MEMORANDUM

TO: Members – F&A Committee

FROM: Michael G. Herring, City Administrator

DATE: July 29, 2015

SUBJECT: Minutes – 7-27-15

The Finance and Administration Committee met on July 27, 2015. Those in attendance included: Chairperson Barry Flachsbart, Ward I; Council Committee Member Elliot Grissom, Ward II; Council Committee Member Dan Hurt, Ward III; Council Committee Member Bruce DeGroot, Ward IV; Mayor Bob Nation; City Administrator Mike Herring; Finance Director Craig White; Director of Planning and Public Works Mike Geisel; and Interim City Attorney Harry O'Rourke. Those also in attendance included: Councilmember Bridget Nations, Ward II; Councilmember Mike Casey, Ward III; Councilmember Connie Fults, Ward IV; Chief of Police Ray Johnson; Management Analyst, James Mello Jr and a member of the public.

Chairperson Barry Flachsbart called the meeting to order at 5:30 p.m.

Councilmember Hurt left the room.

1. <u>Proposed 2016 Meeting Schedule</u>

Mr. Herring explained the process that is used each year for scheduling meetings, in that City Staff takes into account various federal and religious holidays and plans a meeting schedule accordingly, to reduce conflicts. He also noted that this Committee had been authorized to review/approve this proposed meeting schedule, on behalf of City Council.

Councilmember DeGroot motioned to approve schedule as presented by staff. Councilmember Grissom seconded the motion. A voice vote was taken and the motion was passed 3-0, with Councilmember Hurt being absent during the vote.

Councilmember Hurt returned to the room.

2. <u>Recommendation for Auditing Services</u>

Finance Director, Mr. Craig White, explained that Staff has been pleased with the services provided by Daniel Jones & Associates and he recommended that Council extend the current contract for three additional years, at the current annual price of $21,580.

Councilmember DeGroot motioned to approve the extension of the current contract for audit services. Councilmember Grissom seconded the motion. A voice vote was taken, with a unanimous result, and the motion was approved.

3. Approval of the Minutes from June 17, 2015

Councilmember Hurt motioned to amend item #9 of the minutes to reflect that he had requested a listing of individual employee salaries with names removed and the annual increases for the years 2013 and 2014. Councilmember Flachsbart seconded the motion. A voice vote was taken, with a unanimous result, and the motion was approved.

Councilmember Flachsbart requested that, in the future, Mr. Herring distribute copies of the F&A Committee meeting MINUTES, as soon as they have been put into final form, rather than waiting to distribute same with the AGENDA/PACKET for the next meeting.

Councilmember DeGroot motioned to approve the June 17, 2015 minutes, as amended. Councilmember Flachsbart seconded the motion. A voice vote was taken, with a unanimous result, and the motion was approved.

4. Continued Discussion: Annual Merit Increases

Director of Public Works, Mike Geisel, explained that Finance Director, Craig White had compiled all of the data regarding employee compensation history. He then noted that City Administrator Michael Herring, Chief of Police Ray Johnson, Finance Director Craig White and he had collaborated to review and interpret the data, as requested by the Finance and Administration Committee. Mr. Geisel further explained that for presentation purposes, Staff had segregated the empirical data, collected by Mr. White, from the subjective, professional opinion as developed by Staff. Mr. Geisel commented that thru a comprehensive review of the data, specific data-driven results became apparent and, just as importantly, predictable.

Mr. White first addressed a question brought up by the F&A Committee at the previous meeting. The Committee had questions about the correlation in the year-over-year percentage change in budgeted full time positions, budgeted salary expenditures, and actual salary expenditures. Mr. White explained that Staff had previously expressed that this was the result of the duration in which budgeted positions were vacant in one year compared to the next. Staff had been able to determine the number of full time equivalents based on actual compensated hours which showed that during the 2010-2014 time period budgeted positions and full time equivalents varied from 2 – 8 positions. Assuming an average salary of $50,000, this translates to a range of $100,000 - $400,000 during that time period which caused the slight difference in the year-over year change in the budgeted and actual metrics noted above.

