

# Classification and Compensation Executive Report

For



By



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## Study Overview

McGrath Consulting Group, Inc., an organization that specializes in public sector consulting, was commissioned by the City of Northfield to conduct a comprehensive classification and compensation study of all positions. The City requested an evaluation of all City positions in order to update the current system.

The purpose of this study is to:

- ✓ Establish internal equity among positions within the City.
- ✓ Present options and assist in selecting, designing and implementing a pay structure that meets the goals and compensation philosophy of the City.
- ✓ Obtain and establish compensation among the external comparable market.
- ✓ Integrate the data from the external market, internal market, and job responsibilities to a revised or new classification and compensation system.
- ✓ Evaluate and recommend other pay practices.
- ✓ Work with administration to implement the approved plan and policies.
- ✓ Evaluate and update position descriptions as necessary.
- ✓ Analyze positions for Fair Labor Standards Act exemption status as necessary.
- ✓ Evaluate recommended system for compliance with Minnesota Local Government Pay Equity Act.
- ✓ Provide for on-going maintenance of the system(s), in accordance with all applicable compensation practices, by the City (movement through the range; COLA; merit, etc.) including a projection of the ongoing budget commitments necessary to provide a sustainable and consistent compensation system.

The Consultant would like to extend appreciation to the Council, City Administrator, Human Resources Director and employees for their time, cooperation, and sharing of information and perceptions with McGrath Human Resources Group.

## Definitions

The following are definitions that helped guide the development of the compensation system for Northfield.

**Benchmark Position:** A job that is commonly found and defined, used to make pay comparisons, either within the organization or to comparable jobs outside the organization.

**Classifications:** Job titles.

**Compensation System:** A system developed to compensate employees. This system includes a balance between internal equity and external competitiveness.

**Compensation Data:** Data derived from information regarding the salary range and the rate of pay of the incumbent(s) holding a benchmark position of the identified labor market.

**Comp Ratio:** The ratio of an actual pay range to the established position point (or average market rate). The Comp Ratio is used to measure and monitor an individual's actual rate of pay to the Position Point of the established pay range. A 50% comp ratio (+/- 10%) indicates an individual is being paid approximate to the established position point (or average market rate).

**Compression:** Pay differentials too small to be considered equitable. The term may apply to differences between (1) the pay of supervisors and subordinates; (2) the pay of experienced and newly hired personnel of the same job; and (3) pay range midpoints in successive job grades or related grades across pay structures.

**Demotion:** The (re)assignment of an employee to a position in a lower pay grade or range in the organization's salary structure.

**Labor Market:** A location where labor is exchanged for wages. These locations are identified and defined by a combination of the following factors: geography; industry; education, experience and licensing or certification required; and job responsibilities.

**Market Data:** The technique of creating the financial value of a position based on the "going rate" for benchmark positions in the relevant labor markets.

**Minimum Salary Range (Minimum):** The minimum amount of compensation the organization has deemed appropriate for a position.

**Maximum Salary Range (Maximum):** The highest amount of compensation the organization has deemed appropriate for a position.

**Market Rate (Market):** The organization's best estimate of the wage rate that is prevailing in the external market for a given position.

**Market Average:** Per the compensation philosophy of the City Council of Northfield, the philosophy to pay employees based upon the 'average' market rate; or the 'average' prevailing wage rate in the external market.

**Market Average Range:** A pay range in which the minimum and maximum of the range is established around the Average Market Rate.

**Pay Grade:** The grade, or placement of a position, within the salary structure.

**Pay Grade Evaluation:** The (re)assignment of a job to a higher or lower pay grade or pay range in the salary structure due to a job content (re)evaluation and/or significant change in the average market rate in the external labor market.

**Performance Increase:** An adjustment to an individual's base pay rate based on performance or some other individual measure.

**Promotion:** The (re)assignment of an employee to a position in a higher pay grade or range in the organization's salary structure.

**Salary Schedule Adjustment:** An adjustment to the salary structure; the increase or decrease of a pay range, minimum – maximum. This is a method to maintain the salary range in relation to external market conditions.

**Step Schedule:** Standardized progression pay rates that are established within a pay range. To move to the next step one must have met acceptable performance standards.

**Salary Schedule:** The hierarchy of job grades and pay ranges established within an organization.

**Spread:** The range of pay rates, from minimum to maximum, established for a pay grade. Typically used to set individual employee pay rates.

## Methodology

### Data Collection

The project involved several steps: collection of data, interviews, and data analysis. The first step of this study involved the gathering of data that pertains to current compensation practices within Northfield. The Consultant received information relating to current salaries, collected market data, specific policies, and current job descriptions. This provided a basis on which to build a compensation system.

Interviews were conducted with the City's senior staff, including the City Administrator and Department Heads. The purpose of these meetings was to first, gain an understanding of the City's current compensation practices and philosophy; second, solicit ideas and input from these stakeholders for future compensation methodologies and practices; and finally, determine if there were any positions within the City that were difficult to recruit, retain, or were otherwise unique in the position's responsibilities. In addition, the Consultant met with representatives of employees within all

departments, as well as representatives of the unions, to gain their perspectives on the current compensation structures.

