

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No. 6c
Date of Meeting November 10, 2015

DATE: November 2, 2015
TO: Ted Fick, Chief Executive Officer
FROM: Tammy Woodard, Assistant Human Resources Director – Total Rewards
Paula Edelstein, Senior Director Human Resources
SUBJECT: Resolution No. 3712, First Reading, 2016 Salary and Benefits Resolution

ACTION REQUESTED

Request first reading of Resolution No. 3712: A resolution of the Port Commission of the Port of Seattle Establishing Jobs, Pay Grades, Pay Ranges, and Pay Practices for Port Employees not represented by a labor union; Authorizing Legally Required Benefits, Other Benefits for Port Employees not represented by a Labor Union including Retirement, Paid Leave, Healthcare, Life Insurance and Disability Benefits, Benefits for Port of Seattle Retirees, and Benefits for Port of Seattle Commissioners; and Authorizing this Resolution to be Effective on January 1, 2016, and Repealing all Prior Resolutions Dealing with the Same Subject, Including Resolution No. 3699.

SYNOPSIS

The Port Commission is authorized by RCW 53.08.170 to create and fill positions, establish wages and salaries and establish benefits for Port of Seattle employees by resolution. The Salary and Benefits Resolution is where the Commission authorizes these aspects of the Total Rewards package offered to non-represented employees. The Resolution also delegates authority from the Commission to the Chief Executive Officer to oversee administration of the pay and benefits programs authorized by the resolution.

Over the years the Salary and Benefits Resolution has become very detailed with descriptions of small administrative details of the authorized programs as well as details on how these program work and are administered. The organization of the Resolution has become somewhat random as sections have been added, deleted, changed and rearranged over the years. The result is a very long, complex, difficult to use document. For 2016 we are proposing a streamlined and simplified Salary and Benefits Resolution that focuses on the primary function of the Resolution; to authorize pay and benefits programs and create and fill positions. The program and administrative details will be moved from the resolution to appropriate Port policy or program guideline documents.

The 2016 Salary and Benefits Resolution will also include recommended updates to some existing Total Rewards programs as well as some recommended new programs. Recommended updates include a 2% increase to salary ranges for non-represented jobs and updating the Port's standard workweek to 40 hours per week for all full-time employees.

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The 2016 Resolution also includes two new recommended programs, a Paid Parental Leave program and a lump sum performance pay program. These recommended new programs are in addition to existing leave and pay programs for non-represented employees. In addition, the 2015 Resolution contains a provision allowing Commissioners who receive medical and dental coverage from a source other than the Port to request reimbursement from the Port for premiums they pay. This option may not comply with the Affordable Care Act (ACA) and may also result in unfavorable tax treatment. As a result, we are recommending that this option be deleted from the 2016 Salary and Benefits Resolution.

The 2016 Resolution also includes updated definitions and an updated Exhibit A that shows which pay grade and range each of the Port's non-represented jobs are assigned to.

BACKGROUND

The Salary and Benefits Resolution is where the Port Commission fulfills its responsibility, per RCW 53.08.170, to authorize pay and benefit programs for the Port's 940 non-represented employees. These programs are major components of the Total Rewards package offered to non-represented employees; a vital tool for retaining, engaging and attracting skilled employees committed to helping the Port achieve its mission, business goals and objectives. The resolution covers approximately 940 employees, or 53% of the Port's workforce.

The Resolution contains the pay structure, grades and ranges, for non-represented jobs and authorizes benefits offered to Port retirees and to Port Commissioners. To make the Resolution easier to use definitions related to pay and benefits as well as creating and filling positions are included in the Resolution.

Over the years the Salary and Benefits resolution has grown into a long, complex and highly detailed document that specifies what the Commission authorizes as well as considerable detail related to administering some of the authorized programs. In addition, as programs have been added, or deleted, and content changed to clarify content of the resolution it has lost its flow and sense of continuity.

