



## City of Smithville, Missouri

### Board of Aldermen - Work Session Agenda

January 4, 2022

**6:15 p.m.** – City Hall Council Chambers and Via Videoconference

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Anyone who wishes to view the meeting may do so in real time as it will be streamed live on the city's FaceBook page through FaceBook Live.

For Public Comment via Zoom, please email your request to the City Clerk at [ldrummond@smithvillemo.org](mailto:ldrummond@smithvillemo.org) prior to the meeting to be sent the meeting Zoom link.

1. Call to Order
2. Discussion of Classification and Compensation Study
3. Adjourn

Join Zoom Meeting  
<https://us02web.zoom.us/j/84483197601>  
Meeting ID: 844 8319 7601  
Passcode: 097144



	<div>STAFF</div> <div>REPORT</div>
<b>Date:</b>	January 4, 2022
<b>Prepared By:</b>	Anna Mitchell, Assistant City Administrator
<b>Subject:</b>	Classification and Compensation Study

On March 10, 2021, the City released bid #21-11, Classification and Compensation RFQ. Eight proposals were submitted and the city management team then conducted interviews identifying McGrath Human Resources as the highest qualified proposer. The Board of Aldermen approved a contract with McGrath consulting on June 1, 2021.

Several on-site visits were conducted by McGrath consulting beginning June 23, 2021. During this visit, consultants met with department directors to understand departmental structure and organization and determine the process for the study.

Selected employees within each of the job titles in the City were asked to complete an extensive Position Questionnaire (PQ), which were then forwarded to McGrath to evaluate and prepare for the second on-site visit on September 30. During this visit, McGrath held meetings with the majority of employees that filled out the questionnaire as well as holding open office times where any employee was able to come with questions or concerns.

While employees completed the PQs, McGrath was reaching out to our comparable communities for information to compare our information with to ensure that the study results are competitive externally as well as internally equitable.

On November 23, McGrath met over Zoom with each of the department directors to review the new grading system (attached). Additional questions and concerns were brought up from directors as well as administration until the final draft was completed.

The attached Executive Report explains the methodology of the study, market analysis, the current compensation system and the proposed ranges of salaries for a new compensation system. The study also encompassed a benefit analysis of the City's current offerings as well as a summary of benefits provided by our comparable communities.

Currently, our compensation system has a specific range for nearly each individual job title. The proposed range system has placed specific jobs within ranges, which in turn creates internal equity between departments. When looking at implementing the updated range system, all employee salaries will be adjusted to at least reach the

minimum of the range. This cost for this is \$75,776. For employees that are already within the proposed range, this implementation has built in a minimum increase to every employee of 3% to ensure that all employees receive a benefit from the study. With the addition of the 3% increases, the salary implementation cost comes to \$137,518.27. Increasing salaries has impact on the benefits provided to the employee (FICA, LAGERS, and Workers Compensation). The additional costs associated with these taxable benefits totals \$27,445.65.

The full cost of implementation would come to \$164,963.77. This amount is separate from the budgeted merit increases to be completed this April/May.

In examining the Five-Year General Fund Financial Forecast, implementing the Classification and Compensation Study decreases the projected ending cash balance of the General Fund below the reserve guideline/requirement of 40% around the year 2025. By 2025, it is expected that the City would need to maintain \$2,170,142 in reserves to meet a 40% requirement of an operating budget equal to \$5,425,356. The implementation does create a year-over-year, "spill-over" financial effect and this cash balance/reserve projection is entirely dependent on conservative growth in both sales taxes and property taxes.

McGrath completed a benefit comparison that allows City Administration to consider long term benefits strategy perspective for total compensation. With the 2022 health plans provided, the City benefits fall within the midrange of the comparable communities, taking a step in the right direction by providing one plan that is no cost to the employee.

When looking at the vacation and sick time structure, McGrath found that our initial time offered to new employees is above average, but as the employee continues and reaches a longer tenure, the hours provided were lacking. The recommended schedule has added a service level to reward employees with service of more than 16 years. The recommendation also includes the addition of annual accrual hours to each of the service levels, excluding the years one to five accrual rate timeframe.

McGrath also placed policy recommendations that City Administration will retain for future reference in the event that additional benefits are viewed as necessary (such as a floating holiday, vacation buy-back, and mandatory vacation).

Malayna Halvorson Maes from McGrath Consulting will be presenting the full Executive Report and is available, along with city staff, for any questions the Board has regarding the recommendations.



# Compensation and Classification Study Executive Report

for

The City of Smithville, Missouri



December 2021



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## Executive Summary

The intent of the Executive Summary is to provide an overview of the most important issues and opportunities identified by the Consulting team during the Study. Recipients of this Report are highly encouraged to read the document in its entirety to gain an understanding of the recommendations presented within the Report.

McGrath Human Resources Group, Inc., an organization that specializes in public sector consulting, was commissioned by the City of Smithville, Missouri to conduct a comprehensive Compensation and Classification Study for all regular part-time and full-time positions, excluding the City Administrator and City Clerk, who report directly to the Board of Aldermen. The purpose of this Study was to:

- ❖ Guide the City in confirming your pay philosophy including your desired position in the market.
- ❖ Review the City's existing compensation plan and classifications.
- ❖ Obtain and establish benchmark compensation data from the external market through a survey of mutually identified, comparable entities.
- ❖ Obtain information on each job title/position for a job evaluation through department meetings, job descriptions, and position description questionnaires.
- ❖ Define and update the City's classification system, as needed.
- ❖ Identify career progression opportunities, when supported.
- ❖ Establish internal equity among positions within the City through a job evaluation point factor process.
- ❖ Complete an analysis of the benefits to identify the City's standing in the market as it pertains to benefits.
- ❖ Integrate the data from the external market, internal market, and job evaluations to develop a comprehensive compensation system by updating your current schedules or designing new salary schedules to align with your compensation philosophy.
- ❖ Prepare a cost analysis for implementation of recommended changes.
- ❖ Review and recommend compensation policy and procedure changes that will assure consistent implementation and application of compensation.
- ❖ Provide a plan for the City to provide on-going maintenance of the system independently.
- ❖ Provide final reports and a presentation to elected officials, management, and employees as desired.
- ❖ Update all job descriptions [next phase].

Based on this data and analysis, the following recommendations have been developed.



## **Compensation Recommendations**

In order for the City of Smithville to gain a stronger competitive edge with recruitment and retention, it is recommended the City establish its compensation philosophy to align with the average market. This compensation strategy will help facilitate candidates who have multiple employment options, increase selection rates of qualified applicants, maintain productivity, and decrease unwanted employee turnover. This type of strategy is appropriate for an organization like Smithville, which is located in a highly competitive labor market.

The City desires to continue its range model compensation system for effective recruitment. The market rate is set at 15% above the minimum rate of each pay range. The range model also serves as a retention tool. Having a range model, with established processes to facilitate the employee's ability to receive wage increases beyond cost of living, can be a performance motivator and a tool for professional growth and development, so the City can continue a true performance-based compensation program with this model.

## **Other Recommendations**

A number of other recommendations have been made in the following areas:

- Classification (job title) adjustments
- Definition of career ladders for progression and succession planning opportunities, when relevant
- Health Insurance
- Vacation

These recommendations provide a roadmap for the City Administration to utilize best practices going forward. By developing and following a total compensation philosophy, the City should be in a better position to attract and retain a highly competent workforce.

