



CITY AUDITOR'S OFFICE

TO: John Szerlag, City Manager
FROM: Margaret L. Krym, City Auditor *MLK*
DATE: December 12, 2012
SUBJECT: Compensation Comparison and Analysis

Summary

At your request, we reviewed employee compensation to provide information in the following areas: an analysis of the aggregate reduction in compensation paid to employees (2008 to 2011); information regarding possible compression of wages between management employees and staff employees; and a review of Council approved changes to employee pay.

Results of this review showed the following:

- Gross compensation paid to employees in calendar year 2011 was \$15,893,078 less than gross compensation paid to employees in calendar year 2008.
- There are seven distinct groups of employees with seven distinctly different compensation grade / step plans. The cumulative impact of approved changes to employee compensation in these differing compensation plans from September 30, 2007 to today ranged from minus 1.06% to an increase of 15.69%.
- Because of the significant differences in these rates of change, certain groups of employees, the Professional Union, the Fire Battalion Chiefs and the non-bargaining group (which includes most senior level management positions as well as other hourly and salaried employees) have not maintained parity with other groups in the overall framework of City compensation.

We did not do any work to relate or compare Cape Coral employee compensation to the market place. We would recommend however, that a comparative market analysis be performed in order to provide assurance that the City is competitive and able to attract and retain a desired employee base for the purpose of successfully accomplishing City strategic objectives.

The following report provides further detail regarding these changes.

Detail Report

This report has been prepared in response to a request from you for the following information.

- A review of changes made to employee compensation.
- The aggregate reduction in compensation paid to employees.
- Information regarding the potential compression of compensation step and grade plans.

Changes made to employee compensation

The Human Resources Department provided data regarding approved changes to compensation during fiscal years 2008 through 2012. These City Council approved changes reflected as increases or decreases to the salary grade schedules or step plans. There are seven defined compensation groups within the City's employee base and each was impacted differently by the approved changes.

For purposes of our analysis we:

- Determined the base pay to be that rate in place on September 30, 2007.
- We noted approved changes made to the grades or step plans for each subsequent year. These are changes to the entire grade or step plan when it is shifted upwards or downwards resulting in a change to an individual's base pay.
- We noted all approved step increases for groups eligible for step increases. These occur when an individual advances up a step in their step plan for years of service. It should be noted that in some cases step increases fall into a range as is noted on Attachment A. For these calculations, we used the minimum possible approved step increase amount. Also, it is important to note that if an employee was already at the top step in their step plan then they would not have received a step increase.
- We noted that on October 1, 2007, the General Union employees pay grade / step plan changed from the plan used by the Non-bargaining group to a new plan for the General Union. When this conversion occurred, the lower grades increased by up to 6% while the higher grades were decreased by up to 4%. The analysis on the next page reflects an average change of 2%.

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- We calculated the overall cumulative effect of these approved changes on the base pay as a percentage.

The detail of this analysis is provided in Attachment A. Below is the resulting overall cumulative percentage impact of these approved changes by defined compensation groups. In two cases, the Professional Union group and the Fire Battalion Chiefs, the overall base rate of pay decreased.

Group	Cumulative % Change					Overall
	2008	2009	2010	2011	2012	
Non Bargaining (Including Management, exempt Police and Fire and other hourly and salaried employees)	2.00%	0%	0%	0%	0%	2.00% increase
Professional Union	2.00%	0%	0%	(3.00%)	0%	(1.06%) decrease
General Bargaining Unit	5.31%	5.31%	0%	0%	(3.00%)	7.59% increase
Fire – Rank and File	8.65%	8.65%	0%	0%	(2.00%)	15.69% increase
Fire Battalion Chiefs	2.00%	0%	0%	0%	(2.00%)	(0.04%) decrease
Police Officers and Sergeants	9.60%	3.40%	0%	0%	(2.00%)	11.06% increase
Police Lieutenants	9.07%	2.90%	0%	0%	(2.00%)	9.99% increase
Note:	<ul style="list-style-type: none"> • Cumulative change totals are calculated by compounding the affect of each successive change. • Cumulative totals are calculated using the minimum possible step increase. • If an employee was at the top step in their step plan then they did not receive a step increase on their anniversary. 					

For example, a Police Lieutenant with a base pay rate of \$100 on September 30, 2007 would have been eligible for the following increases:

- Increase in the step plan on 10/1/2007 of 6%
- Increase in his assigned step (step increase) on 10/1/2007 = minimum of 2.9%
- Increase in his assigned step (step increase) on 10/1/2008 = minimum of 2.9%
- Decrease in the step plan on 2/18/2012 of 2%
- Result = \$100 x 1.06 x 1.029 x 1.029 x .98 = \$109.99 or a 9.99% increase overall.