The Committee expressed that they had no further questions about these variances and Mr. White proceeded to discuss the information prepared detailing the salary expense, hours worked, full time equivalents, and year-over-year change in salary expenditures for each of the City's budgeted positions. Councilmember Hurt expressed that he had desired a similar report showing each employee rather than position. Mr. White expressed that this information would be provided and that its omission was simply due to Staff's opinion that the information, BY POSITION, was more useful.

Throughout the presentation, Mr. White answered questions from the Committee about the data and how it was compiled. This included a brief description of the reconciliations included in the documentation and how they tie to internal payroll and general ledger reports. He clarified that the data excluded overtime pay and hours. He concluded his comments by pointing out that the increase in average employee salaries was actually LOWER than the increase in CPI, from 2010-2014.

Mr. Geisel summarized the recommendation as provided in his memo, as follows:

- The City has an established a set of job titles, each with a well-defined written job description and an associated pay range based on the market value of that specific job.
- During 2014, the Finance and Administration Committee was provided detailed information regarding the relative market position of the City's jobs. The result of the 2014 analysis for the Finance and Administration Committee reflected that the Employees compensation was consistent with the City's policy on market position. Councilmember Flachsbart asked if that policy ensured that employee compensation would be in the top five relative to comparable municipalities. Mr. Geisel reminded the Committee that in many cases, the comparable labor markets were not actually municipalities, but other private labor markets. In fact, there are multiple job classifications within the City of Chesterfield that simply do not have direct municipal market labor comparable positions. The Committee affirmed this distinction.
- The City's entire compensation scale is adjusted annually by the CPI, without a corresponding cost-of-living increase for employees.
- The purpose in adjusting the entire scale is to ensure that the City maintains its competitive market position overall for future recruitment, while not adjusting current employee salaries.
- Mr. Geisel suggested that this annual adjustment has proven to be a wise employer strategy and has also proven to reliably maintain the City's market position, as evidenced by the market analysis completed in 2014. The City has kept pace with the labor market, while avoiding rampant individual job re-classifications and equity comparisons. Mr. Geisel stated that the City's decision and strategy to index the overall compensation plan with the CPI on an annual basis has been effective. At the same time, this indexing has not increased the broader employee compensation and no cost-of-living increases are provided for in the City's compensation strategy.

Mr. Geisel stated, in Staff's opinion, the CPI is an appropriate index for regular adjustments to the overall compensation plan. It is necessary for the City of Chesterfield to retain its competitive position for recruitment of employees on an on-going basis. By

globally adjusting the compensation plan annually, without providing cost-of-living increases for individual employees, the City is able to maintain market wage scales without continuous market and internal analyses, which can be time consuming, increase costs and cause internal conflict. This process has proven to be effective and has resulted in maintaining our relative position since its implementation in 2003, as reported and affirmed by the market comparisons for the F&A Committee during 2014. The 2003 recommendation to implement this process specifically cited both the need to remain competitive and the desire to avoid continuous market analysis for individual job categories.

Mr. Geisel explained that Staff's review of the historical CPI makes it equally clear that the annual CPI should NOT be used for a formulaic basis to determine annual compensation increases.

Mr. Geisel referenced the June 2015 Bureau of Labor Standards report that stated "….. Businesses should be cautious in drawing conclusions about long-term retail price trends from short-term changes in the regional indexes."