The Consultants would like to extend appreciation to the City Administrator, Assistant City Administrator, Department Directors, and employees for their time, cooperation, and sharing of information and perceptions with McGrath Human Resources Group.

# Methodology

## Data Collection

The project involved several steps: collection of data, interviews, and data analysis. The first step of this Study involved the gathering of data that pertains to current compensation practices within the City of Smithville. The Consultants received information relating to current salaries, specific policies, collected market data, and current job descriptions.

Interviews were conducted with the City Administrator, Assistant City Administrator, Department Directors, and other management personnel within each Department. The purpose of these meetings was to first, gain an understanding of the City's current compensation practices and philosophy; second, to solicit ideas and input from these stakeholders for future compensation methodologies and practices; and finally, to determine if there were any positions within the City that were difficult to recruit, retain, or were otherwise unique in the position's responsibilities. Employees were then asked to complete a Position Questionnaire (PQ) which provided extensive information about the positions. The Consultants utilized the Position Questionnaires completed by the employees, which had been reviewed by supervisory employees, to gain a better understanding of the job responsibilities, skills, and various competencies of the position.

During the second site visit, employees were selected to be interviewed that represented the job titles of the organization. Two consultants met with these employees and utilized the position questionnaires completed by the employees (and reviewed by supervisory employees) to gain a better understanding of the job responsibilities, skills, and various competencies of the position. The Consultants reviewed the questionnaires prior to this visit, so these meetings were an opportunity to expound on the questionnaires, or for the Consultants to get confusing answers clarified. During these meetings, questions were also asked to gain an understanding of the culture of the organization and expand their understanding and perspectives on compensation within the City of Smithville.

Also, during this site visit, a second meeting was held with a number of Department Directors who were considering changes to titles and/or classifications within their Department. Productive discussions to clarify levels were held, and those ideas have been incorporated into the recommended compensation schedule.

Finally, upon completion of the draft compensation schedule, the Consultants met with Administration, in addition to each Department Director separately to review the recommended Salary Schedule and gain the City's perspective prior to finalization. Any recommendations and feedback provided was reviewed by the Consultants and taken into consideration in both its relation to the position analysis, the external market data, as well as the impact to internal equity within the entire Compensation System.

## Labor Market

In order to gain information from the external market, through interviews with the Department Directors and City Administration, a list of comparable organizations was established. Each of the comparable organizations were contacted requesting current salary schedules and incumbent data. The following comparable organizations were contacted:

**Table 1: Comparable Organizations**

<b>ORGANIZATION</b>
Clay County
Excelsior Springs
Gladstone
Kearney
Liberty
North Kansas City
Parkville
Peculiar
Platte City
Raymore
Riverside
Sugar Creek

## Market Data Solicited

The market survey gathered the following 2021 information: Minimum, Midpoint, and Maximum salary for the positions as well as the average salary of the incumbents. Upon examination, salaries were eliminated if statistically too high or too low as to not skew the average (typically within one-two standard deviations). Then, a new percentile amount was calculated with the remaining salaries. There was a great deal of time spent in the data analysis to ensure that each position was examined based on the data available and how the responsibilities of each position align within the City.

The collection of this compensation data was utilized to analyze the average Market Minimum, Midpoint and Maximum Rates per defined benchmark positions. A comparison of the average salary of the positions to the salary of incumbents within the City was also performed. When necessary, evaluation of the comparable organization's job description, when available online, was utilized to resolve conflicts.

In addition to current positions within the City, the Consultants sought comparable data on future positions/career ladders, and positions with job responsibilities that are combined in Smithville but might be separate in other organizations. Not all positions are reflected in the following data analysis. In some situations, data was not available in the external market, data was insufficient, or there were no internal matches at the time of the Study.

## **Market Analysis**

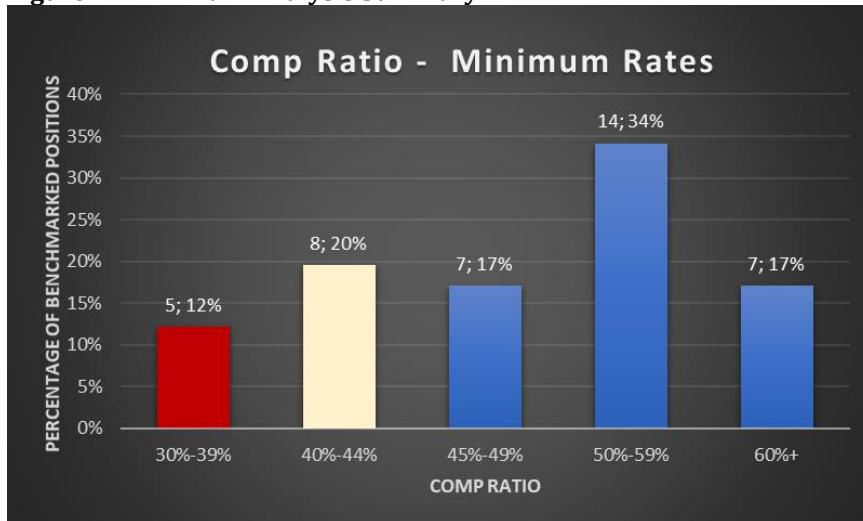
It is standard compensation practice to establish a range around the Minimum or Market Rate to determine if employee compensation is in line with the comparable market. Employees can mistakenly assume that if the average Market Rate is \$25,000, then their salary should align to the Market Rate, not realizing many factors attribute to being above or below a Market Rate. Compensation practices look at a range around the average Market Rate where an employee should be by the time the employee is fully functioning within his/her position. Traditionally, organizations establish a 5%-10% range around the Market Rate. Thus, if an employee is making between 40%-60% of the Market Rate, the employee is considered fairly compensated. In order to analyze the salaries, a Comp Ratio is used. This is a ratio of the City's salary in relation to the external market data. A 50% Comp Ratio would mean that it is in line with the external Market. Again, the 10% range is utilized. Thus, if a Ratio is within 40%-60% the salary is within an acceptable range.

### **Minimum Salary Comparison**

The analysis of the Minimum Salary Range gives the initial indication if starting salaries are within an acceptable Market Range. When building a salary schedule, consideration of this information will ensure the City's Minimums are within an acceptable range to the average Market Minimum; however, this analysis is only the beginning in the development of a Compensation Schedule.

Approximately 12% of the benchmarked job titles are below the average Market Minimums. There are an additional 20% of the positions that are in the lower 40% Comp Ratio that are still within the acceptable range; however, the positions are at risk of falling below the market in the near future. Overall, 88% of the positions are within the acceptable average Market Minimum. It would appear the majority of the City's minimum hiring salaries are adequate against the average market, although some adjustment will be required. The Figure below provides a summary of findings.