Without considering step increases, the actual grade / step plan ranges increased for the General Bargaining group, the Fire Rank and File, the Police officers and Sergeants and the Police Lieutenants. For the Professional Union and the Fire Battalion Chiefs the range decreased slightly. There was no change to the actual grade / step plan for the Non-Bargaining group. This is significant because the Personnel Ordinance limits the City Managers authority to make a salary offer for a potential new hire to the midpoint of a range. Therefore potential starting salary offers for some groups have increased while others remain limited to 2007 wage rates.

In addition to actual approved changes to the compensation regular base pay, there have been other factors that have affected the actual net payment received by employees. These include such things as furloughs or reduction in vacation days; increases in the employee's portion of the pension contribution and increases in the cost of health care premiums.

Furloughs or reduction in paid holidays

Furloughs were not in place in FY2007, the base period, and were also not in place in FY2012 for most employees. Therefore, we did not consider them in this analysis. However, during the intervening years employees did forego some compensation related to furlough days.

The Fire Rank and File, the Fire Battalion Chiefs, the Police Officers and Sergeants and the Police Lieutenants conceded to reduce their paid holidays from 11 to 9 in FY2012 in lieu of taking furlough days as other groups did in FY2011. Therefore, they have experienced a compensation reduction in the current year. This reduction in paid holidays will end on September 30, 2012.

Increases in the employee portion of the pension contribution

Group	Compensation %		Increase in contribution
	Base period 2007	As of 8/3/12	
Non Bargaining, Professional Union, General Bargaining Unit	7.90%	9.90%	2% increase
Fire Rank & File, Fire Battalion Chiefs, Police Officers and Sergeants, Police Lieutenants	7.00%	10.00%	3% increase

The increase in the employee's portion of the pension contribution resulted in an equal reduction in the net payment received by the employee. The following table illustrates

the affect when these reductions are added to the cumulative total of approved changes to compensation.

Group	Overall Cumulative Changes to Compensation Rate	Increase to Pension Contribution	Combined Impact on net compensation
Non Bargaining	2.00%	(2.00)%	0% increase
Professional Union	(1.06%)	(2.00)%	(3.06%) decrease
General Bargaining Unit	7.59%	(2.00)%	5.59% increase
Fire – Rank and File	15.69%	(3.00)%	12.69% increase
Fire Battalion Chiefs	(0.04%)	(3.00)%	(3.04%) decrease
Police Officers and Sergeants	11.06%	(3.00)%	8.06% increase
Police Lieutenants	9.99%	(3.00)%	6.99% increase

Increases in the cost of health care premiums

During this period, the cost of health care premiums for the City's HMO benefit plan increased 39%.

Coverage Type	Monthly premium paid by employee		
	2007	2012	\$ Increase
Employee + Child(ren)	154.36	215.12	60.76
Employee + Spouse	278.72	388.45	109.73
Family	433.71	604.49	170.78

These increases have only impacted those employees who are paying for dependent coverage (Employee and Child, Employee and Spouse or Family). The effect of the increase resulted in a reduction to the net payment received in an employee's paycheck.

In our analysis, we did not consider or review any changes that may have been made to other pay categories or changes made to policies regarding buy back of annual accruals.

Overall Aggregate reduction in salary/wages

The Financial Services Payroll staff provided requested databases of gross amounts paid to all employees in the calendar years 2008 and 2011. The dollar amounts in these databases included all compensation paid to employees inclusive of regular pay, overtime pay and other pay (add pays, etc.) We examined this data for reasonableness but did not test it for accuracy. The calendar year 2008 contained 27 pay periods. In order to compare it to 2011 with 26 pay periods we converted the 2008 data by dividing regular pay by 27 and multiplying by 26.

The data used for the following analysis reflects the economic benefit received by the employee in each of the two years. It does not take into consideration promotions, changes in position or changes in hours worked between 2008 and 2011.

Using IDEA Data Analytical Software, we joined these two databases and performed various sort analysis procedures. The overall reduction in gross compensation paid from calendar year 2008 to 2011 is as follows:

All Employees	Gross Compensation Paid
Calendar Year 2011	\$ 71,348,601
Less Calendar Year 2008	<u>(87,247,679)</u>
Reduction in Gross Compensation Paid	(\$15,893,078)

We sorted the joined database to determine

- The number of employees who received compensation in 2008, but did not receive compensation in 2011 (no longer employed).
- The number of employees who received compensation in both 2008 and 2011.
- The number of employees who did not receive compensation in 2008, but did receive compensation in 2011.