Consistent with a focus on ensuring that the resolution is aligned with the Commission's role specified in RCW 53.08.170 and the Port goal of becoming less rules-based by communicating clear guidelines within which Port staff can exercise some flexibility in fulfilling their work responsibilities, the 2016 Salary and Benefits Resolution is streamlined and simplified compared to prior years. The resolution clearly states what pay, benefits and related programs the Commission authorizes while details of these programs will be included in Port policy or program guideline documents. This will continue to provide the structure to pay and benefits programs necessary for ensuring consistent and fair application of the programs and policies, and also enable flexibility to make changes to administrative details when required for the benefit of the Port operations.

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RECOMMENDED CHANGES

The changes from the 2015 Salary and Benefits Resolution focus on streamlining and simplifying the Resolution by moving many details to policy and program guideline documents and reorganizing the document to group related programs authorized by the Resolution into related categories. The Resolution will also contain some program changes. These changes include:

Section I – Consistent with streamlining and simplification changes throughout the 2016 Salary and Benefits Resolution the definitions have been edited to contain definition language only. In some cases policy language was included in definitions; this language is being moved to Port policies.

Section II – This section has been reorganized, related portions of the 2015 Resolution have been combined into this one section and administrative details of the programs have been moved to Port policy documents. This section also includes the Port's standard workweek which will change to 40 hours per week, 80 hours per pay period, for all non-represented Port employees. Additionally, the 2016 pay ranges reflect a 2% recommended increase.

HR staff analyzes market data for non-represented jobs each Fall to assess how well the current ranges compare to market and how pay in the local market is expected to change over the coming year. Data from published salary surveys indicate that the Port's pay ranges are currently at market and that actual pay is expected to increase approximately 3.2% in 2016. The recommended 2% increase to the pay ranges is a conservative increase that will help maintain a market competitive pay range structure to support attraction and retention of employees with the skills and ability necessary to fulfill the Port's mission. This adjustment will not result in 2% pay increases for all non-represented employees. Only employees whose pay is below the minimum of the new range will receive an automatic increase and these increases will be only enough to bring pay for these employees to the minimum of the new range. The estimated 2016 cost of the range increase is no more than \$3,000 to adjust up to two employees' pay to the new range minimum.

Section III – This section is new to the Salary and Benefits Resolution for 2016 and authorizes a new lump sum Performance Pay plan for non-represented employees. This plan recognizes and rewards employee contributions to Port-wide goals and is funded with cash derived from better than budgeted financial results. The plan is a calendar year plan funded from a payout pool comprised of 50% of the following: the combined net positive variance, if any, of total Port wide expenses versus budget plus total Port wide non-aeronautical revenues (total revenues excluding aeronautical revenues) versus budget. Aeronautical revenues are excluded from the calculation since they are based on cost recovery. A limited number of predefined adjustments may be made to revenues and expenses in calculating the pool amount.

Financial results must be sufficient to provide a pool that funds awards at the minimum level, and a funded pool contributes to half the plan awards being earned. Once the pool is funded two non-financial goals must be met for the plan to payout fully. Achieving each non-financial goal

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adds 25% to the award amount so achieving the financial goal only funds payouts at 50%, meeting one non-financial goal funds payouts at 75%, and meeting both non-financial goals funds payouts fully. Goals, financial and non-financial, must be established prior to the beginning of the plan year. The Port's Executive Leadership Team will recommend the two non-financial goals for Commission approval before the end of the year preceding the Performance Pay plan year.

The following tables illustrate how the plan is funded and how payout awards are earned.

Plan Funding

Goal Met = Pool Sufficient for Minimum Payout			
	2016 Budget	2016 Actual*	Variance
Non-Aeronautical Revenue	\$325.6m	\$335.6m	\$10.0m
Total Port Expense	\$335.4m	\$325.4m	\$10.0m
Total Variance			<u>\$20.0m</u>
X 50% to the Payout Pool			<u>\$10.0m</u>

*2016 Actual is for illustration purposes only

Payout Earned

Goal Met	Portion of Payout Award Funded	Payout Pool
Financial	50%	\$5.0m
Non-Financial #1	25%	\$2.5m
Non-Financial #2	25%	\$2.5m
Total Payout	100%	\$10.0m

Employee awards are determined by the size of the pool as well as each employee's performance rating; employees whose performance is evaluated at the lowest performance rating will not earn an award from this plan. At the minimum funding level, employee awards will range from 0% to 4% based on performance ratings. The larger the pool, the higher awards and the pool must be sufficient to pay the next higher award level (e.g. 0% to 8% vs. 0% to 4%) to pay more than the previous level. Awards at full payout will be whole percentages based on the size of the pool and individual performance ratings. Unless both non-financial goals are met the plan will not pay out the full award; if only one non-financial goal is met the payouts will be 75% of the full award levels and if neither non-financial goal is met the payouts will be 50% of the full award levels. This means that if the plan funds at the minimum level, 1% to 4%, and only one of the non-financial goals is met the awards will range from .75% to 3% and if neither non-financial goal is met the awards will range from .5% to 2%.