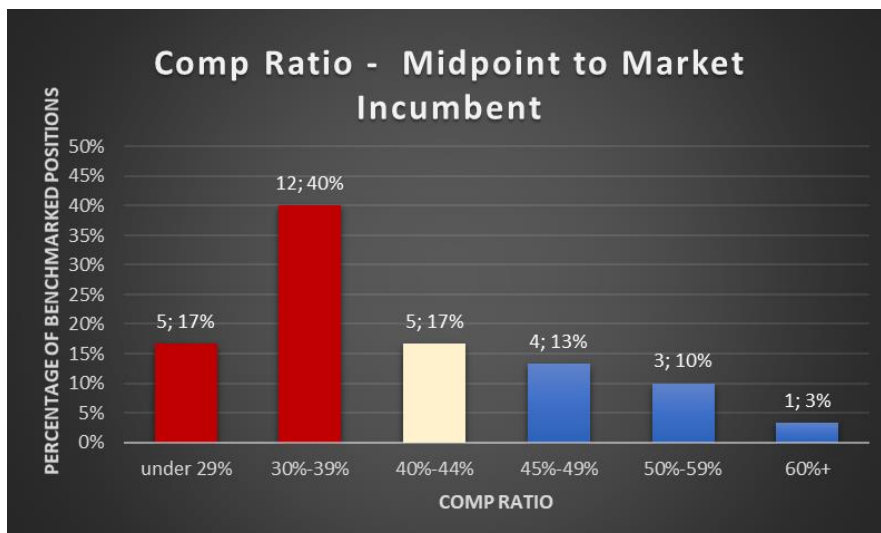
**Figure 1: Minimum Analysis Summary**



### Midpoint Salary Comparison

The Consultants wanted to know if the Midpoint was aligned with the average Market. Therefore, a Midpoint analysis between the City's true midpoint and the Market average was conducted. Again, a Comp Ratio less than 40% would indicate the Salary Ranges may not be in line. Approximately 57% of the midpoint of benchmarked positions is lower than the average incumbent market. There are an additional 17% of the positions that are in the lower 40% Comp Ratio that are within the acceptable range; however, the positions are at risk of falling below the market in the near future. Overall, 43% of the positions are within the acceptable average market at the midpoint, meaning the market for each position varies within each range. The following is a summary of findings.

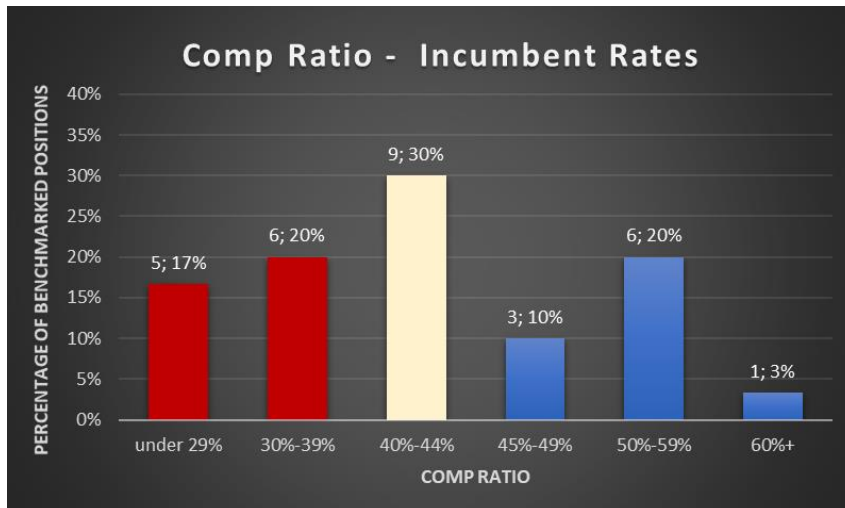
**Figure 2: Midpoint Analysis Summary**



## Average Market Salary Analysis

The next step is to compare the City's current incumbent salaries to the average Market Rate to assess how competitive incumbent wages are within the market. For this purpose, positions where there are more than one (1) incumbent, an *average* of the current employees is utilized. Overall, 37% of the positions are below the average Market Rate. There are another 30% of positions in the lower 40% Comp Ratio that are at risk of falling below the market in the near future. In total, 63% of the positions within the City are at or above the average Market Rate. In summary, the City has not fared well when employee salaries are compared to the average Market Rate of employee salaries, although one needs to consider tenure of employees. The Figure below provides a summary of findings.

Figure 3: Incumbent Analysis Summary

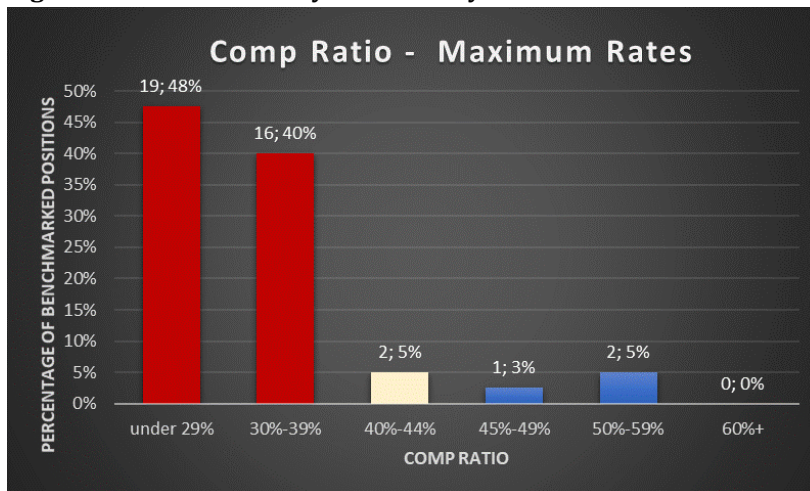


## Maximum Salary Comparison

The Consultants then compared the City's Salary Range Maximum to the average Market Maximum. However, due to various types of salary range construction, one must always consider this may not be an exact comparison.

The City's salary range maximum is at or above the Market Maximum for only 8% of positions, while an additional 5% of positions are still within an acceptable distance from the average. This leaves 88% of positions with Maximum Rates that are under the Market Average. This is problematic because the City may be challenged not only in the recruitment and selection of new hires, but also the retention of current staff, which can lead to those staff leaving to work in other organizations in the area for more pay. The Figure below provides a summary of findings.

**Figure 4: Maximum Analysis Summary**



*Rounding may not result in 100%*

In a second analysis, the average incumbent market to the City's maximum rates shows that half of the City's maximum rates are less than the average incumbent rates within the market.

**Figure 5: Average Market Compared to City Maximum Summary**



### Market Summary

Overall, the City has not kept pace with the external market. Although the Minimum Rates are mostly aligned, the current Salary Schedule has fallen behind within the range, with most positions needing some adjustment. There needs to be an adjustment of the Ranges to identify and capture the average market rates of comparable incumbents, push up the maximum rates, and realign some positions once placed on the Pay Grades. The following is a summary of compensation trends identified.

## **Financial and Technical**

Many of the technical positions as well as financial positions were found to have sufficient minimum rates, but competitiveness within their range has fallen behind, leaving the organization at risk for turnover once incumbents are trained and proficient in their position. Losses for these positions will result in the departments doing significant retraining in highly skilled professions.

## **Labor and Trades**

Labor positions identified two trends. The market did not glean the same number of levels the City currently has for the series of positions in Public Works. These ranges have sufficient minimum rates, but competitiveness within their range have fallen behind, so there is less incentive to progress to higher levels with more certification/licensing opportunities that would benefit the City. As a result, these levels will need to be redefined to have fewer levels that are more competitive throughout the range to encourage continuing education opportunities. Other labor positions that do not rely heavily on credentialing have non-competitive minimums. This makes it difficult to recruit, at the entry level.

