



Board Meeting Agenda

**SPECIAL CITY COUNCIL and
NEW PRAGUE UTILITIES COMMISSION MEETING
CITY OF NEW PRAGUE
118 CENTRAL AVE. N.
Tuesday, March 9, 2021
5:00 P.M (Can log in as early as 4:45 P.M.)
(No On-Site Meeting – To be held via Electronic or Telephone)**

Conducted via GoToMeeting due to the COVID-19 Pandemic which is preventing attendance at the regular meeting location.

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Call Business Meeting to Order - Pledge of Allegiance

APPROVE AGENDA:

1. Review and Discuss Position Classification & Compensation Study Report – Leah Davis, President AEM Workforce Solutions (Partner Abdo Eick & Meyers)
2. Adjourn


MEETINGS:

March 9	6:00 P.M. Park Board
March 10	7:30 A.M. EDA Board
March 15	6:00 P.M. City Council
March 23	6:30 P.M. Golf Board
March 24	6:30 P.M. Planning Commission
March 29	3:30 P.M. Utilities Commission



MEMORANDUM

Memo To: Honorable Mayor and Members of the City Council
President and Members of the Utilities Commission

From: Michael J Johnson, City Administrator 

Date: March 5, 2021

Subject: **Review and Discuss Position Classification & Compensation Study Report with Leah Davis, President of AEM Workforce Solutions (Partner Abdo Eick & Meyers)**

On Tuesday evening, March 9, 2021 @ 5:00 p.m., the City Council and the New Prague Utilities Commission (NPUC) are scheduled to have a joint Special Meeting held electronically by GoToMeeting.

The purpose of the meeting is to review and discuss the enclosed Position Classification & Compensation Study Report (February 15, 2021). This report has been prepared with the assistance and guidance of Leah Davis, CPA/President of AEM Workforce Solutions, a partner of our auditing firm Abdo Eick & Meyers. Ms. Davis is also the same person who assisted the City in the re-write and update to our City Personnel Policy which was adopted in March 2020.

Included with the Report mentioned above, I have also included additional educational materials for the Council's and Commission's benefit as they relate to:

1. Local Government Pay Equity Act: An Overview – (LMC)
2. Compensation – from LMC HR Manual
3. Step and Grade Compensation Plans: Designing a Program to Drive More Than Just Marketability – (Leah Davis Article)

These materials are being provided as background to assist you in understanding what is contained in the Position Classification & Compensation Study Report.

The City Council last took action on updating the City's Compensation Plan in 2014 (7 years ago). Prior to that, the Council's previous action occurred in 2007 (7 years prior).

When the Council took action in 2014, City Staff was directed to undertake the market analysis and compensation update every 5-7 years.

The primary goal on Tuesday evening is educational in nature. New topics to some will be Minnesota Pay Equity, Comparable Worth, Job Evaluation Systems, Internal/External Equity, Compensation Plan, etc.

With Ms. Davis's assistance, we hope to review and discuss these topics (especially for those members who are new to these topics) and then to review the details of the report.

Following discussion on Tuesday evening, City Staff hopes to be able to obtain direction from the Council on what they would like to see happen with the Report prior to Staff asking the Council to adopt and implement the Position Classification & Compensation Study Report.

RECOMMENDATION:

Mayor and Council and Commission review and discussion of above noted report, following a presentation from Ms. Davis.

Local Government Pay Equity Act: An Overview

Learn about Minnesota law requirements to analyze city employee pay structure for evidence of gender inequity. How to use a job evaluation system to determine the comparable work value of each employee class. State requirements for a pay equity implementation report. Maintaining equitable pay relationships; effects of noncompliance.

RELEVANT LINKS:

Minn. Stat. §§ 471.998 - .999.
Minn. Stat. § 471.992 subd.
1.
Minn. R. 3920.0200.

For information on types of
pay systems see HR
Reference Manual, Chapter 4.

Minn. R. 3920.0100 subp. 8.
Minn. Stat. § 471.994.

