

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7a

Date of Meeting November 4, 2014

DATE: October 17, 2014
TO: Ted Fick, Chief Executive Officer
FROM: Ann McClellan, Compensation Manager, HRD
SUBJECT: Commission Briefing - 2015 Salary and Benefits Resolution

SYNOPSIS

The Salary and Benefits Resolution is a delegation of authority from the Commission to the Chief Executive Officer to oversee administration of compensation and benefits for the Port's non-represented employees. The resolution includes provisions governing pay practices, salary ranges, and benefits programs. This resolution has historically been updated annually. When reviewing the current Salary and Benefits Resolution to determine changes needed for the coming year's resolution, staff reviews changes that occurred over the past year that impact the programs included in the resolution.

No major changes to the Salary and Benefits Resolution for 2015 are proposed, and the changes that are proposed are consistent with changes in past years. We recommend a 2.0% increase to the Port's non-represented salary ranges. This recommendation is consistent with the current market analysis and available market projections. The recommended range adjustment will affect approximately eight employees and have a 2015 cost of about \$5,000.

BACKGROUND

What is the Salary and Benefits Resolution?

The Salary and Benefits Resolution is a delegation of authority from the Commission to the Chief Executive Officer to direct the administration of compensation and benefits for the Port's non-represented employees. Compensation and benefits are major components of the Port's Total Rewards package, which is important to retaining, engaging, and attracting skilled employees committed to helping the Port achieve its mission, goals, and business objectives. The resolution covers approximately 960 employees, or 53% of the Port's workforce.

What does the Salary and Benefits Resolution Cover?

The Salary and Benefits Resolution authorizes the Port to provide medical and dental, time off, and other benefits to employees, and it authorizes sharing health care premium costs between the Port and employees. The amount of cost sharing between the Port and employees is determined as part of the annual budget process. The resolution also

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establishes the Pay for Performance (PfP) program as the basis for non-union employees' pay increases, and stipulates that the program will be administered under Port Policy HR-21, Salary Administration. The Port's PfP program is performance, or merit-based, and employee increases are linked to their performance appraisals. Non-union employees do not receive any automatic cost of living adjustments (COLAs) or step increases. The resolution further stipulates that funding for PfP will be established by the Port's budget process and that the Human Resources and Development (HRD) department will implement the program.

The resolution also includes the salary range structure, which is a listing of each of the Port's salary ranges identified by a pay grade (number) along with the minimum, middle point, and maximum pay for jobs assigned to each pay grade. Increases to the Port's salary ranges are based on how the overall range structure compares to market and the overall local pay changes expected for the coming year. Employee pay can fall anywhere within the range and increases to the salary range structure do not result in any automatic pay increases unless an employee's pay is less than the new minimum of the range following a range structure increase. The cost of below-minimum adjustments resulting from salary range structure increases is generally negligible and absorbed in the budget at the department level where necessary.

The Port's merit-based PfP program and market-based structure adjustments are different from the pay programs in place at many public employers. Most public employers utilize a step-in-grade program where employees' pay is based on a pay step within their range, and they receive automatic increases from one step to the next based on tenure until their pay reaches the top step, or maximum, of their range. Along with the step-in-grade program, most public employers grant COLA increases to employees. COLA increases are typically based on changes to the Consumer Price Index (CPI) and represent a change to the employers' entire pay structure; all grades, ranges, and steps are adjusted by the COLA amount. When the pay structure adjusts, the employees' pay adjusts along with the structure by the COLA amount.

What are changes to the Salary and Benefits Resolution based on?

Many factors are reviewed and considered before updates to the Salary and Benefits Resolution are recommended. These can include:

- changes to laws governing employee benefits;
- updates to Port pay and benefits policies;
- estimates provided to the Port budgeting process;
- current market pay levels;
- anticipated pay increases at local and regional, public and private employers;
- known and estimated COLA and stipulated increases included in the Port's collective bargaining agreements;
- input, as well as questions, from managers and employees about the current resolution; and,

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- how last year's anticipated market pay changes compare to actual pay changes this year.

While the resolution addresses pay and benefits for non-union employees, policies and other documents also provide comprehensive guidance to HRD staff in administering the Port's pay and benefits programs. Port policies address many provisions of the resolution and address various aspects of the Port's Total Rewards package. The Total Rewards Program document and benefit plan documents also contain program administration details beyond those included in the Salary and Benefits Resolution.