## **Support**

The City does not have a large number of support personnel. Overall minimums for entry level positions were found to be non-competitive, in which the minimums need to be adjusted, whereas more intermediate and advanced support positions were found to be well aligned with the market requiring minimal adjustments.

## **Public Safety**

Public safety positions in the region have seen a significant adjustment in salaries in recent years. The City's recruit levels are non-competitive, as are the salary ranges for police officers and subsequent promoted ranks. The ranges will need to be shifted for recruitment and retention purposes not only at the officer level, but also within the promoted ranks to provide a stronger incentive for officers to stay and seek out promotional opportunities within the City.

## **Managers**

The market for manager level positions vary in that some minimum rates are aligned with the market, although like others, progression through these ranges fall short competitively. Second level management positions also trend similarly, although the entire salary ranges



for the higher-level manager positions simply are not competitive against the external market and will need overall adjustment.

## **Directors**

Finally, the City's executive and director-level positions in the organization have fallen behind the market, and struggle to reach market competitiveness. Few positions compared competitively to the external market indicators. Losses at that level of position can have unintended consequences on an organization if succession planning is not complete and current. Such consequences could have a delay in services to constituents for a period of time, as well as a loss of institutional knowledge for the organization. A summary of these finding follows.

**Table 2: Summary of Director/Executive Positions**

<b>EXECUTIVE AND DIRECTOR POSITIONS</b>	<b>COMP RATIOS</b>
Minimum	30%-51%
Midpoint	25%-48%
Maximum	21%-38%
Incumbent to Market	15%-43%

The Director level pay ranges will need significant adjustment overall to better align with the external market.

## **Current Compensation System**

The existing compensation system is currently made up of individual pay ranges for each position, although some are identical. There are 47 unique salary ranges for 57 job classifications. Each Pay Grade has an identified Minimum and Maximum. The difference between Pay Grades is 0%-14%, so there is very little difference between some Pay Grades. The spread between Minimum and Maximum also varies, between 6%-48%. The midpoint may or may not be the market point, so it is unknown how long an employee must work in each position before they attain market competitive wages.

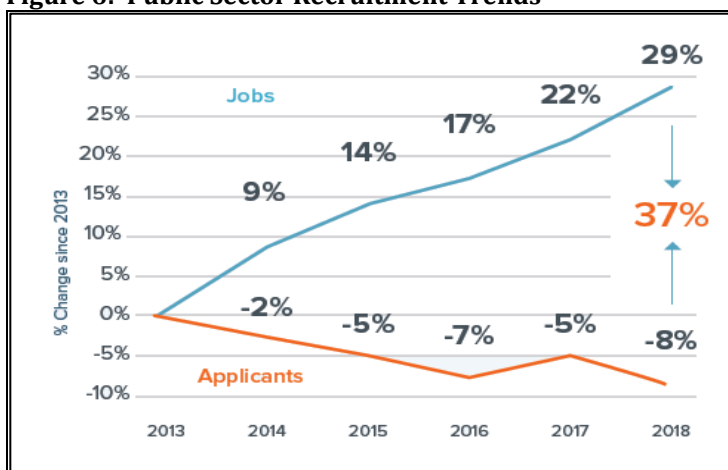
Another issue with the current structure is internal equity. The Consultant placed all of the positions together based on salary range lowest to highest to evaluate internal compression and found insufficient distance between positions. This causes individuals to be dissuaded from taking promotions or moving to higher level positions as the pay increase is insignificant or nonexistent. In addition, similar positions have different titles and are in different pay grades and wage rates; however, upon examination – there may be little difference in responsibilities. This is probably as much of a concern as the salary ranges against the external market.

## Other Factors

### Public Sector Turnover/Recruitment Challenges

According to human resources professionals across the United States, it is becoming progressively harder to hire qualified personnel. Looking at a tight labor market, recruitment and retention of qualified personnel with the necessary skills for public service topped the list of workforce challenges (State and Local Government Workforce: 2017 Trends). Between 2013 and 2018, postings for government jobs have increased by 29% while applicant volume fell by 8%, resulting in a 37% gap (Neogov Job Seeker Report 2019). The figure below illustrates this change.

**Figure 6: Public Sector Recruitment Trends**



More recently, the Center for State and Local Government Excellence released its State and Local Government Workforces 2021 report. Based on a survey conducted with 300 State and Local government participants across the United States in the first quarter of 2021, nearly 64% of respondents identified police positions as one of their most challenging positions to fill, and 57% identified skilled trades.

This is not a new issue. Public employers have been experiencing ongoing challenges of this nature for almost a decade. Governments historically have had a compelling proposition to offer workers with secure lifetime employment and generous health benefits followed by a robust pension for retirement, which is no longer the case. Public employers are battling for their talent because:

- Long term employment has less appeal to the younger workforce.
- There is a real or perceived decline in public support for government workers.
- Public employers do not feel they can compete with salaries and benefits as benefits erode and the private sector is more competitive.
- There is a growing skills gap. Many government jobs now require specialized education or training. Fewer positions are 'learn on the job.'

- Public employers are not able to offer the same level of flexible work arrangements to all employees.
- Limitations in technologies prevent efficiencies and automation.
- There are limited financial resources.

### **The Great Resignation and Private Sector Influence**

Compounding the public sector recruitment challenges, in 2021, as the nation re-opened following COVID shutdowns, the country has experienced continued private industry prosperity, record inflation, record retirements, and record turnover from an otherwise qualified workforce, causing all industries, both public and private, to be competing for already limited human resources. In addition, State Minimum Wage Laws are pushing non-skilled wages higher. This has led employers to escalate wages for all positions to help recruit and retain its talent. The effect has been substantial, and nearly every employer is experiencing recruitment and retention challenges.

Information was gleaned from various private sector organizations that were actively recruiting for both skilled and non-skilled labor in July 2021. In total, the lowest entrance rate was collected from 27 private business. What is not able to be evaluated is the benefit packages of these private sector firms, hiring/retaining bonus, and other 'perks' provided in the private sector that are not allowed in the public sector. Overall, it was found that the entry level labor positions had an average starting rate of between \$16.96-\$19.96 per hour, as compared to the City's starting rates between \$15.09-\$15.46 per hour; and skilled positions requiring experience had an average starting rate of between \$25.28-\$31.36 per hour, as compared to the City's starting rates between \$18.01-\$20.01 per hour. Many businesses report the lack of available workers and have curtailed their ability to meet current work demands, while raising wages. Thus, the City's smaller applicant pool and the competitive salaries with a portion of the private sector are factors for consideration when developing a salary/benefit mix.

As a result, all employers, including the City of Smithville, will need to ensure its wages and benefit package is as competitive as financially possible in order to help mitigate turnover and facilitate recruitment success.

