

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA – STAFF BRIEFING

Item No.

7b

Date of Meeting

November 1, 2011

DATE: October 25, 2011

TO: Tay Yoshitani, Chief Executive Officer

FROM: Tammy Woodard, Sr. Manager, Total Rewards
David Leon, Benefits Manager
Ann McClellan, Compensation Supervisor

SUBJECT: Briefing – 2012 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 includes provisions governing pay practices, pay ranges and benefit programs. When reviewing the 2011 Salary and Benefits Resolution and determining what changes should be incorporated into the 2012 Resolution, staff reviews what has changed in the past year regarding pay, benefits and other total rewards programs. This year, considerations include the upward trending of the Consumer Price Index, increasing market pay levels, and minor changes to the Port-sponsored health care plans.

Changes to the Salary and Benefits Resolution for 2012 will be minimal and consistent with changes in past years. We will be recommending an increase of 2.0% to the Port's non-represented salary ranges. The projected cost of the recommended range adjustments is about \$10,000. This recommendation is somewhat conservative and consistent with available market projections.

BACKGROUND:

What is the Salary and Benefits Resolution?

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. Compensation and benefits are major components of the Port's total rewards package which is key in retaining, engaging, and attracting skilled employees committed to helping the Port achieve its mission, goals and business objectives. The programs and plans covered by the Salary and Benefits Resolution will be reviewed against the total rewards philosophy in the near future to evaluate how well they align with the philosophy. Plans will be developed for bringing plans and programs into alignment with the philosophy if necessary.

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The resolution covers approximately 867 employees, or 56% of the Port's workforce, those employees not represented by a labor union. The Port's total rewards philosophy is to pay at market and provide a benefits package that is slightly above market. The philosophy supports retaining and attracting high performing employees committed to achieving the Port's mission. Changes to the resolution vary from year to year and like the 2011 resolution, the 2012 resolution will not contain any substantial changes.

The Salary and Benefit Resolution authorizes the Port to provide medical and dental, time off and other benefits to employees, and authorizes premium sharing between the Port and employees. The resolution also establishes the Pay for Performance (PfP) program as the way non-union employees receive pay increases, and stipulates that the program will be administered under Port Policy HR-21, Salary Administration. The Port's Pay for Performance program is merit-based and employee increases are linked to their performance appraisals. Non-union employees do not receive any automatic Cost of Living Adjustments (COLA) or step increases, and the resolution further specifies that the PfP 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.

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, based on changes to the Consumer Price Index (CPI), that increase their salary range structure. In these situations all employees receive a pay increase equivalent to the increase in the range structure, regardless of employee performance.

The resolution contains the salary range structure, which is a listing of each of the Port's salary ranges identified by a grade (number) along with the minimum, middle point, and maximum pay for jobs assigned to each grade. Increases to the Port's salary ranges, which do not contain specific steps, are based on how the overall 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 except when 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.

Recommended changes to the Salary and Benefit Resolution are based on many factors. These can include:

- changes to laws governing employee benefits;
- updates to Port policies that guide employee pay or benefits;
- estimates made in the late spring for Port budget planning purposes;
- current market pay levels;
- anticipated pay increases at local and regional, public and private employers;

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- known and estimated COLA and stipulated increases contained in the Port's collective bargaining agreements;
- input, as well as questions, from managers and employees about the resolution; and
- 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 these programs. Port policies implement the provisions of the resolution and address various aspects of the Port's total rewards package. 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.

What has happened since November 2010

When reviewing the 2011 Salary and Benefits Resolution and determining what changes should be incorporated into the 2012 Resolution is it helpful to look at what is different, or has changed in the past year. There are also two questions that Commissioners asked last year for which HRD staff can now provide answers.

Paid Time Off (PTO) – What percentage of employees receive a cash-out of PTO hours and what percent are at the 480 hours cap?

Last year all PTO cash-outs were coded the same way through the payroll system, regardless of the reason. This made it impossible to determine how many of them were because people left the Port, requested a voluntary cash-out, or received a mandatory cash-out because their balance exceeded the cap. Earlier this year an alternative way of coding PTO cash-outs was developed and we can now identify the reasons for them. The following table provides data on PTO cash-outs from 2010 and since the new coding was implemented earlier this year.

	2010	2011
Percentage of non-union employees receiving a cash out	33%	26%
Portion of cash outs due to termination		13%
Portion of cash outs due to hour limit		14%
Portion of cash outs due to employee request		73%
Total hours cashed out	34,805	17,252
Value of cashed out hours	\$1.6 million	\$819,650

Note: Employees hired after 12/20/1998 have a 480 hour PTO balance limit and excess hours are not automatically cashed out. Employees hired on or before 12/20/1998 have an 800 hour PTO balance limit in 2011 and excess hours are automatically cashed out.

