

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – STAFF BRIEFING

Item No.

7a

Date of Meeting

November 3, 2009

DATE: November 3, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tammy Woodard, Sr. Manager, Total Compensation

SUBJECT: Briefing – 2010 Salary and Benefit Resolution

SYNOPSIS

The Salary and Benefit Resolution delegates authority from the Commission to the Chief Executive Officer to direct the administration of compensation and benefits for the Port's non-represented employees. The resolution covers approximately 902 employees, or 53% of the workforce. The current total compensation philosophy is to provide a pay and benefits program that is at or slightly above market to support retention and attraction of high-performing staff committed to achieving the Port's mission. The resolution covers only employees who are not represented by a collective bargaining agreement (CBA) although provisions of current CBAs are considered and do inform changes to the resolution.

While changes to the resolution vary from year to year, the 2010 resolution is virtually unchanged from 2009 with the exception of an added section specifying eligibility of retiring employees for health and life insurance following their retirement.

The Salary and Benefit Resolution authorizes the Port to provide medical and dental insurance benefits for non-represented employees and permits sharing premium costs with employees. In an effort to contain increasing benefit costs, the Port will implement a significant plan design change and require premium sharing by non-represented employees. Some employees represented by a labor union are also covered by the Port's medical plan and will begin premium sharing in 2010 as well. Employees who select Group Health medical coverage will also be required to pay higher co-pays in 2010. These changes follow implementation in 2009 of co-insurance for employees covered by the Port's Premera medical plans. The changes to employee out-of-pocket health care costs are part of the Port's total compensation program, and are programmatic changes that have been factored into the 2010 budget. Retirees will realize a considerable increase to their health insurance premiums in 2010 as the Port eliminates premium subsidies for retirees.

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The resolution also establishes the Pay for Performance (PfP) program as the manner for granting pay increases to non-represented employees and stipulates that the program will be administered under Port Policy HR-21, Salary Administration. The Port's Pay for Performance program is a merit-based program and pay increases are tied to employee's performance plans and appraisals. There are no automatic Cost of Living Adjustment (COLA) or step increases. The resolution further specifies that the pay for performance amount will be established by the budget process and implemented by Human Resources and Development (HRD). Funding for the PfP program is included in the Port budget. The 2010 budget includes approximately \$2.2 million to fund an average 3.75% PfP increase. The average PfP increase takes into account other employers' average anticipated merit-based increases, total expected increases (COLA plus step increases) at other public employers, and known or anticipated increases for employees covered by the Port's collective bargaining agreements.

Unlike the Port's merit-based approach, most public employers utilize a step-in-grade pay program where employees receive automatic pay increases from one step in their salary range to the next until their pay reaches the top step, or maximum, of their range. Other public employers also provide COLAs which increase their salary range structure and employees all receive an equivalent pay increase. These increases are tied to changes in the consumer price index.

The resolution contains the salary range structure which is a listing of each of the Port's salary ranges identified by a grade along with the minimum, middle point, and maximum pay for each grade. Increases to the Port's salary ranges, which do not contain specific steps, are based on how the range structure currently compares to market as well as overall anticipated pay changes in the local labor market. 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. Below minimum adjustments resulting from salary range structure increases are generally minimal, less than \$20,000, and absorbed in the budget at the department level where necessary. We are not recommending an increase to non-represented salary ranges for 2010.

In 2009 nearly all non-represented Port employees took 10 mandatory furlough days. Represented employees also took 10 furlough days, delayed increases, or gave up an equivalent amount of pay in some way. Ten furlough days equals about 3.8% of an employees' annual pay. 2009 furloughs resulted in a savings of approximately \$2.4 million in salaries for non-represented employees. There are no plans for furloughs in 2010 though they can be re-instituted by the CEO as a cost saving measure if necessary. Our experience this year suggests that furloughs reduce productivity by more than the hours employees do not work. This is because other employees must help pick up the workload of employees on furlough and because exempt employees are limited in the number of hours they are permitted to work during a furlough week. An exempt employee may average 38 to 45 hours during a typical work week. However, in order to comply with federal law, they are limited to working only 30 hours during a week containing a furlough day.

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Additionally, for 2010 the Port's total payroll costs are being reduced by layoffs and voluntary separations. 94 employees will leave the Port before the end of 2009 as a result of voluntary separation or layoff and 67 positions will be eliminated from next year's budget.

BACKGROUND

Developing Recommendations

Recommendations for the Salary and Benefit Resolution are based on many factors. These can include

- changes to laws governing employee benefits,
- updates to Port policies that govern employee pay or benefits,
- estimates made in the spring for Port budget planning purposes,
- market pay levels,
- pay increase plans of local public employers,
- anticipated performance increases of general industry employers
- input, as well as questions, from managers and employees throughout the year, and
- known as well as estimated cost-of-living adjustments (COLA) and stipulated increases contained in the Port's collective bargaining agreements.

