Santa Clara County
City Manager's Association
Compensation Recommended Best Practices

INTRODUCTION:

The issue of public sector compensation, including executive compensation, has been the focus of substantial public discussion and debate because it is critical to a foundation of trust and confidence in local government. The debate has grown more important due to: the "Great Recession" and its impacts on the tax revenue needed to sustain public agencies, the affordability of many public benefit plans, and the revelation of unethical and illegal practices in the City of Bell.

This position paper is designed to review, at a policy level, a variety of issues associated with local public agency compensation. It is not intended to be an in depth review, but rather to serve as a compilation of issues and topics that can be pursued by individual agencies or groups of agencies in collaboration. As such, it is offered as a tool for elected and appointed officials in the region to work with each other and collaboratively with employee groups in addressing this important public policy issue. This paper supplements the previous position paper on pension plans of the Santa Clara County City Manager's Association and the San Mateo County City Manager's Association.

RECOMMENDED GUIDING PRINCIPLES:

The provision of efficient and effective local public services is essential to the well being of all communities. A careful balance needs to be maintained in order to avoid either the degradation of public services as a result of not having a sufficient number of appropriately skilled staff members or the over commitment of scarce resources to compensation levels higher than necessary to attract and retain qualified staff. The following guiding principles are recommended to our member cities and their city managers and city councils:

- The fundamental value and importance of the work of cities and other public agencies needs to continue to be recognized. The effective provision of public services is essential to an orderly and well functioning society and the quality of life in each of our communities.

- It is essential that public agencies be able to attract and retain skilled employees who are able to provide important public services in an efficient and effective manner consistent with the principles of democratic governance.

- The supply of talented, dedicated and committed employees needs to be maintained in order to assure the provision of effective public services.

- The importance and value of professional public management to the provision of efficient and effective public services should be understood and recognized.

- The efficient use of limited public resources, for compensation and all other purposes, must be emphasized and reinforced.

- Both the short and long term costs of compensation decisions need to be carefully analyzed prior to decision-making.

- "Total compensation" (the total cost of all components of compensation) should be considered when comparing compensation levels and when evaluating long-term affordability.

- Budget decisions regarding compensation should be made in the context of total compensation costs being fully disclosed and transparent to the public.

- Compensation needs to be maintained at levels viewed as reasonable and appropriate by the community.

- Compensation levels need to be reasonably competitive and comparable with other similar public agencies as well as private sector employers for those positions that are directly comparable.

RECOMMENDED COMPENSATION POLICY GUIDELINES & PRACTICES:

In order to implement the preceding principles, the following guidelines and practices are recommended by the Association for consideration by its member agencies. It is recognized that both collective bargaining and civil service regulations add varying degrees of complexity to implementing many of these recommended policies. It is also recognized that our agencies vary considerably in regard to current practices and that some of these principles have already been instituted to one degree or another in some agencies.

- Recognizing that all public agency compensation is funded from public resources, it is critically important that all final decision-making be made in a transparent and public fashion with clarity in regard to the short and long term impacts of any proposed changes. Governing board actions should be clearly noticed and proposed changes need to be clearly described.

- The short and long-term impacts of any proposed compensation modifications need to be carefully calculated and publicly disclosed.

- “Total compensation” should be calculated and considered when undertaking compensation comparisons or determining the appropriateness of adjustments.

- The term of labor agreements should not be so long as to make it difficult to adjust to changes in economic conditions in a timely fashion.

- Compensation should be sufficient to attract and retain appropriately skilled employees and be reasonably comparable to similar employees in other public agencies. Since in many cases public agency employees are drawn from a labor pool consisting of both public and private sector employees, appropriate comparability to the private sector should be maintained where appropriate. Compensation levels should not be unnecessarily higher than required to attract and retain employees simply to maintain comparability with other public agencies.

- Members of the association should work together to achieve a common understanding regarding reasonably consistent total compensation calculation methodology.

- Compensation formulas that guarantee a position above mean/median or that automatically tier off other agencies should be avoided in that they can unreasonably escalate compensation costs.

- Pension benefits should be reasonable and affordable over the long term. Adjustments to formulas should be pursued when necessary to avoid unsustainable costs, limit divergence from the private sector benefit levels and to avoid encouraging premature retirements. Other changes consistent with the association’s previously issued pension policy paper should also be pursued.

- Employees should pay the full employee share of pension obligations and potentially a portion of the employer share.

- Post employment costs in addition to pension costs, such as medical coverage, need to be carefully evaluated prior to implementation and carefully monitored. "Pay as you go" for current costs is not an advisable manner to fund such obligations. Long term actuarial analysis need to be undertaken with benefit changes or funding plans implemented to fund such obligations.

- The practice of paying off sick leave, vacation or other leave balances (yearly or upon separation from service) needs to be carefully evaluated in regard to fiscal sustainability and reasonableness. The cost impacts of these provisions should be fully disclosed and transparent.

- Costs for benefits of current employees, especially health insurance, need to be carefully managed. Benefit levels need to be examined to determine reasonableness versus "market" and to manage costs. Employees should share in the cost of benefits in an amount sufficient to provide an incentive to help manage costs and benefit levels.

- Premium pays/specialty pays can dramatically increase compensation costs for oftentimes marginally justifiable reasons. Such pay practices should not be expanded and should be reduced to the greatest extent possible.

- Job descriptions/categories should be reasonably broad to allow flexibility and efficiency in the assignment of employees without incurring additional "out of classification" payroll costs.

- Layoff policies need to be designed, or amended, to minimize the adverse impacts that occur through "bumping" procedures.