- The CPI is an economic indicator that is wildly volatile in the short term. In the modern economy, the rate of CPI change has varied between 13.58% and -.34%. Any formulaic application that relies on the CPI would wreak havoc on annual budget preparation, creating wide swings in successive budget allocations.
- The CPI is a lagging index, representing compiled data from the prior 12 month period. If used for annual compensation increases, it could negatively impact employee recruitment during economic expansion and could equally result in unnecessary increases in costs.
- The response is at least 18 months and as much as 30 months delayed from actual economic conditions. The City's compensation scheme could be retracting as the economy is expanding, or the City's compensation could be expanding when the economy is contracting.
- Use of the CPI over longer time periods is appropriate for budgeting Compensation increases.
- Without regard to how the City previously arrived at 3%, it appears to mirror the long term, modern average CPI.
- Budgeting 3% annually for compensation increases actually corresponds to the modern CPI average.
- Avoids the wild short term fluctuations, while constraining labor costs.
- City's labor costs have actually risen slightly less than the cost of living during the analysis period.
- 3% annual appropriation for compensation increases is justified and rationally based.

Based upon the historical CPI performance, coupled with the City's empirical labor expense performance, staff recommended that the current practice of annually updating

the Compensation Plan by the prior year's CPI, as well as budgeting 3% annually for merit increases should be continued. This practice has effectively maintained the City's labor market position while restraining labor expenses.

Mr. Geisel then restated Staff's recommendation, based upon the historical CPI performance, coupled with the City's empirical labor expense performance, the City of Chesterfield should continue its current practice of:

- Annually updating the Compensation Plan by the prior year's CPI, and
- Budgeting 3% annually for merit increases should be continued. (REVIEW HISTORIC TRENDS OF THE CPI IN NOT LESS THAN 5 YEAR CYCLES)

This practice has effectively maintained the City's labor market position while restraining labor expenses. As affirmed by Mr. White, the City's labor expenses have actually been LOWER than the CPI, in the last five years.

Councilmember Hurt clarified that employees that reach the maximum of their pay range can only receive merit increases up to the annual CPI adjustment of their pay range. Mr. Herring confirmed that observation.

Councilmember Hurt clarified that he was not interested in managing or influencing how individual employees were awarded merit raises, only that he believes that the pool of funds available for raises each year should be set more objectively based on current market conditions rather than the current arbitrary, though reasonable, manner.

Councilmember Flachsbart clarified that there were two mechanisms at work to ensure that the current system of pay adjustments remained at reasonable and competitive levels. First, there was the compensation system established by a consultant recommendation some years ago. The second mechanism was periodically verifying that, per Council direction, Chesterfield is generally compensating its employees in the top 5 of comparable positions in the general market.

A general discussion ensued regarding the advantages, disadvantages, and reasonableness of tying merit raises directly to CPI – with or without some modification and over what timeframe was reasonable to track.

Councilmember Grissom noted that 74% of employees were currently earning below the midpoint of their pay range and that tying merit raises directly to CPI, and increasing the pay range by CPI as well, would lead to employees remaining "frozen" at their current levels within the pay range. With midpoints representing the market value of a given position, this would imply that 74% of staff would be stuck earning less than market value for their position.

Mr. Geisel noted that the pay plan is also self-limiting based on the CPI, as long term employees will eventually reach the cap for their respective pay range and no longer be

eligible for merit raises. The only increase in pay for that pay range would be the annual CPI adjustment, if any.

Councilmember Flachsbart asked for confirmation that the City's current policy is to leave the pay ranges unadjusted during years with a negative CPI, rather than adjusting employee pay ranges down. Mr. Herring affirmed that this is the current City policy.

Councilmember Flachsbart suggested that, rather than creating a complex formula, the Finance & Administration Committee review the situation annually, starting in June, based on the 10 year CPI change and the previous year CPI change.

Councilmember Flachsbart confirmed that the Committee was in agreement that all pay ranges be adjusted annually, as is current policy, by CPI. He requested that the Committee members give thought to this issue and that Staff do the same, with an eye toward bringing a final recommendation to the next meeting of this Committee.

Mayor Nation requested that Staff present the impact of basing merit raises on an employee's actual pay, rather than the pay range midpoint.

5. Adjournment

The next meeting of the Finance & Administration Committee is scheduled for August 24, 2015 at 5:30 PM.

There being no additional business to discuss, the meeting was adjourned at 7:20 PM.