The following table demonstrates how payouts will vary by performance rating and the number of goals met. The first set of payout awards (Pool funded at the Minimum Level) shows how what the lowest level of payout awards would be and the second set of payout awards (Pool

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Funded Above the Minimum Level) illustrate what the payout awards could look like if the Port's financial results created a payout pool sufficient to pay a maximum 12% performance pay award.

EXAMPLES – PAYOUT AWARDS WITH DIFFERENT SETS OF GOALS MET			
Performance Review Rating	Financial Only = 50% Payout	Financial + 1Non-Financial = 75% Payout	Financial + 2 Non-Financial = 100% Payout
Pool Funded at the Minimum Level			
1	0%	0%	0%
2	.5%	.75%	1.0%
3	1.0%	1.5%	2.0%
4	1.5%	2.25%	3.0%
5	2.0%	3.0%	4.0%
Pool Funded Above the Minimum Level			
1	0%	0%	0%
2	1.5%	2.25%	3.0%
3	3.0%	4.5%	6.0%
4	4.5%	6.75%	9.0%
5	6.0%	9.0%	12.0%

The proposed Performance Pay plan would strengthen the competitiveness of the Port's Total Rewards package while reinforcing the focus on both Port and employee performance as well as rewarding performance. Plans similar to the proposed lump sum pay plan are fairly common among both public and private employers. Data from Aon Hewitt showed that, nation-wide, 43% of public employers offer a similar plan while among employers in all industries, 93% offer a similar plan.

Section IV – This section authorizes benefits plans for non-represented employees. Details on how the plan is administered (e.g. what date the Port observes the Thanksgiving holiday) are moved to policy or guideline documents.

The Paid Parental Leave plan is added to this section. This new benefit will provide four weeks of paid leave for mothers and fathers following the birth, adoption or placement for foster care of a new child. This additional paid time off must be taken consecutively during the 12 months immediately following the arrival of a new child.

Section V – This section authorizes benefits offered to Port of Seattle retirees and is reorganized with the 2016 Resolution. In addition, the Retiree Parking benefit which has been available to Port Retirees for quite a while is now included in this section of the Salary and Benefits Resolution.

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Section VI – This section authorizes benefits offered to Port of Seattle Commissioners. The option for Commissioners who pay medical and dental premiums to another entity and seek reimbursement from the Port has been removed. HR staff consulted with our benefits consultant and the Port Legal department and the legal opinion is that this option may not comply with the Affordable Care Act and may also result in unfavorable tax implications.

Section VII – This section includes information about notification to the Commission of certain actions. A new notification reference has been added specifying the Commission will be notified before any changes are made to the administrative details of plans or programs authorized by the Resolution when the changes are considered material.

CONCLUSION

The 2016 Salary and Benefits Resolution is streamlined, simplified and focuses on clearly stating the pay, benefits, and related plans that the Port of Seattle Commission authorize. Moving administrative details of the plans authorized in the Resolution to Port policies and reorganizing the Resolution have contributed to the simplification. In addition to two new programs that are added to the Port's Total Rewards package a few other changes have been made to the Resolution for 2016.

ATTACHMENTS TO THIS REQUEST

- Resolution No. 3712 – 2016 Salary and Benefits Resolution
- Exhibit A, Schedule of Authorized Non-Represented Jobs and Salary Ranges effective January 1, 2016
- 2016 Salary and Benefits Resolution PowerPoint Presentation
- 2015 – 2016 Salary and Benefits Resolution Comparison Document

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- October 27, 2015– 2016 Salary and Benefits Resolution Briefing