I. History

In 1984 the Minnesota Legislature passed a bill extending pay equity to all local governments in the State. The law requires each local government to analyze its pay structure for evidence of inequities, and to report this information to the Department of Management and Budget (the “Department”) every three years. Most Minnesota cities are also subject to the Equal Pay for Equal Work Law, which is a different law from the Pay Equity Act but also prohibits discrimination in pay based on sex.

II. Concept of pay equity

Compensation programs generally have three parts:

- Pay level—the level an employer pays in comparison to other employers.
- Pay structure—the relationships among jobs in an organization.
- Pay method—the set of policies and procedures for paying individual employees.

Pay equity is designed to address the problem of a wage structure in which there is one pay pattern for jobs performed mostly by men and another pay pattern for jobs performed mostly by women. Pay equity primarily affects pay structure, not pay level or pay method. An employer can still have a pay level that is different than other employers. The city can still pay more to recognize individuals’ seniority and performance. One way to do this is to establish salary ranges for each job class and reward employees for seniority, performance, or both by moving them through the salary range.

III. Job evaluation system

Every city must use a job evaluation system to determine the comparable work value of the work performed by each class of its employees. System options are:

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

MN Mgmt. & Budget, State Job Match Job Evaluation System.

Minn. Stat. § 471.994.

Minn. Stat. § 471.994.

Minn. Stat. § 471.997.

Minn. Stat. § 471.994.

Minn. Stat. § 471.995.

Minn. Stat. § 471.992 subd. 2.

Minn. Stat. § 471.9966.

- Use the state job match.
- Use or modify systems developed by other public employers.
- Design your own system.
- Purchase a privately-owned (consultant’s) system.

Regardless of what job evaluation system is used, a city should be prepared to explain to the state’s Pay Equity Coordinator the criteria considered within their job evaluation system, how the points are awarded and the objective basis for the system, to ensure there is no inherent bias against female job classes.

No matter what job evaluation system is used, it must be updated to account for:

- New employee classes.
- Any changes in factors affecting the comparable work value of existing classes.

In addition, when substantially modifying your job evaluation system or adopting a new system you must notify the Commissioner of the Department of Management and Budget (the “Commissioner”). Cities should note the results of any job evaluation system and subsequent reports may be used in any proceeding or action alleging discrimination.

IV. Pay equity and bargaining units

Pay equity laws directly address some issues where collective bargaining and pay equity laws intersect:

- Cities must meet and confer with the exclusive representatives of their employees on the development or selection of a job evaluation system.
- A report containing the results of the job evaluation system must be provided to the exclusive representatives of the employees to be used by both parties in contract negotiations.
- In interest arbitration (for any class other than balanced) the arbitrator shall consider pay equity, including results of a job evaluation study and any employee objections to said study, together with other standards appropriate to interest arbitration.
- The provisions of the Pay Equity Act do not diminish a city’s duty to bargain in good faith.

V. Pay equity implementation report

Cities with one or more employees must file a pay equity implementation report every three years as required by the Department.

RELEVANT LINKS:

Minn. R. 3920.0100 subp. 5.
Minn. Stat. § 179A.03 subd. 14.
MN Mgmt. & Budget, Local Government Pay Equity.

Minn. Stat. § 13.03.

Minn. R. 3920.0300 subp. 5.

Minn. R. 3920.0400.

Minn. R. 3920.0800 subp.1, 3.

Minn. R. 3920.0800 subp. 1. and
Minn. R. 3920.1000 subp. 3.

Minn. Stat. § 471.9981 subd. 7.
Minn. R. 3920.1200.

Generally, an employee is one who works in a position a minimum of 67 days per year (100 days in the case of a student) and works an average of at least 14 hours per week during the weeks they are scheduled to work.”

The information in the report is public. The form that cities must use is provided by the Department and requires that the following information be submitted:

- A list of all job classes in the political subdivision.
- The number of employees in each class.
- The number of female employees in each class.
- An identification of each class as male-dominated, female-dominated, or balanced.
- The comparable work value of each class as determined by the job evaluation system.
- The minimum and maximum monthly salary for each class and the amount of time in employment required to qualify for the maximum.
- Any additional cash compensation.
- Whether or not job classes are eligible for benefits, or if the jurisdiction's contribution limit for benefits is different for any male-dominated and female-dominated classes of comparable work value.
- Any other information requested by the commissioner.