Overtime – What portion of employees received overtime pay?

During 2010, 50% of overtime eligible, non-union, employees received \$223,493 in overtime pay for 5,193 hours. So far this year 61% of overtime eligible, non-union, employees have received \$295,397 in overtime pay for 5,885 hours.

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Educational Reimbursement – The Port’s educational reimbursement program is not addressed in the Salary and Benefits Resolution, however it is a component of the Learning and Development category of the total rewards package and covered by Port Policy HR-12. The following information is provided in response to questions asked by Commissioners following the announcement of changes to the HR-12 policy to Port employees several months ago.

From 2007 through third quarter 2011, 91 employees, mostly non-union, have received a total of \$630,544 in tuition reimbursement for approved programs related to their development plans. This represents an average of \$6,929 per employee. During this period the reimbursement averaged 64% with employees absorbing 36% of their tuition costs as well as the full cost of books, fees, and other costs. About 15% of these employees have also been

Beginning in January 2012 the process for requesting reimbursement under the HR-12 policy will change. Employees will be asked to state their intention to enroll in a college degree program at least a year in advance and have their program approved for reimbursement. Employees will express their intent by completing a form that includes the program, school and expected cost of the program. The form also includes information on additional sources of funding for the program, how the employee expects the course of study to benefit the Port and the employee, and a statement from the employee’s manager endorsing the employee’s participation in the program. The form is signed by department and division directors and then reviewed by a committee that recommends to the HRD Director whether the employee’s request be approved or denied. The HRD Director ultimately approves or denies requests for reimbursement under the guidelines of the HR-12 policy.

When employees are enrolled in a degree program that has been approved, they must submit requests, in advance, to have tuition for specific courses reimbursed. This happens on a regular basis that is determined by the length of the courses at the school the employee enrolls in. When courses that are part of an approved program are approved for reimbursement and successfully completed, the employee requests reimbursement for the eligible portion of the tuition they paid.

We do not have any statistical information on how this benefit influences recruitment or retention. Our Employment Manager indicated that employees ask more about the Port’s support for learning and development generally than specifically about tuition reimbursement during the recruiting process. The Port’s Learning and Leadership Manager consults often with staff on performance and career goals and about the wide range of development activities (including more formal education) that can often boost and support their Port experience and contributions. The high demand for enrolling in our internal programs (e.g., REALeadership and Frontline Supervision) and the willingness of staff to serve as mentors in programs such as MEEM (Mentoring Everyone, Everyone Mentors) are, moreover, powerful testaments to the high regard in which development is held in throughout the organization. Data from the employee involvement survey conducted earlier this year revealed that employees with degrees expressed greater job satisfaction, a greater sense of being appreciated, and a greater sense of feeling that in the long-run the Port will have been a desirable place than did the workforce in general.

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Salary ranges – A year ago we recommended a 2% increase to the 2011 non-represented salary ranges. At that time, our market analysis indicated that our non-represented salary range structure was 1% below market. Additionally, the data from published salary surveys indicated an anticipated 2.9% average pay increase last year. The *actual* average pay increase was very slightly less at 2.8% as reported by the same surveys published this year.

Benefits – Last year we were also preparing to make additional changes to the Port's benefits program. Over the past few years the Port has taken several steps to contain health care costs, including implementing a wellness program and employee cost sharing. In 2011, to contain cost increases and exercise more control over health plan elements, the Port changed the way it funds its most populated medical plans, as well as its dental plans, from fully insured to self-funded.

Switching to a self-funded model has contributed to containing the Port's cost increases associated with our medical and dental plans. Our consultants project a 3% overall increase to our medical and dental plans in 2012, which is significantly lower than the national 9% trend, as well as the 8% increase we anticipated earlier in the year.

Last year we also changed the employee premium sharing model. This change brought the average employee share of their medical premiums to 9%. We continue to manage the Port's costs for non-union employee benefits and in 2012 will implement minor changes to the Port-sponsored medical plans. These changes will include slight increases to deductibles and copays, and we anticipate that employees covered by the Port-sponsored plans will continue to pay, on average, 9% of their medical premiums.

2012 SALARY & BENEFIT RESOLUTION CHANGES:

Considerations for 2012

The varied and distinct nature of the Port's business, together with the work the business requires, 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 2012 considerations include upward trending of the CPI (making COLA increases trend up when compared to a year ago), and minor changes to the Port-sponsored health care plans.

Standard Changes

Each year there are some changes to the Salary and Benefits Resolution that are necessary to keep it current or clarify areas that lead to questions throughout the year. For 2012 these standard changes will include:

- a few minor wording changes to clarify definitions and other provisions;
- an updated holiday schedule for 2012; and
- a reduction to the Paid Time Off (PTO) accumulation limits from 800 hours to 700 hours.