### **Geography**

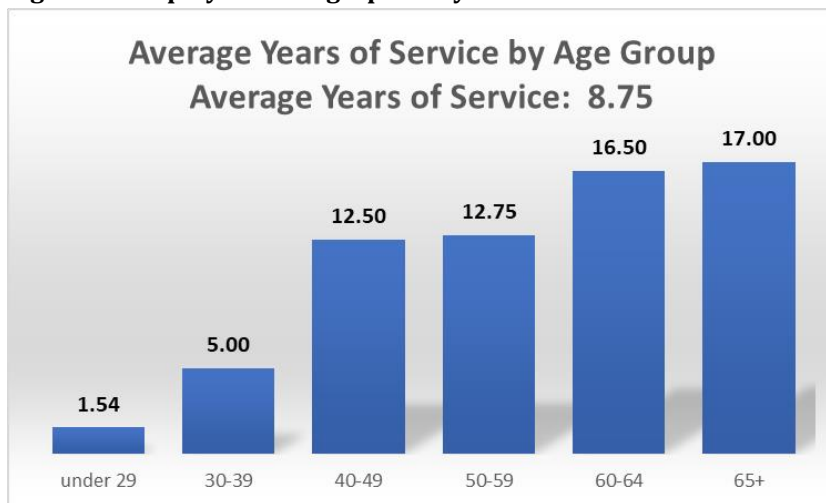
Another consideration for the City is its vicinity to the Kansas City metro area, in that its boundaries are in close proximity to larger scale private sector and public sector employers, so people have plentiful employment options. In order for the City to continue to provide its services to the community and its constituents at its current level of service, there will need

to be a consideration to ensure the Salary Schedule is set to attract and retain not only the local employment market, but also individuals who are willing to commute from surrounding communities.

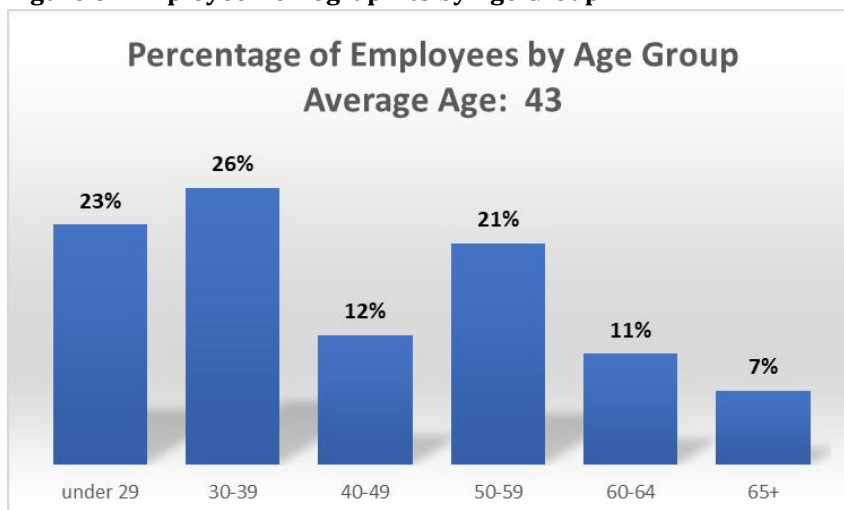
### Employee Demographics

In reviewing the City's employee demographics for positions covered in the Study, the tenure of the organization ranges from new hire – 39 years. The overall tenure average of the employees is 8.75 years. The national average in the public sector is currently 6.5 years (*Local Government-Bureau of Labor Statistics, September 2020*), showing the City is *above* average in overall tenure. In order to have a full picture of the City, one needs to explore these demographics further. These findings are found in the following Figures.

**Figure 7: Employee Demographics by Years of Service**



**Figure 8: Employee Demographics by Age Group**



The above Figures show those in age groups 60 and over have the longest tenure of the

organization but only represent 18% of all employees. Age groups 40-59 also have a high level of tenure and represent 33% of the workforce, so there is an even cross-section of ages across all generations. Because of this, the City should expect ongoing steady turnover simply due to retirements over the next decade and beyond. When these employees leave the City, the average tenure of the organization is likely going to decrease, as their tenure is boosting the current average tenure.

Another significant finding is the that the City's demographics illustrate that 49% of the workforce is under the age of 40, and this is likely the cross-section of employees who are seen as more mobile in today's workforce, focus heavily on work/life balance, and consider non-compensatory benefits for the purposes of retention. This group also changes jobs quickly because it results in earning higher wages as opposed to remaining with one organization for a longer period of time, which is notable as average tenure in these age groups range from 1.54-5.00 years of service.

The City is recommended to monitor its demographics periodically to properly respond to shifts within the organization as needed. Although the Consultants acknowledge compensation is not the only reason for unwanted turnover, it is a consideration of the larger picture. In order to ensure competitive recruitment/retention, the City is recommended to follow the compensation philosophy of average market compensation to ensure the City can stay competitive to support retaining its personnel as long as possible. This analysis will also be relevant in relation to benefit recommendations later in the report.

## **Compensation Philosophy**

A compensation philosophy is an organization's financial commitment to how it values its employees. The goal of this philosophy is to attract, retain, and motivate qualified people. A consistent philosophy provides a strong foundation in determining the type of total compensation package to offer employees.

There are foundational aspects of compensation to assist with the development of a compensation philosophy to ensure the goals of compensation align with the goals of the organization. First, there are basic questions to consider:

1. What is considered a fair wage?
2. Are wages too high for the financial health of the organization?
3. Does the compensation system reflect the value of positions within the organization?
4. Is your compensation strong enough to retain employees?
5. Do you currently have a defined compensation philosophy?
6. If so, is your compensation philosophy keeping in line with labor market change, industry change, and organizational change?

The City is in business to provide services to the citizens, businesses, and visitors of the community. It does that through hiring qualified employees who lend their skills and talents to various positions within the organization. Without those individuals, the City would cease to provide adequate utilities, safety, and other essential services and process the necessary functions to keep those systems in place. Employees expect a compensation system that pays a competitive wage for the skills, education, and responsibilities of the position, and the City is in close proximity to communities and organizations that lead the market's wages. In order to be competitive for retention of existing personnel and have successful recruitment efforts to replace future turnover, the City needs to be highly competitive with the targeted comparables to allow Smithville to be an employer of choice.

The City values its quality services and sets high expectations of that service to its constituents. In order for the City of Smithville to maintain a competitive edge with recruitment and retention, it is recommended the City establish its compensation philosophy to establish a compensation system that is based on average market wages in the City's highly competitive labor markets. Therefore, it is recommended the City establish its compensation philosophy that is based on average market wages.

## **Recommended Salary Schedule**

The recommended 2022 Compensation System continues to be a range system, provided as Appendix A. There are 13 Pay Grades. There is a 15% range between the Minimum and Market Point. The total spread from Minimum to Maximum is 40%, except for Pay Grade 65. There is 5%-15% between pay grades. The Schedule has been developed around the Market rate of the Schedule, which is set at average Market. The Schedule does have some overlap in ranks in some occupations, which is common. The recommended Salary Schedule, however, will help minimize Compression and allows for growth of positions into the future.

### **Department Directors**

Pay Grade 65 is used for all department director positions. This Pay Grade is comprised of a Minimum Rate and Maximum Rate. Notably, this range does not have a Market Rate listed. The positions within this pay grade have some variation to the average market rate, but all these positions make up the senior leadership team of the City, and as such, are recognized and compensated equitably based upon the leadership and level of responsibility each position provides to the organization and placed on the same pay grade. This pay grade is representative of the market, but a broader range is needed for retention, and was set at 50%.

## **Position Placement**

Placement onto the respective Salary Schedule is based upon several criteria:

- Point factor system
- Market analysis
- Compression analysis
- Internal equity

After considering all these elements, placement of some positions on the Salary Schedules have changed, with some positions now being placed in lower or higher pay grades than on the previous Schedule. This is not an indication that any given position is more or less important. Similarly, this is not a “reclassification” process, where a position is being evaluated on changes in responsibility, authority, or decision making that may place the position in a higher or lower pay grade, etc. This process is a complete reset of the Compensation System. This is sometimes difficult for employees, because they look only at where their position is placed on the Schedule and compare themselves to positions that have been placed higher. When this occurs, employees begin to compare their perception of the value of positions within the organization, and do not know, or disregard, the factors the Consultants considered when placing all the positions onto the Schedule.