- Practices of granting "automatic" step increases should be amended to consider: performance; number of steps; time interval between increases; amount of increase per step.

- Traditional compensation practices should be evaluated recognizing the needs and desires of the current generation of workers. Such evaluations should include recognition that employees may, to an increasing degree, have a number of employers and may move back and forth between the public and private sectors.

- The practice of an agency temporarily hiring back its retired employees can often be the most cost effective way of meeting service and performance needs cost effectively. Such hires can also, at times, be necessary to assure the maintenance of critical services, particularly when special expertise is needed. However, the public perception regarding such practices needs to be carefully considered when taking such action.

RECOMMENDED CITY MANAGER/CEO COMPENSATION GUIDELINES & PRACTICES:

In addition to the overall compensation policy guidelines and practices noted above, we endorse the specific "City Manager Compensation Guidelines" adopted by the League of California Cities to address the sometimes unique issues surrounding city manager/CEO compensation.

Recommended:
Santa Clara County City/County Management Association
Compensation Policies Sub-Committee

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Dan Rich, Campbell
Tom Haglund, Gilroy
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The League of California Cities

City Manager Compensation Guidelines

Overview

Under the council–manager form of city government prevalent in California the city council is responsible for the legislative function of the city, including establishing policies, passing local ordinances, approving the budget, and setting the overall goals and vision for the city. City managers are the chief executive officers of the city and are responsible to the council and the residents for the effective and efficient delivery of city services and the implementation of all council policies and goals. It is a partnership that requires the involvement and commitment of both the council and the manager.

In today's highly complex society city managers are required to be experienced and knowledgeable in public safety, budgeting, legislative affairs, human resources, organizational development, community and economic development, public works, community services and cultural activities. City managers are expected to use their skills and abilities to support the city council and to ensure city residents receive quality and efficient city services. It is vital that they maintain the trust of their city councils and the citizens they serve. City managers serve at the pleasure of the city council and operate under a code of ethics through their professional organization (ICMA) that governs their conduct and ensures the highest level of integrity.

The standard practice for establishing the compensation of city managers should be reasonably based upon market conditions, transparent, and tied to experience and salaries at comparable agencies. Compensation should be based on the city manager's job requirements, the complexity of both the make-up of the city organization and community, the leadership needed, labor market conditions, and the organization's ability to pay. In addition to these factors, there are ethical considerations about what is just and fair. The salaries public employees receive impact public perception and trust.

The following guidelines are a combination of best practices and provisions of state law. They are intended to guide city councils in negotiating a city manager's compensation package and/or contracts, but they should not be interpreted as requirements that must be precisely followed. They may also be used by city councils or city managers seeking to renew or amend current contracts. These guidelines support city councils in exercising reasonable judgment in determining at a local level the most appropriate terms of employment for the city manager.

Compensation Guidelines for City Managers

A starting point in any *salary negotiation* should be to:

- Determine the requirements of the job and the experience needed to successfully perform the job duties.
- Examine market conditions to learn what comparable public sector executives earn. A best practice would be to gather information using pre-determined comparable benchmark cities/agencies.
- Understand the services provided by the City along with the nature of the current issues in the City organization and in the community, and then compare these with the City Manager's expertise and proven ability to resolve those issues. City Manager's compensation should be set in relation to other top managers in the organization recognizing the highest level of responsibility and accountability of the position.
- Identify the City's current financial position, its ability to pay, and the existing policies toward compensation relative to market conditions.

- The individual's credentials, experience and expertise may be used as factors to set salary.
- In areas where cost of living is high and the Council wants the manager to reside in the city, salary negotiations may take into account this unique situation. In addition, other unique and special circumstances may be taken into consideration, such as difficult recruitment markets and the particularly challenging needs of the public agency.

Compensation changes:
- Benefits and salary increases should be comparable to those that city managers receive within the designated benchmark cities or regional market area.
    - For cities that provide across-the-board cost of living adjustments (COLAs) a consistent and pre-determined measure for establishing the annual COLA should be followed. Many organizations use a local CPI for a specific timeframe along with expected salary increases of their benchmark agencies.
    - Annual increases should be consistent with those being made available to other employees within the organization.
    - Provisions regarding consideration of periodic merit adjustments or pay for performance should be pre-determined.
- City managers should avoid taking steps regarding their own pension that would serve to solely profit them. Examples include dramatically increasing salary thereby leading to pension spiking. Recommending or implementing single highest year to determine retirement benefits is not recommended.
- City managers should not put their personal compensation interests ahead of the good of the overall organization and that of the citizens.

Transparency:
- City managers should provide their total compensation package to the Council when requesting compensation changes so that the City Council has a comprehensive view of the City Manager's compensation. Issues related to City Manager compensation must be considered and approved in a public meeting.
- The salary plan and salary ranges for city positions, including the City Manager, should be publicly accessible on the agency's website.
- City managers should receive a single salary that recognizes all duties and responsibilities assigned rather than different salaries for different assignments.

General Compensation Practice Guidelines
- Each local government should establish benchmark agencies which are determined using set criteria, which may include, but are not limited to the following:
    - Close geographic proximity
    - Similar with regard to the number and nature of the services provided
    - Similar in employer size/population size
    - Other similar employers in the immediate area
- Each local government should develop appropriate compensation levels that are in line with their labor market. Doing so will enable the city to establish and maintain a reputation as a competitive, fair, and equitable employer as well as a good steward of public funds.
- When considering any salary or benefit changes, the immediate and anticipated long-term financial resources of the organization always should be taken into account.
- Ensure public notice is provided and any adjustment in the terms and conditions of the City Manager's compensation is approved at a regularly scheduled public meeting.