

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No. 7b
Date of Meeting November 6, 2012

DATE: October 26, 2012
TO: Tay Yoshitani, Chief Executive Officer
FROM: Tammy Woodard, Assistant Director, HRD-Total Rewards
SUBJECT: Briefing – 2013 Salary and Benefits Resolution

SYNOPSIS:

The Salary and Benefits 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 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 what has changed in the past year that impacts the programs included in the resolution.

Changes to the Salary and Benefits Resolution for 2013 will be minimal and consistent with changes in past years. We will be recommending a 2.0% increase to the Port's non-represented salary ranges. This recommendation is somewhat conservative yet aligned with available market projections. The recommended range adjustment will impact approximately 14 employees and cost 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 925 employees, or 52% 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 resolution also establishes the Pay for

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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 (COLA) 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 grade (number) along with the minimum, middle point, and maximum pay for jobs assigned to each 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 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.

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 in their grade, or range, and they receive automatic increases based on tenure from one step to the next 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 adjust 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 implement 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 2011?

When reviewing the current (2012) Salary and Benefits Resolution and determining what changes should be incorporated into the 2013 resolution, it is helpful to look at what is different, or has changed in the past year.

As part of the Total Rewards philosophy implementation, Port staff analyzed current plans and programs to determine how well they aligned with the philosophy. Pay and benefits programs specified in the Salary and Benefits resolution were determined to be quite well aligned with the Total Rewards philosophy. Health care plans are not completely aligned with the philosophy, and work will continue in 2013 and beyond to align medical and dental plans more closely.

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 0.3% below market. Additionally, the data from published salary surveys anticipated a 3.1% average pay increase for this year. The *actual* average pay increase reported in the surveys for this year is slightly less at 2.8%.

Benefits – Last year we were preparing to make additional slight changes to the Port's benefits package. Over the past few years the Port has taken steps to contain health care costs, including implementing a wellness program, employee premium sharing, and increasing the employee portion of costs for services received. In 2011, to help contain health plan increases and exercise greater control over health plan elements, the Port changed the way health plans were funded and adopted self-funded plans. For 2012, deductibles and copays for all Port-sponsored health plans were increased slightly. The changes to health plans over the past several years have contributed to overall annual health care cost increases for the Port of less than 3%. This is noticeably less than the national health care trend of 6% to 8%.

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2012 SALARY AND BENEFITS RESOLUTION CHANGES

Considerations for 2013

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 2013, considerations include a continued sluggish economy with significant unemployment and fluctuating CPI changes. The Supreme Court ruling on the Affordable Care Act earlier this year has added some clarity to the direction of health care. Following a competitive selection process, the Port will be changing administrators for the self-insured medical plan and only very minor changes to the self-insured plans will be made next year. Changes to the fully insured Group Health plan, however, will be more noticeable.

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 2013 these standard changes will include:

- one minor wording change to clarify the definition of Emergency Hire employees and align the resolution with actual practice;
- an updated holiday schedule for 2013; and
- reduction to the Paid Time Off (PTO) accumulation limit from 700 to 600 hours.

Benefits Eligibility

There will be one wording change recommended in the dental coverage eligibility section. The change will align this section with other health care eligibility references and current practice.

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 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 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.

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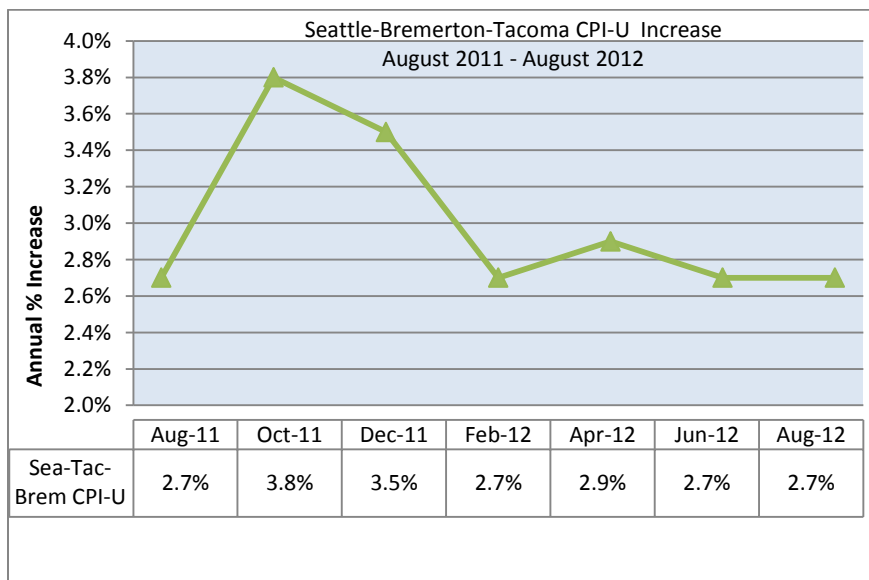
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For 2013, we utilized data from 13 published salary surveys to update market data on slightly more than half the Port's non-represented jobs covering nearly 60% of non-union employees. Salary surveys include data on jobs that are considered "benchmark" jobs; jobs that are common and exist at many employers. This year's market analysis indicates that the non-represented range structure, overall, is 1% below market. Salary planning surveys together with pay increase projections contained in salary surveys are reporting an anticipated 2.9% average increase for 2013.

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 COLA increase plans vary considerably and are expected to range from zero to 3.3% with expected total (COLA plus step) increases to range from zero to 11.4%.

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 labor unions that have pay increases based on CPI changes to be at least 2.7% in 2013. This is based on provisions of current collective bargaining agreements and recent CPI changes. For several bargaining units, annual pay increases are based on 100% of the Seattle-Tacoma-Bremerton Consumer Price Index – All Urban Consumers (CPI-U). This index is calculated bi-monthly and over the past year, the year over year increase to the index has ranged from 3.8% to 2.7%. The following chart shows how the increase to this index has fluctuated 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 2013. 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 2013. While the economic outlook remains sluggish, some skill sets (e.g., information technology and engineering) remain in high demand and pay for jobs requiring these skills is expected to continue increasing faster than general industry jobs. With a 2% increase to the salary range structure, we expect about 14 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.

CONCLUSION

Changes to the Salary and Benefits Resolution for 2013 will again be minimal and consistent with changes in past years. A 2% adjustment will be recommended to the salary range structure. This is a conservative recommendation, but still aligned with available market projections.

OTHER DOCUMENTS ASSOCIATED WITH THIS BRIEFING:

- PowerPoint presentation.
- Draft 2013 Graded Salary Range Structure.

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:

None