Years of Compensation	Overall Gross Compensation Paid			
	Calendar year 2008	Calendar year 2011	Increase (decrease)	# of employees receiving compensation
Received compensation in 2008 but not in 2011.	\$21,646,339	\$ 0	\$(21,646,339)	755
Received compensation in 2008 and 2011.	65,595,340	65,166,607	(428,733)	1,432
Received compensation in 2011 but not in 2008.	<u>0</u>	<u>6,181,994</u>	<u>6,181,994</u>	459
Total Gross Compensation Paid	<u>\$87,241,679</u>	<u>\$71,348,601</u>	<u>\$(15,893,078)</u>	

Attachment B provides the breakdown of the \$15,893,078 reduction by department.

For those employees who received compensation in both 2008 and 2011 there was an overall reduction in compensation received of \$428,733.

We sorted the data for this group to determine the following:

Compensation Type	Gross Compensation Paid to Employees present in 2008 and 2011		
	Calendar year 2008	Calendar year 2011	Increase (decrease)
Regular pay	\$ 58,350,859	\$ 58,010,789	\$ (340,070)
Overtime	2,409,110	1,531,024	(878,086)
Other pay	<u>4,835,371</u>	<u>5,624,794</u>	<u>789,423</u>
Total Compensation Paid	<u>\$ 65,595,340</u>	<u>\$ 65,166,607</u>	<u>\$ (428,733)</u>

Attachment C provides the breakdown of the \$428,733 reduction by department.

The gross compensation data presented reflects the total amount of overall compensation paid to employees during the calendar years. Many varying factors caused the differences in the amounts of this gross compensation paid including changes to pay rates, promotions, reclassifications, out of title assignments, and partial year employment (new hire during 2008 or termination during 2011.) Of the 1,432 employees compensated in both 2008 and 2011, 737 received more compensation in 2011 than in 2008 and 695 received less compensation in 2011 than in 2008.

Potential compression of compensation step and grade plans

Compensation frameworks and methodologies traditionally place value on job classifications based on various factors including work performed, skills required, number of people supervised, decision making responsibilities, budget responsibilities, etc. Jobs with higher scores in the factors then merit higher compensation range amounts. The City's step plans have placed value on years of service as well and employees have moved higher in compensation levels based on their years of employment. Best practice also calls for compensation frameworks to accommodate the potential for increased compensation with career path and employee advancement opportunities through the grades.

The City's Personnel Ordinance states that at least once every five years the City Council shall consider the City's need to have a comprehensive study of the classification plan conducted. The Ordinance also states that factors such as cost-of-living and competing wages and salaries in the public and private sectors shall be considered in establishing the general salary schedule. It has been more than five years since the last comprehensive study was conducted. Periodic evaluation of the City's compensation framework is a best practice. It is possible for the framework to become distorted and no longer reflect the strategic intentions of City leadership.

An example of a type of distortion in a compensation framework is compression. This will occur when compensation for employees being supervised approaches or exceeds the compensation of those who are supervising them.

As mentioned on page three, the cumulative effect of Council approved changes for the Fire Department personnel from September 30, 2007 to 2012 were as follows:

- Fire Division Chiefs (Grade 26, Non-bargaining group) 2.00% increase
- Fire Battalion Chiefs (.04%) decrease
- Fire - Rank and File 15.69% increase

To explore this example in more detail, we extracted the Fire Department data from the Gross Compensation Database for the calendar years 2008 and 2011 and sorted it to perform an analysis of the changes in gross compensation for those employees who were paid by the City in 2008 and 2011. The data included regular pay, overtime and other pay. The data indicated the following.

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2008 to 2011	Fire Division Chiefs (non-bargaining group)	Fire Battalion Chiefs	Fire Rank and File
Number of employees in data group	2	12	165
% change in total compensation for group*	1% Increase	3% Increase	11% Increase
Average \$ change per person in group	\$ 1,570 increase	\$ 3,448 Increase	\$ 7,093 Increase
Average Gross Compensation Received in 2011	\$114,853	\$106,251	\$73,129
*These defined increases in gross compensation paid from 2008 to 2011 predate the agreed to and approved reduction of 2% effective February 18, 2012.			