## **Employee Placement**

For purposes of implementation, employees were placed to the Minimum of the Pay Range if under the new Minimum Rate, with a guaranteed adjustment of at least 3%. Employees already within the Range have no implementation changes, although a 3% increase for 2022 is recommended. The City is recommended to continue its budgeted merit increases in May 2022. Implementation of this new system is separate from the merit increases.

When market ranges are significantly adjusted to meet changes within the market, employees who are under the Minimum Rate are moved to the new established Minimum. What does not always occur is movement of incumbents within the Range, so newer employees are close in rate of pay to more tenured employees within the Range. This is called in-range compression. During an implementation, this type of placement is challenging, as employees feel that with tenure in a position, they should be placed higher within the Salary Range. However, because the City is continuing with its performance management system, which will allow employees to continue to progress through their respective pay range, performance by the employee will rectify this over a period of time.

## **Position Considerations**

### **Police Lateral Hires**

The Police Officer range has been broken down into a grid system to accommodate hiring experienced officers based on years in law enforcement and education obtained. The City can now use this grid to develop a procedure for lateral hires, to allow these experienced police officers to be hired over the minimum of the Police Officer range. It is recommended a hiring procedure such as this be transparent within the organization so current Officers understand what situations would allow a lateral transfer to enter the organization above the current minimum of the salary range.

### **Position Levels**

Clarification of the levels of positions within Public Works, Parks, and the Police Department were made with the assistance of the Department Directors. Overall, the City clarified classifications and levels, and each level and series of positions has been developed as a pathway of professional growth and development of staff for promotable opportunities. In other circumstances, levels that were used as a mechanism for higher pay only were collapsed but the salary range was adjusted to the market, so no employee is negatively impacted. Job descriptions will need to be updated to reflect these changes.

### **Future Positions**

Within the course of the Study, additional positions were identified by City Administration and Department Directors that were not included in the market analysis but may be needed in the foreseeable future. The Salary Schedule has been developed to accommodate the City's future position needs without the necessity to adjust the new compensation structure.

## **General Operational Guidelines**

### **Maintenance of Salary Schedule**

It is important for the City to have a standardized procedure to adjust the Salary Schedules for consistency and for budgetary forecasting. It is the Consultant's recommendation that on a set date each year, the Salary Schedules be increased by the national Consumer Price Index – Urban (CPI -U) percentage or by a local economic indicator, if preferred. For example, since budgeting is done at approximately the same time each year, the City should establish a specific month in which to capture the average of the previous twelve (12) months of the selected economic indicator for a recommended adjustment. The City will still maintain control if conditions and finances fluctuate in a specific year. It is recommended the adjustment to the Salary Schedules be done on a date other than salary increases, so



employees understand there are two (2) separate adjustments per year. The following are the types of increases recommended:

### **Salary Schedule Adjustments**

Annually, the Salary Schedules should be adjusted for economic reasons. Without maintaining the Salary Schedule, it will fall below the Market and the City will end up spending dollars to get it updated. Annual Salary Schedule adjustments will keep a competitive, fair, and fiscally sound Salary Schedule. It is important the City also budget dollars for increases to the overall Schedule each year. There may be years when the economy cannot support such increases; however, that should be the exception, not the norm.

### **Annual Performance Adjustments**

The Salary Schedule is based on a premise of annual salary adjustments. Each year, employees can receive the salary increase set by City Administration with acceptable performance unless an employee is on a Performance Improvement Plan.

### **Market Adjustments**

Each budget cycle, Administration should evaluate the placement of current employees. If there is a shift in the market for a specific position, a Market Adjustment to those incumbent employees could be given, which would be an adjustment into the range. The City is recommended to exercise caution in its use however, because this option is not intended to be a means to simply increase the wages of any employee. In order for the City to offer this, there should be written parameters in place, because this should only be used in a controlled manner for positions that have been verified by City Administration as having challenges with recruitment/retention based on market fluctuations. These parameters would include:

1. A documented and verified review of local comparables by City Administration or a third-party consultant.
2. A consistent pattern of recruitment/retention concerns with isolated classifications, as verified by City Administration.

### **Compensation Policy Recommendations**

With the updated Salary Schedule, the City now has a competitive Compensation System for recruitment and retention purposes. In order to minimize employment claims, it is the recommendation of the Consultants to consistently utilize structured guidelines when determining compensation. Administration is recommended to follow these established guidelines and update the City's compensation policy accordingly.

## Market Updates

One of the main concerns in any Salary Schedule is the ability to keep it current. Often, an organization spends time and resources to review and reevaluate their Salary Schedule, resulting in providing employees or Pay Grades significant increases because either the positions or the Schedule is not in line with the external market. A Salary Schedule has a typical life span of three (3) to five (5) years, at which time market conditions typically necessitate a review. The City can strive to prolong the life of their Schedule if it continues to commit to maintaining its competitiveness with the external market by ensuring market updates occur. Given the current competitive market, the City is recommended to initially conduct a market update in three (3) years. In addition, maintaining metrics should help indicate if an external market update is required even sooner.

## Benefit Analysis

In addition to compensation, health insurance and paid time benefits were reviewed. It should be noted any recommendations contained in the Benefit Analysis will take time to be evaluated by City Administration and a benefits broker, and most cannot be quickly changed. The benefits overview does not directly tie to the compensation recommendations, but rather, allows the City Administration to consider the City's long term benefits strategy perspective for total compensation.

## Health Insurance

### Plan Design Overview

As of 12/1/2021, the City offers four (4) health plan designs through United Health Care. The health plans are summarized as follows:

**Table 3: 2022 Health Plan Summary**

		DEDUCTIBLE AMOUNTS	OUT OF POCKET MAXIMUMS	EMPLOYER CONTRIBUTION* (S/F)
Plan 1	\$5000 QHDHP	\$5,000/\$10,000	\$6,350/\$12,700	100%/91%
Plan 2	\$2800 QHDHP	\$2,800/\$5,600	\$5,600/\$11,200	95%/82%
Plan 3	\$5000 OV	\$5,000/\$10,000	\$6,350/\$12,700	91%/78%
Plan 4	\$2000 PPO	\$2,000/\$4,000	\$6,500/\$13,000	90%/77%

\*HSA contributions excluded

The City offers multiple plan options to allow employees the opportunity to select from the coverage that best matches their personal situation. This is a positive change for the employees. Most organizations have been forced to add higher deductibles and coinsurance

limits onto health plans to push costs back onto the end users/consumers, which is now a standard across the nation. Smithville is no exception. In addition, the City introduced a Health Savings Account (HSA) model. An HSA is a mechanism for employees to build an account for medical expenses for retirement and can accept both employee and employer contributions, which makes this a very favorable plan. The HSA account is portable, meaning it goes with the employee upon separation from employment. Employees do not always know what an HSA is, and how it benefits them, so education is a key component to driving effective health care consumerism. The City should be commended for its 2022 health insurance program changes, which provide more option for employees.