While the resolution addresses pay and benefits for non-represented employees, policies and other documents also provide comprehensive guidance to HRD staff in administering these programs. Policies including Employee Performance Planning and Appraisal, Leave, Employment Practices, and Salary Administration for Salaried Employees expand on the provisions of the resolution and address various aspects of pay and benefits. The Pay Program also contains details beyond those included in the Salary and Benefit Resolution to guide pay administration. Benefit plan documents provide additional information on the Port's benefit programs.

Unique Aspects of the Port

The port is a public employer operating and overseeing major transportation hubs and industrial facilities (the airport and seaport) and is thus different from other public employers that deliver services to the citizens who support it. The Port also manages a large construction program as part of its activities and is a major economic engine for King County and the region because of its role in preserving and creating economic opportunities and family-wage jobs. In addition to being a government the Port is a business, and its most valuable asset is its skilled and motivated work force.

Given the nature of the aviation and seaport businesses, a significant number of the Port's non-represented employees perform highly technical and often specialized work. The Port's business requires a variety of engineers, including specialists in runway pavements and designing piers,

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and environmental specialists with the knowledge and ability to work collaboratively with other agencies and stakeholders on major remediation projects. The Port requires employees skilled in operating a major international airport and a seaport with both container and cruise businesses, as well as writing and overseeing the many grants the Port receives. These skill sets are not typical of other local governments in the area. Port employees also perform work that is more general in areas like marketing, real estate management, construction management, legal, accounting, and public affairs. These employees are also somewhat specialized because of their knowledge of global aviation and/or maritime sectors, or of industrial real estate. More than 100 employees manage the Port's information and communication technology systems, including various billing systems and the flight display systems at the airport. Even in today's economy, assembling, training, and retaining this broad array of talent is a real challenge.

As stated in the summary, the Port's pay program for non-represented jobs is unique when compared to most public employers. Public employers often have pay structures that include established 'steps' within each pay range and employees pay automatically progresses from one step to another at established time intervals. Steps within a pay range are typically set at determined intervals (e.g. 2.5% or 4%) and employees often receive step increases at the beginning of the year until their pay reaches the top step in the range. When the ranges in these structures are adjusted, generally as a result of COLA increases, all employees receive a pay increase equivalent to the increase in the ranges. COLA increases are in addition to step increases employees receive. Public employers often utilize one pay structure for all their jobs, both represented and non-represented.

In contrast, the Port's non-union (salaried) workforce does not receive COLAs or step increases. Employees are typically hired at a starting pay rate between the minimum and middle point of the range. Their pay progresses through the range based on Pay for Performance increases tied to their performance evaluations. The earned average PfP increase of the Port's non-represented employees is often less than the automatically granted combined COLA and step increases that employees at other public employers receive. The Port's 2009 Pfp increase is currently averaging 5.38%. For 2009 King County employees received 4.88% COLA increases plus step increases of 2.4% to 7.2%. City of Seattle employees received 4.5% COLA increases plus 4% step increases.

Considerations for 2010

The varied and distinctive nature of the Port's airport, seaport and real estate business, together with the work these businesses require, inform recommended changes to the resolution each year. There are also factors unique to specific years that warrant consideration when developing recommended changes to the resolution. For 2010 notable considerations are an increase in employee out-of-pocket health care costs for the second consecutive year and a substantial increase to retiree health care premiums.

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In 2009 the Port implemented *co-insurance* for employees covered by the Port's Premera medical insurance. Note that some represented employees groups have chosen to be covered by the Port's insurance plan and are also affected changes to the Port benefit plans. (There are also two represented employee groups who have recently chosen to leave the Port's health insurance plan.) Co-insurance requires employees to pay 10% of most of their medical costs once their annual deductible is met. Through September, employees are averaging \$316 in co-insurance costs that they did not pay in past years.

In 2010 the Port will implement *premium sharing* for all employees covered by the Port's medical insurance plans. Employees will be paying between 2.2% and 17.2% of their medical insurance premiums. How much each employee will pay is dependent on the medical plan they select, whether they cover dependents, and if they met the 2009 Wellness Rewards Program goal. Employees' premium share will range from \$8.26 to \$263.80 per month.

In addition to premium sharing, employees who select Group Health medical insurance will see increased co-pays in 2010. Co-insurance was not implemented this year for employees with Group Health coverage. Next year Group Health office visit co-pays will increase by \$10 and name brand prescription co-pays will increase by \$15.

By making these changes that shift some of the cost of Port's medical plan to employees, the Port's medical insurance expense will remain at 2009 levels. The Port's health insurance plans will also align more closely with plans provided by other employers.