Additionally, we observed that in 2011 average regular pay for the Fire Division Chiefs, Fire Battalion Chiefs, Fire Lieutenants, Fire Inspectors and Fire Engineer/Drivers exceeded the 90th percentile in their respective pay grade / step plans. Their average regular pay amount is therefore near the maximum in the range for each of these groups. The pay grade / step plan ranges are also overlapping, which means that an employee at the maximum of his range may already be past the midpoint of the next higher position thus limiting potential for increased compensation with promotion.

As shown in Attachment A, the differences between the Council approved cumulative percentage increases (decreases) for the Professional Union (1.06%) and Non-bargaining group 2% and the General Bargaining Unit 7.52% suggest that a change in the compensation framework for these groups may be occurring as well and could result in compression. We could not easily separate the 2008 and 2011 database information for the general employees by position group (as we did with the Fire Department) therefore we could not do a meaningful sort analysis to examine the effect of these changes.

C: Mayor and City Council Members
 Dolores Menendez, City Attorney
 Rebecca van Deutekom, City Clerk
 Victoria Bateman, Financial Services Director
 Audit Committee

Attachment A

Cumulative Change in Compensation FY 2008-2011										
Baseline 9/30/07	2008		2009		2010	2011	2012	Cumulative Change	Employee Pension Δ %	Combined Impact Cumulative Change less Pension Contribution Increase
Employee Compensation Group	Adjustment to range or merit increase	Step Δ %	Adjustment to range	Step Δ %	No Step change / No Adjustment to range	Adjustment to range (No Step Change)	Adjustment to range (No Step Change)			
IAFF Firefighters	8.65%		8.65%		0.0%	0.0%	-2.0%	15.69%	3.0%	12.69%
	8.0%	2.5%	8.0%	2.5%						
IAFF Battalion Chiefs	2.0%		0.0%		0.0%	0.0%	-2.0%	-0.04%	3.0%	-3.04%
	2.0%	0.0%	0.0%	0.0%						
FOP Officers and Sergeants	9.60%		3.40%		0.0%	0.0%	-2.0%	11.06%	3.0%	8.06%
	8.0%	3.4%	0.0%	3.4%						
FOP Lieutenants	9.07%		2.90%		0.0%	0.0%	-2.0%	9.99%	3.0%	6.99%
	8.0%	2.9%	0.0%	2.9%						
IUPAT General	5.31%		5.31%		0.0%	0.0%	-3.0%	7.59%	2.0%	5.59%
	2.0%	3.25%	2.0%	3.25%						
IUPAT Professional	2.0%		0.0%		0.0%	-3.0%	0.0%	-1.06%	2.0%	-3.06%
	2.0%	0.0%	0.0%	0.0%						
Non-Bargaining Exempt	2.0%		0.0%		0.0%	0.0%	0.0%	2.00%	2.0%	0.0%
	2.0%	0.0%	0.0%	0.0%						
Non-Bargaining Exempt Police & Fire	2.0%		0.0%		0.0%	0.0%	0.0%	2.00%	3.0%	-1.0%
	2.0%	0.0%	0.0%	0.0%						
Range of possible step increase - Cumulative totals are calculated using the minimum possible step increase.	%									
IAFF Firefighters	2.5 - 4.7									
IAFF Battalion Chiefs	NA									
FOP Officers and Sergeants	3.4 - 5.3									
FOP Lieutenants	2.9 - 5.0									
IUPAT General	NA									
IUPAT Professional	NA									
Non-Bargaining Exempt	NA									
Non-Bargaining Exempt Police & Fire	NA									
<p>Notes:</p> <ul style="list-style-type: none"> ● Employees at maximum of the grade did not receive a step increase on their anniversary. ● Cumulative Change Totals are calculated by compounding the affect of each successive change. 										