What has happened since November 2013?

When reviewing the current (2014) Salary and Benefits Resolution and determining what changes should be incorporated into the 2015 resolution, it is helpful to look at what is different, or has changed in the past year.

To ensure alignment with the Port's Total Rewards Philosophy, Port staff continues to analyze how well our plans and programs align with the philosophy and address any identified gaps. Pay and benefits programs specified in the Salary and Benefits resolution are well aligned with the Total Rewards philosophy with the exception of health plans where changes through 2014 have made significant strides in aligning these plans with the philosophy. The Healthcare Strategy that was developed in 2013 continues to guide changes to health plans and increase alignment to the Total Rewards Philosophy.

Benefits –Over the past few years the Port has taken steps to contain health care costs, including implementing a wellness program, becoming self-insured, sharing premium costs with employees, and increasing the employee cost sharing for services received. In 2014 one medical plan option was eliminated and a qualified High Deductible Health Plan was introduced. Consistent with the Healthcare Strategy, employee cost sharing increased, and a very slight dental plan premium sharing was introduced. Additionally, dental plan annual maximums for employees and their dependents were increased. These changes did not have a direct impact on the Salary and Benefits Resolution, but are an important component of the overall Total Rewards package. The changes to health plans over the past several years have contributed to containing Port health care cost increases and the 2014 increase to Port costs was again less than 2%.

Salary ranges – A year ago we recommended a 2% increase to the non-represented salary ranges. At that time our market analysis indicated that our non-represented salary range structure was 0.2% below market. Additionally, the data from published salary surveys suggested a 2.9% average pay increase for this year. The *actual* average pay increase reported in the surveys for this year is very slightly less at 2.8%.

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SALARY AND BENEFITS RESOLUTION CHANGES FROM 2014

Considerations for 2015

Changes to the Salary and Benefits Resolution take into account the varied and distinct nature of the Port's business, the work employees perform, and aspects of the business environment that may impact the Port's business or the labor market for employees. For 2015, an economy that is showing varying signs of recovery is a consideration. In addition, timelines and requirements of the Affordable Care Act continue to change and evolve, leading to challenges in administering the Port-sponsored healthcare plans. The Port established and introduced a multi-year Healthcare Strategy in 2013 designed to bring the Port sponsored health plans into closer alignment with the Total Rewards Philosophy and address the implications of the Affordable Care Act. This strategy also makes the direction for the Port's health plans more clear.

In 2015 there will be few changes to the Port-sponsored health plans. Out-of-pocket maximums will increase for the Cigna Deductible and High Deductible Health Plans and employee premium sharing will increase for the Cigna Deductible, Group Health, and most Dental options. These increases are consistent with the Healthcare Strategy and Total Rewards Philosophy and will move these plans closer to market while still providing health benefits options that are slightly higher than market. In July of 2015, we anticipate increases to both the employee and the employer contribution to the Public Employees Retirement System (PERS).

The changes to benefits plans are incorporated into the Port budget, and are considerations for the Salary and Benefits Resolution as they impact the plans and programs the Resolution authorizes.

Standard Changes

Each year there are some changes to the Salary and Benefits Resolution that are necessary to keep it current or increase clarity. For 2015 these standard changes will include:

- an updated holiday schedule for 2015;
- an updated Graded Salary Range Structure that reflects a proposed 2% range adjustment;
- minor wording changes to add clarity to some sections.

Salary Ranges

HRD staff reviews and analyzes updated pay data from published salary surveys each year to assess how well Port non-represented salary ranges compare to market. We compare average actual market pay for a job to the middle point of the job's salary range to determine how well the pay range for the job compares to market. We use data from all industry (public and private) employers unless a job is unique to the public sector. We

