PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA **Item No.** 6d

Date of Meeting November 10, 2009

DATE: November 3, 2009

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tammy Woodard, Sr. Manager, Total Compensation

SUBJECT: First Reading of Resolution No. 3633, the 2010 Salary and Benefit Resolution

REQUESTED ACTION:

First Reading of Resolution No. 3633, the 2010 Salary and Benefit Resolution.

SYNOPSIS:

The Salary and Benefit Resolution delegates authority from the Commission to the Chief Executive Officer (CEO) to direct the administration of compensation and benefits for non-represented employees. The purpose of these programs is to ensure that the Port's pay and benefit programs are competitive with the labor market and support retention and attraction of capable staff committed to achieving the Port's mission.

Article II, Section 1, Clause J of the Commission's Bylaws provides for the Commission's approval of the Salary and Benefits Resolution and notes that the Commission delegates "personnel administration" to the CEO. Section 1.4.4. of Resolution No. 3605, as amended, also states that the CEO is responsible for administering Port operations, including "personnel administration (salary, wage and benefit matters…)."

There are very few substantive changes in the 2010 Salary and Benefit Resolution, but related programmatic changes will have a much greater impact on non-represented employees' total compensation. There is no increase to the graded salary range structure (p. 4 of the resolution), as has often been the case in previous years. A new section has been added to document the existing practice of providing medical and life insurance benefits to employees who retire from the Port of Seattle if they meet the eligibility requirements to qualify for retiree medical and life insurance benefits. However, the resolution provides that retirees will be responsible for paying 100% of the retiree medical premiums beginning January 1, 2010. This section also defines the eligibility requirements for Commissioners who can be enrolled in these plans.

Recommendations for 2010 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.

PROPOSED CHANGES:

As noted above, there are very few substantive changes from the 2009 resolution. Most changes are made to clarify sections of the resolution that have generated questions throughout the year. Noteworthy revisions to the resolution include:

III.A. Salary Ranges: We recommend no increase to salary ranges for 2010. At the beginning of the Port's 2010 budget cycle, we recommended a 1.5% salary range increase. However, due to budget constraints, the current economic environment, and how salary ranges currently compare to market no increase is recommended at this time.

Salaries of the Port's non-represented employees fall within a graded salary range structure. These ranges do not tie an employee's pay to a specific step or rate as many other public employers' structures and some of the Port's represented structures do. Rather, the ranges provide the framework for non-represented employees' salaries. Most public employers increase salary ranges based on changes in the Consumer Price Index (CPI) and their employees receive a Cost of Living (COLA) pay increase equal to the range increase. In addition to the COLA increase, many public employers also provide automatic annual step increases. Non-represented employees at the Port earn performance-based pay increases and rarely receive automatic increases.

Each year, the compensation staff reviews and analyzes data from various salary surveys of public and private employers to determine how our pay ranges compare to average, actual market pay rates and also how well our structure of salary ranges compares to market. This analysis is the basis for adjustments to the Port's ranges and is different than the CPI change approach most public employers use. This year, our analysis of the labor market indicates the Port's salary ranges are an average of 1.2% below market. This is not significantly below our target of having salary ranges comparable to market. We will update our analysis at this time next year to determine if adjustments are appropriate for the following year.

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. Not adjusting salary ranges for 2010 may also result in the need for a larger adjustment for 2011 to bring them to market 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.

II.A. Salary Ranges: Exhibit A is attached to the Salary and Benefit Resolution and is a schedule of authorized non-represented job titles. Although Salary Ranges require the approval of Commission or the Chief Executive Officer; amendments to Exhibit A do not require this level of approval. Exhibit A is amended and published quarterly by Human Resources and Development to reflect the outcomes of on-going job evaluation work.

X. ADMINISTRATION OF RETIREE MEDICAL AND RETIREE LIFE BENEFIT PROGRAMS

This new section is being added to document the existing practice of providing medical and life insurance benefits to employees who retire from the Port of Seattle and who meet the eligibility requirements specified in this section. It also provides documentation that retirees will be responsible for paying 100% of the retiree medical premiums beginning January 1, 2010. This section also defines the eligibility requirements for Commissioners who can be enrolled in these plans. Because retirees will be paying the full cost of their coverage, the Port's OPEB liability related to retiree medical benefits will be eliminated.

BACKGROUND:

The Salary and Benefit Resolution allows the CEO 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 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

The 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. In 2010, non-represented employees will pay between 2.2% and 17.2% of their medical insurance premiums. 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. 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 will 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.

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. We compared the current range structure with the market and to overall anticipated pay changes in the local labor market and concluded that no increase is warranted in 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.

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

HOW THE RECOMMENDATIONS ARE DEVELOPED:

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

Unique Aspects of the Port's Workforce

The Port is a public employer operating and overseeing major transportation hubs and industrial facilities (the airport, seaport, Bell Harbor, Fishermen's Terminal). It is a major economic engine for King County and the region. Its mission of advancing trade and commerce, promoting industrial growth, stimulating economic development and creating jobs is somewhat 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. In addition to being a government, the Port is a business. The Port's most valuable asset is its skilled and motivated work force.

Given the nature of the aviation, seaport and real estate 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, 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.

Differences from Other Public Employers

As stated earlier, 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.

We have gathered the following data from other local public employers regarding their anticipated pay changes in 2010. It is important to keep these pay increases in mind as we consider what the Port's PfP program in 2010 should be.

	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	0	5%	5%
Redmond, Federal Way, Port of Tacoma	n/a	n/a	n/a

**increases may not be finalized 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.

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 PfP 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.

OTHER 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, the most 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.

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 shifting 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.

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 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.