**Gross Compensation Paid
Reduction in Gross Compensation Paid by Department**

Attachment B

	2008 - Adjusted to 26 Payperiods				2011 - 26 Payperiods				Change	% Change
	Overtime	Other Pay	Regular Pay	2008_TOTAL	Overtime	Other Pay	Regular Pay	2011_Total		
Police	1,399,281	2,790,703	19,439,321	23,629,304	563,836	1,856,428	16,490,510	18,910,774	(4,718,531)	-20%
Public Works	93,482	685,424	9,639,774	10,418,680	84,012	404,266	6,788,432	7,276,711	(3,141,969)	-30%
Utilities	343,283	805,676	9,271,537	10,420,497	549,273	590,614	7,476,709	8,616,596	(1,803,900)	-17%
Fire ER Svcs	911,986	2,553,744	13,043,896	16,509,626	334,839	2,083,267	12,436,486	14,854,593	(1,655,033)	-10%
Comm Dev	5,838	285,745	4,961,084	5,252,667	6,972	113,894	3,578,937	3,699,803	(1,552,864)	-30%
Parks Rec	58,394	453,958	8,373,513	8,885,865	44,181	267,130	7,194,862	7,506,174	(1,379,692)	-16%
Finance	38,834	273,708	5,968,314	6,280,857	48,459	253,798	5,490,218	5,792,475	(488,382)	-8%
City Clerk	2,244	33,265	929,747	965,256	3,593	17,469	676,224	697,285	(267,971)	-28%
HR	4,017	41,338	830,527	875,882	492	40,401	580,707	621,600	(254,282)	-29%
IT	10,222	78,617	1,469,831	1,558,670	6,711	70,916	1,270,879	1,348,507	(210,163)	-13%
City Auditor	8	3,636	328,089	331,732	-	11,352	183,060	194,413	(137,320)	-41%
City Council	4,574	142,983	289,396	436,953	-	195,080	144,567	339,647	(97,306)	-22%
City Manager	7,966	43,850	840,992	892,808	5	165,156	648,697	813,859	(78,949)	-9%
City Attorney	67	29,764	680,077	709,907	6	24,368	613,871	638,244	(71,663)	-10%
CRAFac	0	8,265	33,276	41,540	-	-	-	-	(41,540)	-100%
Gov Svcs	41	36	31,357	31,433	550	130	37,241	37,921	6,488	21%
Total	2,880,236	8,230,712	76,130,731	87,241,679	1,642,930	6,094,271	63,611,400	71,348,601	(15,893,078)	-18%

* Gross Compensation includes Regular Pay, Overtime, and Other Pay (Add pay, etc.)
Compensation Database Information provided by Financial Services. Data was not tested for accuracy.

**Gross Compensation Paid
Comparison Calendar Years 2008 and 2011- By Department Data
Only for 1432 Individuals Employed in 2008 and 2011**

Attachment C

	2008 - Adjusted to 26 Payperiods				2011 - 26 Payperiods				Change	% Change
	Overtime	Other Pay	Regular Pay	2008_TOTAL	Overtime	Other Pay	Regular Pay	2011_Total		
Fire ER Svcs	770,453	1,554,424	10,163,090	12,487,967	292,086	1,984,228	11,425,537	13,701,851	1,213,884	9.72%
Comm Dev	3,869	94,079	3,315,098	3,413,046	6,972	110,768	3,373,312	3,491,053	78,007	2.29%
City Auditor	8	1,117	139,519	140,643	-	11,352	183,060	194,413	53,769	38.23%
City Clerk	1,531	6,188	527,489	535,208	3,206	17,386	541,399	561,991	26,783	5.00%
Gov Svcs	41	36	31,357	31,433	550	130	37,241	37,921	6,488	20.64%
City Attorney	67	25,047	463,408	488,522	6	24,238	462,342	486,586	(1,936)	-0.40%
City Council	4,558	65,029	212,096	281,683	-	80,991	144,567	225,558	(56,125)	-19.92%
City Manager	7,966	22,519	495,450	525,936	5	45,958	420,295	466,258	(59,678)	-11.35%
ITS	9,958	47,867	1,199,768	1,257,593	6,423	69,732	1,113,119	1,189,273	(68,320)	-5.43%
Finance	38,237	205,592	5,059,761	5,303,589	46,483	242,364	4,944,903	5,233,751	(69,838)	-1.32%
HR	1,720	12,279	579,343	593,343	81	38,754	469,450	508,285	(85,058)	-14.34%
Utilities	302,935	502,489	7,871,995	8,477,419	536,231	578,537	7,267,906	8,382,674	(94,745)	-1.12%
Parks Rec	47,875	225,519	5,825,861	6,099,256	36,907	245,151	5,668,181	5,950,218	(149,038)	-2.44%
Public Works	68,486	292,141	7,242,412	7,603,039	82,072	399,097	6,549,074	7,030,243	(572,796)	-7.53%
Police	1,151,407	1,781,046	15,424,211	18,356,663	520,004	1,776,107	15,410,422	17,706,532	(650,131)	-3.54%
	2,409,110	4,835,371	58,350,859	65,595,340	1,531,024	5,624,794	58,010,789	65,166,607	(428,734)	-0.65%

* Gross Compensation includes Regular Pay, Overtime, and Other Pay (Add pay, etc.)
Compensation Database Information provided by Financial Services. Data was not tested for accuracy.