### **Premiums**

It is extremely difficult to compare health insurance, as the number of plans and the plan designs are significantly different among organizations. What can be compared is the amount the employee contributes toward the cost of that insurance. As the City is aware, the cost of health insurance is a large budget item for any organization. Health insurance is also often the single largest benefit looked at by potential new hires with the City, so a review of employee contributions to this benefit is imperative for offering a comprehensive benefit package.

The Consultants compared Smithville's 2021 health plan with the comparable organizations 2021 health plan for a more accurate reflection of insurance in this geographical region and have provided this information to City Administration. In summary, the Consultants found that in 2021, Smithville was among the middle of the comparable market in terms of premium only, although the City is competing against some comparable organizations that offer 100% employer covered plans, and this should not be ignored. The 2022 changes put the City in a much more competitive placement in the market based on premiums contributions, and this should be maintained as much as possible going forward. The City's working relationship with a new insurance broker to develop a benefit strategy to focus on cost containment while providing the best value to participants is positive and should be commended. The new plan options introduced for 2022 are an example of this and when combined with the new salary ranges, this will help the City's overall competitiveness in the market.

### **Time Off Benefits**

Work-life balance, flexibility, and paid time-off topics are becoming more important to the total compensation package, so the Consultants explored adjusting the City's entire paid time program to shift away from traditional vacation/sick leave programs to a more flexible program called Paid Time-Off (PTO). PTO is a single bank of time-off, which is then used for sick, vacation, and bereavement time, instead of having different banks of time for different purposes. Generally, PTO has a larger overall rate than vacation, but less than vacation and

sick time combined as a tradeoff for the increased flexibility provided under a PTO program, and there is an overall payout on the benefit. The benefit has administrative ease, simplification, and new flexibility for employees, which makes it an ideal benefit, although it is not widely administered in the public sector.

When developing what the City's PTO program could look like, it became apparent that the City could have employees with high balances of PTO and no ability to use the hours in a few years, given the departments are small, and there is very little staffing overlap. These payments need to be recorded as liabilities on the City's financial statements, and the City does not have unlimited dollars to accomplish this. Because the City needs very minimal modifications to the current vacation/sick/leave programs, it was determined that recommending minimal adjustments to the current traditional plans would be more advantageous to the City rather than transitioning to PTO at this time.

### **Sick Time**

The City accumulates sick time at the equivalent rate of 4 hours per pay period, or 13 days per year, to a maximum of 1,000 hours, which was similar to the comparable information provided. A limited amount of time can be used annually for family members, and the City also has a Shared Leave Policy for catastrophic events for those who are in need of additional leave. There is not payout of sick time at time of separation. No recommendations are necessary for Sick Time.

### **Holiday**

The City currently has ten (10) observed Holidays. Participating comparable organizations reported a range of holidays/personal days between 9 days – 12 days, with one outlier at 14-days. The City is comparable with the average market regarding observed holidays. The City does designate a holiday as an 8-hour benefit, which may be problematic for altered work schedules. The City may wish to recognize the observed holiday based on the regularly scheduled shift, which may be as much as 10-12 hours depending on the position, so it is equivalent to a scheduled workday.

In addition, the City may wish to introduce a floating holiday for employees for use during each calendar year. There are some holidays which are not observed by the City but may be very important to an employee. Providing a floating holiday will allow employees to request paid time when their religious holiday or traditional practices do not match those of the City.

## **Vacation**

The City's vacation schedule consists of three (3) levels of accrual that increase based upon years of service. The current vacation schedule is as follows:

**Table 4: Current Vacation Schedule**

LEVEL	SERVICE LEVEL	PAY PERIOD ACCRUAL	ANNUAL ACCRUAL	MAXIMUM HOURS ON THE BOOKS	MAXIMUM DAYS ON THE BOOKS
1	Until 5 <sup>th</sup> anniversary	4.0	104 hours	156 hours	19.5
2	Until 10 <sup>th</sup> Anniversary	5.0	130 hours	195 hours	24.38
3	After 10 <sup>th</sup> Anniversary	6.0	156 hours	234 hours	29.25

Based on reporting municipalities, the City's vacation is very competitive at time of hire. Comparable organizations reported entrance accruals between 40-104 hours as compared to the City's 104 hours. However, the City's vacation schedule appears to fall behind the comparable organizations as years of service progresses. Of the vacation schedules provided, all organizations provide for a maximum annual vacation accrual of 160-200 hours (with two reporting between 220-240 hours), which was reported to occur between the 11<sup>th</sup>-25<sup>th</sup> year of service. Although the City maximizes their vacation accrual at the 11<sup>th</sup> year, which is earlier than most, it does not accrue as much long term. This would indicate the City's vacation schedule is behind in the market and should be restructured for a higher maximum. The following is the recommended vacation schedule:

**Table 5: Recommended Vacation Schedule**

LEVEL	SERVICE LEVEL	PAY PERIOD ACCRUAL	ANNUAL ACCRUAL	MAXIMUM HOURS ON THE BOOKS	MAXIMUM DAYS ON THE BOOKS
1	Hire - 5	4.00	104 hours	156 hours	19.5
2	6-10	5.23	136 hours	204 hours	25.5
3	11-15	6.46	168 hours	252 hours	31.5
4	16+	7.69	200 hours	300 hours	37.5

## **Related Vacation Policies**

Employee feedback during the Study did bring forward some difficulty with the use of vacation, so the current maximum hours allowed is problematic for individual employees. It must be acknowledged that 2020 and 2021 have been exceptionally challenging years for employees and employers both with COVID and re-establishing a stable workforce for operations.

It is customary for an employer to impose a maximum number of hours, and although this data was not reported by the comparable organizations, the Consultants have an understanding of vacation benefits throughout the nation and does not find the City's current limit of one and one-half times the annual accrual to be unreasonable. Higher vacation maximums may exist (every employer approaches this differently) but often, higher maximums are met with a formula payout that includes a percentage of hours or percentage of wage. At this time, the City does not need to consider altering their maximum. With that said, there are two vacation policy options to consider.

### **Mandatory Vacation**

Vacation is an employer provided paid time-off benefit that allows employees to have uninterrupted time away from work and allow themselves the opportunity to "recharge." For any position, there is importance to time away from work. Some of these reasons are as follows:

1. Improved productivity. When burnout starts, even the simplest of tasks becomes a challenge, and we lose some of our drive/motivation.
2. Better balance between work and personal life. When you're chronically overworked, you can start to lose your sense of self. Hobbies and interests fall to the wayside as you focus all of your energy on your career. Taking time away from work gives you a chance to revive what makes you happy.
3. Improved focus. No matter how much you love your job, doing the same thing day in and day out can wear on anyone. Taking time away gives you the chance to refocus on your goals and gain a fresh perspective.
4. Better relationships. While it's important to focus on your career, you also need to work on your relationships or the important people in your life will start feeling neglected.
5. Better health. According to the American Psychological Association, vacations work to reduce stress by removing people from the activities and environment that they associate with stress and anxiety.

When one adds the factors that some City positions put their lives in jeopardy and respond to and work with stressors most citizens don't experience, ensuring they have support and time away from work is even more critical. Given the high level of expectations in this organization, allowing and encouraging a time-off benefit that has been earned is even more important.

City Administration will need to analyze this option further and consider any exceptions that may also be necessary.

