otherwise be placed at a step lower than their years of service, should be moved to the step

to align with their years of service, subject to a satisfactory performance review effective January 1, 2023.

FISCAL IMPACT:

January 1st increases have been provided in the 2023 budget.

OPTIONS:

- 1) Approve the Compensation Policy as drafted
- 2) Amend and then Approve the Compensation Policy
- 3) Do not make any changes to the Compensation Policy

AND

- 1) Approve the implementation of the new pay plan as described above
- 2) Approve a different implementation of the new pay plan

RECOMMENDATION:

“Motion to approve the Compensation Policy as drafted.”

AND

“Motion to approve the implementation of the new pay plan as described above.”

ATTACHMENT:

- Draft Compensation Policy Updates



City of Lake Elmo Compensation Policy

Purpose:

The City of Lake Elmo intends to establish, administer, maintain and regularly update an internal job evaluation hierarchy that is consistent with the Local Government Pay Equity Act. The city also intends to establish, administer, maintain and regularly update a pay structure that is appropriate to the breadth and depth of services being offered to and provided for the City and is also affordable within available resources. Finally, the city intends to maintain supplemental benefits (insurance, holiday/paid time off schedules, etc) that are competitive and also affordable within available resources.

This policy establishes the guidelines for all non-represented city positions with the exception of elected officials, temporary or seasonal positions and paid on call firefighters. Compensation for seasonal or temporary employees and paid on call firefighters will be set by the City Council at the time of hire, or on an annual basis.

Key Objectives of the Classification and Compensation Plan

- Attract and retain qualified employees to provide services to city residents.
- Maintain a plan that is consistent with the city's compensation strategy; equitable and competitive.
- Maintain a plan that is clear and easy to communicate to city employees.
- Maintain compliance with the Minnesota Local Government Pay Equity Act.
- Maintain compliance with all applicable local, State and Federal laws and regulations that affect the plan.

~~This policy is directed at three primary goals:~~

- ~~➤ To attract and retain qualified and responsible personnel for the positions covered under this policy;~~
- ~~➤ To create and maintain internal equity between positions compliant with the Minnesota Local Government Pay Equity Act and all other applicable local, State and Federal laws and regulations; and~~
- To do so efficiently and effectively thereby being fiscally responsible to the interests of the taxpayer.

Accountability for Administration of the Plan

- The City Council has the authority over the plan and must provide the final approval before the plan is implemented.
- The City Administrator oversees the implementation and administration of the plan as approved by the City Council.

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Compensation Structure Plan:

In addition to the key objectives of compensation, there are three factors in the City's compensation plan. All three of the factors must be balanced when administering the compensation plan.

1. Job Classification

- The Compensation Plan consists of 15 salary grades with a corresponding range of pay for each grade. Pay rates for each grade shall have a minimum and maximum range with corresponding steps within each grade. For non-union employees, the Compensation Plan applicable to a job classification shall be determined by the grade assignment of the job evaluation profile.

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2. Job Evaluation/Internal Equity

- The City shall utilize a point-factor job evaluation methodology.
- Positions are assigned to a grade to create a total point profile for new and existing job classifications based on the breadth and depth in each classification.

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3. Market Comparison

- The City Council will determine the appropriate market to be used in developing this schedule and in supplemental compensation reviews.
- The primary labor market is currently defined as ten to eighteen cities chosen based on:
 - Proximity of location
 - Similarity in the type of services being provided
 - Population size

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Compensation is largely based on wage/salary grades and steps within the salary grade, ~~with an additional performance based compensation element.~~ For any position subject to this policy, compensation must be assigned using ~~an eleven-ten~~ step grid within each salary grade, with an increase of ~~30~~34% from the minimum to the maximum step. In determining or evaluating compensation levels, the City Administrator must maintain a schedule of comparative compensation amounts for all positions covered under the policy. ~~The City Council will determine the appropriate market to be used in developing this schedule and in supplemental compensation reviews.~~

A new employee must be hired at the pay grade minimum whenever possible. The City Administrator or appropriate department head may recommend the new employee be hired at a rate above the minimum of the pay grade for his/her classification based upon qualifications and experience, subject to approval by the City Council.

A probationary employee may advance to the next pay step after satisfactorily completing six months of employment which meets performance expectations, based upon a recommendation from their supervisor subject to approval of the City ~~Council~~ Administrator. Subject to Council approval of the compensation plan, every year thereafter, on or about July-January 1st, an employee may advance to the next pay step after satisfactorily completing another year of employment which meets the performance expectations until he or she reaches the grade maximum. If an employee does not have

satisfactory performance they will not advance to the next pay step and may be placed on a performance improvement plan. Determination of satisfactory performance must be recommended to the City Administrator by the immediate supervisor on forms prescribed by the City Administrator. Employees who are at or above the grade maximum will receive the predetermined cost-of-living-adjustment (COLA) based on a satisfactory performance review.

Actions Taken to Review, Update and Maintain the Plan:

Elements of the plan will be reviewed annually to determine the degree to which it remains consistent with the city's total compensation philosophy. Actions to be taken may include:

1. Review, verification, and any required updating of job descriptions for all positions covered by this policy.
2. Review, verification and any required updating of job evaluations on all positions covered by this policy, following established reclassification policies and procedures.
3. Review, verification and consideration of current market survey data collected from the cities selected for comparison, ensuring that there are no questionable data that may give an incorrect pattern of pay for one or more positions.
4. Review and consideration of appropriate changes to the established base pay structure based on patterns of current market survey data, ensuring that there will be continuing integrity in administration of the current or revised pay structure.
5. Review and consideration of changes to the city's supplemental benefits covering paid time off.
6. Review and consideration of required and/or appropriate changes to the written description of the plan.

The pay grades and rates established by this policy must be annually confirmed by the City Council through adoption of the budget and resolution establishing the grades and steps for each job classification.

General Provisions:

Nothing within this policy is a guarantee of employment and compensation, and nothing is to be construed as a commitment to continue the City of Lake Elmo Compensation Policy for more than one calendar year at a time. All components of this policy are set forth as guidelines to assist in establishing appropriate compensation. The provisions of this policy supersede all other compensation considerations. Compensation schedules will be maintained and updated as appendices to this policy in accordance with policy provisions.

Performance-based Compensation:

~~In addition to the step and grade system, employees who are subject to this compensation policy are eligible for additional performance based compensation. Performance bonuses will be based on the employee's annual review. Employees are evaluated annually based on essential job functions, and knowledge, skills, and abilities based on his or her job description. He or she receives a score between one and five for each of these areas. Scores will be averaged and rounded to the nearest whole number. Average scores of a four or five will be eligible for a bonus. Employees must also satisfactorily complete each of their three annual goals as~~

determined by their supervisor during the prior year's review. If the employee receives an average overall score of four, they will receive a one-time lump sum payment of .5% of their annual salary (based on 2080 hours for non-exempt full-time employees, and prorated for part-time employees) or two additional days of PTO based on the his or her preference. If the employee receives an average overall score of five, he or she will receive a one-time lump sum payment of 1.5% of their annual salary (based on 2080 hours for non-exempt employees) or four additional days of PTO. Bonuses will be subject to Council approval, and will be presented with the annual step increases as recommended by the City Administrator.

Appendix I:
Position Grades

Appendix II:
Range and Step Plan

Effective 1/1/23