### **Labor Market**

In order to gain information from the external market, the City provided comparable municipalities that it has already established. With the assistance of Department Heads and the City's law firm, the Consultant examined additional counties and/or municipalities that would employ comparable positions. Each of the comparable organizations were contacted initially via telephone and then were provided an online questionnaire. Salary data for specific positions was solicited from 35 comparable organizations.

The Consultant was pleased with the response to the survey. All but eight (8) of the organizations contacted provided data; thus 27 organizations provided data on City positions.

The collection of this compensation data was utilized to analyze the average market minimum, mid-point and maximum rates per defined benchmark positions, as well as a comparison of the average salary of the positions to the salary of incumbents within Northfield. When necessary, evaluation of the comparable organization's job description, when available online, was utilized to resolve conflicts.

The Consultant surveyed 96 positions within Northfield. In addition to the current positions within Northfield, the Consultant sought comparable data on positions that might have job responsibilities that are combined in Northfield but might be separate in other organizations. These may be positions that have differentiated salaries due to required certifications, and positions that might be added in the future. Further, in some cases, the titles were altered to better align with the industry.

### **Market Data Solicited**

The market surveys gathered the following information: 2016 minimum, midpoint, and maximum salary for the position as well as the average salary of the incumbents. Positions with less than three (3) participants were excluded since it was considered an insufficient sample size. Further, salaries that were considered statistically too high or low were eliminated when determining the market average.

In addition to compensation data, the Consultant solicited data employer-provided benefits such as insurance and leave accrual.

For purposes of developing salary schedules, the Consultant utilized the analysis of the minimum and average incumbent market data as described below. Minnesota's pay equity law requires an analysis of pay range maximums by position to determine compliance. In addition, labor unions and arbitrators primarily utilize pay range maximums to assess a city's relative standing to the market. Thus, for these purposes – pay equity and arbitration, pay range minimums and incumbent employee wages compared to the market are considered secondary data points.

## **Pay Range Market Analysis**

The Consultant conducted an analysis of the minimum, midpoint, maximum and comparison of current and market incumbent salary to the average market rate. This information was utilized to determine how the current salary schedule compares to the external market.

## **Current Compensation Systems**

There was one (1) Salary Schedules analyzed within Northfield. All employees, including union employees are on the same salary range. The range is constructed as a step system from step 1 to step 11.

Positions are placed on the compensation system through a point factor system. Each position has a number of factors that then translate to points. Based upon the total points, the position is slotted into a pay grade. The external market does not play a factor when placing positions into the compensation system.



## **Compression**

Compression is when salaries of job classifications of a higher rank or authority are paid less than positions of a lower rank or authority. This usually occurs in public safety departments where salary plus overtime of lower ranks exceeds the higher command ranks.

An analysis was conducted of all positions within the City for compression, the only area in which overtime compression is an issue some areas. The recommended salary schedule has taken into account some compression factors.

## **Recommended Salary Schedule**

The current pay plans – both the part time and full-time employee schedules are a non-merit step plan. Due to the unionization of the majority of employees, the recommended pay plan continues the step concept. However, rather than the plans current reliance solely on the point factor system, it is recommended that the plan consider the following elements:

- A Point factor system (required for the State pay equity system)
- The external average market rate
- Compression
- Internal equity

The recommended pay plan is a 12 step system. Step 5 represents the average market rate; and steps are defined rather than graduated as with the current plan. Steps 1 – 5 are 2.5% in order to get employees to the average market rate; then are reduced to 2% from step 6 – 12.

The part-time salary schedule has been integrated into the general schedule – so the City now has only one schedule. This should keep all positions together, as well as ensure that all positions are maintained in one location and kept up with the market.

## **Position Considerations**

During the course of the study, there was an opportunity to better align job titles and responsibilities.

A number of titles have been changed, and were discussed with department directors. Many were changed to bring them current with industry standards. In addition, a number of the positions multiple layers of positions were either in place or were added. For example, Utilities Operator, I, II, III. For all of these, human resources need to work with each department to ensure that there are identifiable criteria for each level, and that it is documented in the job description.

## **Life Cycle of Salary Schedule**

One of the main concerns in any salary schedule is the ability to keep it current. Often, an organization spends a lot of time and resources to review and re-evaluate their Salary Schedule, resulting in providing employees or Pay Grades significant increases because either the position or the schedule is not in line with the external market. When developing a Salary Schedule, public sector organizations must build in some mechanism for maintaining the system with annual prevailing increases.

A Salary Schedule has a typical life span of five (5) years, at which time market conditions typically necessitate a review. The City can strive to prolong the life of the Schedule if it commits to maintaining its competitiveness with the external market.

### **Benefit Statements**

Employees, especially in government where benefits are typically more generous than those in the private sector, do not realize the true cost to the municipality for providing benefits. The Consultant recommends the City continue to send an annual benefit statement that details the total cost of compensation for an employee. This often has a dramatic effect on employees who only see their net pay, rather than the total cost an employer actually pays for an employee.

Typical benefits statements include:

- Gross Salary
- Employer cost of FICA, FUTA
- Employer cost of federal and state taxes
- Employer cost of insurances (health, life, LTD, etc.)

Employer cost for employees to participate in a sponsored Employee Assistance Program or a wellness program  
Employer cost of unemployment  
Employer cost of worker's compensation  
Employer cost of pension fund(s)  
Employer cost of other benefits provided  
Total compensation for the employee