### **Buy-Back Program**

The City could also consider an annual or bi-annual opportunity to buy back vacation if employees or the City are faced with extraordinary circumstances and are unable to use the time. This will allow the employees to receive the financial benefits if they are unable to use the time. City Administration will need to analyze this option further and consider any budgetary impacts this option may have.

### **Payout Provisions**

Currently, the City's payout provision is in the form of cash. This payment is then considered taxable to the employee, and the City pays related employment taxes on these amounts. Further, these payments need to be recorded as liabilities on the City's financial statements. The City could consider enhancing the payout provisions in a way that will assist employees with their future health care needs since the main reason employees choose not to retire is because they financially are not able to or cannot afford to continue health care coverage. These payouts could be developed to create a post-employment medical trust for the employee in which deposits are tax-free for both the employee and employer, is not considered income to the employee, and is to be used for medical expenses by the employee/qualified beneficiaries.

## Appendix A: Recommended Salary Schedule

Pay Grade	Recommended Title	Department	SALARY RANGE		
			Minimum	Market	Maximum
5			\$15.00	\$17.25	\$21.00
			\$31,200.00	\$35,880.00	\$43,680.00
10			\$16.75	\$19.26	\$23.45
			\$34,840.00	\$40,060.80	\$48,776.00
	Maintenance Worker I - Parks	Parks and Recreation			
	Maintenance Worker I - Public Works	PW			
	Administrative Assistant I - Public Works	PW			
15			\$18.09	\$20.80	\$25.33
			\$37,627.20	\$43,264.00	\$52,686.40
	Permit Technician	Development			
	Finance Specialist I	Finance			
	Administrative Assistant II- Utilities	PW			
	O&M Technician	PW			
	Plant Operator I	PW			
20			\$18.99	\$21.84	\$26.59
			\$39,499.20	\$45,427.20	\$55,307.20
	Administrative Assistant III/Prosecutor Assistant	Police			
	Maintenance Worker II - Parks	Parks and Recreation			
	Maintenance Worker II- Public Works	PW			
	Plant Operator II	PW			
	Technician/Relief Operator	PW			
25			\$19.94	\$22.93	\$27.92
			\$41,475.20	\$47,694.40	\$58,073.60
	Police Recruit	Police			
30			\$21.14	\$24.31	\$29.60
			\$43,971.20	\$50,564.80	\$61,568.00
	Code Inspector I	Development			
	Finance Specialist II	Finance			
35			\$22.41	\$25.77	\$31.37
			\$46,612.80	\$53,601.60	\$65,249.60
	Police Officer	Police			
	Police Officer	Police			
	Building Inspector I	Development			
	Code Inspector II	Development			
	Plant Operator III	PW			
	Crew Leader -Public Works	PW			
	Crew Leader -Parks	Parks and Recreation			
	Engineering Technician I	PW			
40			\$23.75	\$27.31	\$33.25
			\$49,400.00	\$56,804.80	\$69,160.00
	Building Inspector II	Development			
	Finance Analyst	Finance			
	Detective	Police			
	Management Analyst	PW			



45			<b>\$26.13</b>	<b>\$30.05</b>	<b>\$36.58</b>
	Building Inspector III	Development	\$54,350.40	\$62,504.00	\$76,086.40
	Recreation Manager	Parks and Recreation			
	Engineering Technician II	PW			
50			<b>\$27.70</b>	<b>\$31.86</b>	<b>\$38.78</b>
	Police Sergeant	Police	\$57,616.00	\$66,268.80	\$80,662.40
	Water Treatment Plant Manager	PW			
	Utilities Operations Manager	PW			
55			<b>\$30.47</b>	<b>\$35.04</b>	<b>\$42.66</b>
	Streets Superintendent	PW	\$63,377.60	\$72,883.20	\$88,732.80
60			<b>\$35.04</b>	<b>\$40.30</b>	<b>\$49.06</b>
	Police Captain	Police	\$72,883.20	\$83,824.00	\$102,044.80
	Utilities Superintendent	PW			
65			<b>\$40.30</b>		<b>\$60.45</b>
	Assistant City Administrator	Administration	\$83,824.00		\$125,736.00
	Development Director	Development			
	Finance Director	Finance			
	Parks and Recreation Director	Parks and Recreation			
	Police Chief	Police			
	Public Works Director	PW			

## Appendix B: Definitions

The following are definitions that helped guide the development of the Compensation System for the City of Smithville.

**Benchmark Position:** A job that is commonly found and defined, used to make pay comparisons, either within the organization or to comparable jobs outside the organization.

**Classifications:** Job titles.

**Compensation System:** A system developed to compensate employees. This system includes a balance between internal equity and external competitiveness.

**Compensation Data:** Data derived from information regarding the salary range and the rate of pay of the incumbent(s) holding a benchmark position of the identified labor market.

**Comp Ratio:** The ratio of an actual pay range to the established position point (or average market rate). The Comp Ratio is used to measure and monitor an individual's actual rate of pay to the Position Point of the established pay range.

**Compression:** Pay differentials too small to be considered equitable. The term may apply to differences between (1) the pay of supervisors and subordinates; (2) the pay of experienced and newly hired personnel of the same job; and (3) pay range midpoints in successive job grades or related grades across pay structures.

**CPI-U:** Consumer Price Index – Urban: A measure of the average change over time in the prices paid by urban consumers for a market of consumer goods and services. It reflects the spending pattern for three population groups: all urban consumers, urban wage earners, and clerical workers. This group represents approximately 87% of the total U.S. population.

**Demotion:** The (re)assignment of an employee to a position in a lower pay grade or range in the organization's salary structure.

**Labor Market:** A location where labor is exchanged for wages. These locations are identified and defined by a combination of the following factors: geography; industry; education, experience and licensing or certification required; and job responsibilities.

**Market Data:** The technique of creating the financial value of a position based on the "going rate" for benchmark positions in the relevant labor markets.

**Minimum Salary Range (Minimum):** The minimum amount of compensation the organization has deemed appropriate for a position.

**Maximum Salary Range (Maximum):** The highest amount of compensation the organization has deemed appropriate for a position.

**Market Average:** Employee pay based upon the 'average' market rate; or the 'average' prevailing wage rate in the external market.

**Market Rate (Market):** The organization's best estimate of the wage rate that is prevailing in the external market for a given position.

**Market Average Range:** A pay range in which the minimum and maximum of the range is established around the Average Market Rate.

**Pay Grade:** The grade, or placement of a position, within the salary structure.

**Pay Grade Evaluation:** The (re)assignment of a job to a higher or lower pay grade or pay range in the salary structure due to a job content (re)evaluation and/or significant change in the average market rate in the external labor market.

**Performance Increase:** An adjustment to an individual's base pay rate based on performance or some other individual measure.

**Promotion:** The (re)assignment of an employee to a position in a higher pay grade or range in the organization's salary structure.

**Red Circle:** The freezing of a rate of pay until such time that the salary schedule catches up to the pay rate. This is commonly used when implementing a new pay schedule when a tenured employee is above the range maximum or when an employee is placed on a lower pay grade that is not related to performance issues.

**Salary Schedule Adjustment:** An adjustment to the salary structure; the increase or decrease of a pay range, minimum – maximum. This is a method to maintain the salary range in relation to external market conditions.

**Salary Schedule:** The hierarchy of job grades and pay ranges established within an organization.

**Spread:** The range of pay rates, from minimum to maximum.