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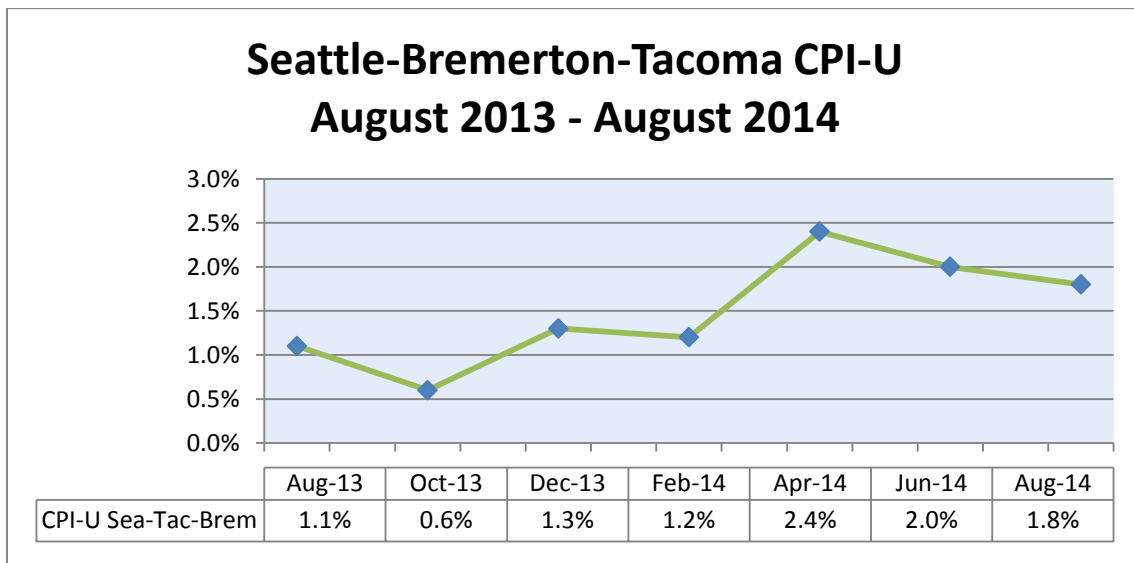
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use all industry data because the Port recruits employees from, and loses employees to, employers in a variety of industries. Published pay data is combined with information about anticipated pay changes from other employers to inform recommended salary range changes.

For 2015, we utilized data from 11 published salary surveys to update market data on 55% of the Port's non-represented jobs covering approximately 70% of non-union employees. Salary surveys include data on jobs that are considered "benchmark" jobs; jobs that are common and exist at many employers. This year's market analysis indicates that the non-represented range structure, overall, is 0.9% below market. Salary planning surveys together with pay increase projections contained in salary surveys are reporting an anticipated 2.9% average increase for 2015.

Data we gather from local public employers regarding their anticipated pay changes also helps inform recommended salary range adjustments. We have requested data from 13 local public employers. Data received to date indicates that COLA increase plans vary considerably and are expected to range from 0 to 2.00% with possible total (COLA plus step or merit) increases to range from 0 to 10.88%.

We also review how pay for employees in the Port's represented jobs is expected to increase when formulating a range adjustment recommendation. For 2015 the majority of the collective bargaining agreements covering Port employees include pay changes that are not yet known because they are based on future CPI changes or the agreements are not yet final. The following chart, while not an indication of future CPI changes, shows how the Seattle-Tacoma-Bremerton Consumer Price Index – All Urban Consumers (CPI-U) has changed over the past two years. This index is the one most commonly used in Port labor agreements.



We will be recommending an increase of 2.0% to the Port's non-represented salary ranges for 2015. Implementing a range adjustment that is a little less than the projected

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average market pay increase is a conservative approach that might lead to retention and hiring challenges if hiring activities in the local labor market increase notably during 2015. There are some skill sets (particularly technical skills including information technology and engineering) that remain in high demand and pay for jobs requiring these skills is expected to continue increasing faster than general industry jobs.

With a 2.0% increase to the salary range structure, we expect about eight employees to have pay rates less than the adjusted range minimum. The estimated cost to adjust pay for these employees to their new range minimum is about \$5,000.

Other Changes

We will also be proposing the following updates to the Salary and Benefits Resolution for 2015:

- An addition to the definition section for “at-will” and “for-cause” designations,
- An update to the list of jobs that are not evaluated with the Port’s job evaluation system,
- Clarifying language about pay and benefits for the Chief Executive Officer,
- Language to clarify pay for overtime eligible employees who work when the clocks change for Daylight Savings Time; and,
- Addition of the Faith or Conscience Days required by a new state law

ATTACHMENTS TO THIS BRIEFING

- PowerPoint presentation
- Draft 2015 Graded Salary Range Structure

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None