RECOMMENDATIONS FOR 2010

Summary of Recommendations

Recommendations for 2010 will include

- a few minor changes to align employee definitions with policies and practices and to clarify overtime and shift differential provisions,
- an updated 2010 holiday schedule,
- a reduction to the Paid Time Off (PTO) accumulation limits,
- a new section specifying eligibility of retiring employees for health insurance following their retirement, and
- no adjustment to salary ranges.

BACKGROUND ON RECOMMENDATIONS

Minor Changes

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Each year Human Resources and Development (HRD) staff track questions and comments from managers and employees about information contained in the resolution. HRD staff also continually monitors policies and practices to ensure the Salary and Benefit Resolution remains consistent with policies and practices. Wording changes will be recommended to help align policies and practices with the resolution. They will also add clarity to the overtime and shift differential provisions of the resolution. The resolution will also include the 2010 holiday schedule and a reduced PTO accumulation limit that is consistent with plans implemented along with the PTO program in 1999.

Retiree Medical and Life Insurance

The recommended new section of the resolution describes eligibility requirements for retiree medical and life insurance. These requirements include at least five years of port employment and immediate eligibility to receive a pension from a pension plan that the Port contributed to on behalf of the employee. This new section also specifies that retirees pay the entire cost of their health insurance premiums. Through 2009 the Port has subsidized retiree health insurance premiums. Eliminating the subsidy will increase health insurance premiums for a pre-Medicare retiree and spouse/partner from \$1787 to \$2112 per month; an increase of approximately 18%. For a couple on Medicare, the increase will be from \$687 to \$838 per month, or approximately 22%. As mentioned in briefings on the 2010 budget, eliminating this subsidy will permit the Port to eliminate the Other Post Employment Benefits (OPEB) liability related to the subsidy.

Salary Ranges

HRD staff reviews and analyzes updated pay data from published survey sources each year to assess how well Port non-represented salary ranges compare to market. We compare average actual pay for a job to the middle point of the job's salary range to determine how well a job compares to market. We combine data on all jobs to determine how well our structure of salary ranges compares to market. We use general industry data, which includes both public and private sector data, in most situations since we recruit employees from, and lose them to, employers in a variety of industries. We do use available data specifically from public employers when the work is unique in the public sector. For 2010 we are utilizing data from 16 published salary surveys to update market data on 252 (46%) non-represented jobs. Our market analysis indicates that all non-represented salary ranges together are currently 1.2% below market.

Actual pay data is combined with published data about anticipated pay changes from other employers to help inform recommended salary range changes. This year we are utilizing four salary planning surveys in addition to projection information contained in salary surveys. Our analysis indicates that pay is estimated to increase an average of 2.6% based on merit, or performance, increases in 2010.

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Data we gather from local public employers regarding their anticipated pay changes also helps inform recommended salary range adjustments. We have requested data from eight local public employers. To date we have received the following data indicating that public employees' pay is expected to increase between 5% and 9.2% based on both COLA and step increases.

| | COLA | Step | Total |
|---|------|--------------|--------------|
| King County* | 2% | 2.4% to 7.2% | 4.4% to 9.2% |
| City of Seattle* | 2% | 4% | 6% |
| City of Kent* | 0 | 5% | 5% |
| City of Everett* | 0 | 3% to 9% | 3% to 9% |
| City of Renton* | 0 | 5% | 5% |
| Pierce County | 2.5% | Varies | 2.5%+ |
| Bellevue, Redmond, Federal Way, Port of Tacoma | n/a | n/a | n/a |

**increases may not be final until later this year when approved by each organization's governing body*

We also consider how pay for employees in the Port's represented jobs is expected to increase when formulating a range adjustment recommendation. We expect represented Port employee's pay to increase between 3% and 6% based on provisions of current collective bargaining agreements (CBA). Many CBAs include rates not yet determined for 2010.

We will be recommending that the Port's non-represented ranges remain unchanged for 2010. Maintaining the current range structure through 2010 may present retention and hiring challenges if hiring activities in the local labor market increase substantially before the end of 2010 as increases in hiring activities are often accompanied by an upward pressure on actual pay levels. The current economic outlook, however, does not indicate that job creation and hiring will rebound as quickly as it has after other economic downturns. We need to be aware that some skill sets (e.g. experienced engineers and some accounting specialties) remain in high demand.

CONCLUSION

Changes to Salary and Benefit Resolution for 2010 will be minimal and have only a slight impact on employees. Related programmatic changes will have a much greater impact on employees and retirees. While we are not recommending changes to the salary range structure, pay for non-represented employees is expected to remain fairly competitive with the overall (public and private) labor market as a result of the 3.75% average Pay for Performance increase included in

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the 2010 budget. All changes, those to the resolution as well as the programmatic changes, reflect a conservative approach to pay and benefits for non-represented employees.