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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 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 in most cases, which includes both public and private sector data, 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. Actual pay data is combined with published data about anticipated pay changes from other employers to help inform recommended salary range changes.

For 2012, we utilized data from 14 published salary surveys to update market data on approximately half the Port's non-represented jobs covering more than 60% of non-union employees. Salary surveys include data on jobs that are considered "benchmark" jobs; jobs that are common and exist at many employers. Market pricing half an organization's jobs is considered a strong market pricing program. This year's market analysis indicates that all non-represented salary ranges together are currently 0.3% below market. Salary planning surveys, together with pay increase projections contained in salary surveys, are reporting an anticipated 3.1% average increase for 2012.

Data we gather from local public employers regarding their anticipated pay changes also helps inform recommended salary range adjustments. We have requested data from 12 local public employers. Data received to date indicates that plans vary considerably with COLA increases expected to range from zero to 2% and total increases expected to be as low as zero and as high as 8.8%.

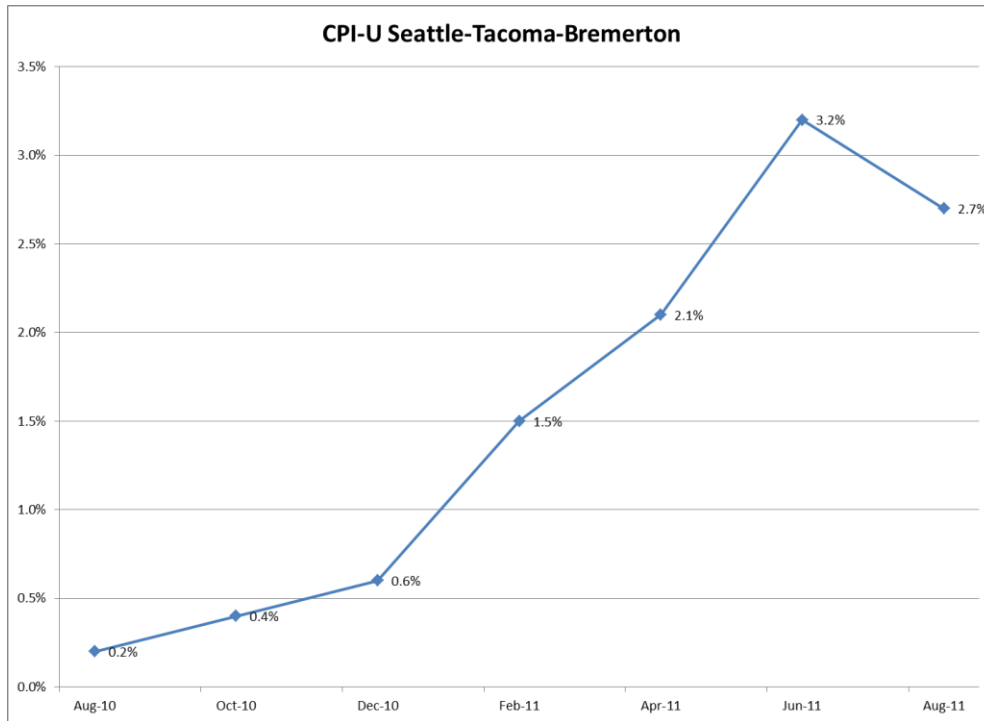
We also consider how pay for employees in the Port's represented jobs is expected to increase when formulating a range adjustment recommendation. We expect COLA increases for Port employees represented by a labor union to be at least 2% based on provisions of current collective bargaining agreements and the direction CPI changes are trending. For several bargaining units, annual pay increases are based primarily on 100% of the Seattle-Tacoma-Bremerton Consumer Price Index-All Urban Consumers (CPI-U). Over the past year, the annual increase to this index has ranged from 0.2% to 3.2%. The following chart shows the annual increase in this index over the past year.

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We will be recommending an increase of 2.0% to the Port's non-represented salary ranges for 2012. Implementing a range adjustment that is a little less than the projected average market pay increase is a conservative approach and may result in retention and hiring challenges if hiring activities in the local labor market increase substantially before the end of 2012. The current economic outlook is still uncertain, and some skill sets (e.g. experienced engineers and technology professionals) remain in high demand. With a 2% increase to the range structure we expect about 16 employees will have pay that falls below the new minimum of their salary range and will need to have their pay adjusted to the new range minimum. The annual cost of these adjustments is estimated at about \$10,000.

CONCLUSION

Changes to the Salary and Benefits Resolution for 2012 will be minimal and consistent with changes in past years. A 2% adjustment will be recommended to the salary range structure. This adjustment is somewhat conservative and consistent with available market projections.

OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:

PowerPoint presentation.

Draft 2012 Graded Salary Range Structure

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

None.