Based on the pay equity implementation report and any other information requested by the Department, a number of tests are used to analyze the information submitted and determine compliance/noncompliance.

VI. Noncompliance

If a city is found not in compliance, a notice will be issued to that city. A city in disagreement with such a finding may notify the Commissioner and will be given a defined period of time during which additional information may be submitted for reconsideration of the finding.

In the event compliance is not achieved within the defined time period set by the commissioner, the commissioner will notify the city and the commissioner of revenue the city is subject to a five percent reduction in the aid that would otherwise be payable to that city, or to a fine of \$100 per day, whichever is greatest.

Cities may appeal the imposition of a penalty by filing a notice of appeal with the commissioner within 30 days of the commissioner’s notification to the city of the penalty. No penalty may be imposed while an appeal is pending.

RELEVANT LINKS:

Minn. R. § 3920.1300.

Dominique Murray, State
Program Administrator- Pay
Equity
Email:
Dominique.Murray@statemn.
us
651-259-3805
800.627.3529

800.925.1122
651.281.1200
HRbenefits@lmc.org

VII. Maintaining pay equity

Cities must maintain equitable pay relationships and submit additional reports as required by the department, generally every third year. The Department monitors compliance on an ongoing basis and reports to the legislature annually. The procedures for imposing or appealing penalties still apply to those cities found in compliance at one time, but found not in compliance at a future date.

VIII. Further assistance

Cities may contact the Pay Equity Coordinator for specific assistance. The League's Human Resources and Benefits Department will also discuss with you any additional questions you may have.

Chapter 4 Compensation

Learn effective and legal compensation practices and policies. Find explanations of compensation plans and other types of pay increases. Review minimum wage and overtime laws. Understand payroll issues like when wages are due and permitted withholdings and deductions.

RELEVANT LINKS:

HR Reference Manual,
Chapter 5.

HR Reference Manual,
Chapter 1 Section IV-B State
and Federal Laws regarding
Compensation.

I. Compensation and benefits

A total compensation program for employees contains both compensation and benefit components. Providing competitive compensation is just as important for recruiting, retaining, and motivating city employees as it is with private sector employers. Some elements of a total compensation program may be difficult to classify strictly as “compensation” or only as a “benefit.” For example, employee use of city cell phones may be considered a “benefit”, but depending on reimbursement strategies, may become taxable “compensation”. Or, is compensation that is deferred just compensation, or is deferred compensation also a benefit?

For purposes of this chapter, compensation includes salary and wage issues, such as compensation plans, and minimum wage and overtime laws. It also includes payroll issues such as pay periods, withholdings and deductions. The benefits chapter is devoted to leaves and other time off, and selected other events and programs such as employee recognition, tuition reimbursements, membership, uniforms and childcare and housing assistance as well as insurance benefits.

II. Applicable state and federal law

A city needs to be aware of the many state and federal laws affecting all aspects of the employment relationship, from application and hire, through compensation, benefits and protections while on the job, finishing with end-of-employment requirements and sometimes continuing employer obligations in a post-employment relationship.

Those laws having the most impact for a city when establishing and maintaining employee compensation are discussed throughout this manual with regard to each applicable topic.

This material is provided as general information and is not a substitute for legal advice. Consult your attorney for advice concerning specific situations.

RELEVANT LINKS:

HR Reference Manual,
Chapter 1.

*Classification and
Compensation Plan
Framework for Smaller
Cities, LMC Model.*

III. Salary and wages

There are a number of laws impacting the way in which cities pay their employees, regulating such items as overtime eligibility and payment, pay equity (comparable worth), and payroll procedures and withholdings. However, the city must keep in mind the overall goal of employee compensation, which is to recruit and retain a productive and reliable workforce. This section of the of the Chapter discusses various methods for meeting this overall goal as well as related issues that impact employee wages, pay plans, and payroll procedures.

A. Compensation plans

In establishing or updating its employee compensation plan, the city may want to start by listing the goals and priorities of the organization. Does the city want to be known for outstanding customer service? Does it prioritize communication with residents? Is fiscal responsibility the top concern? Is performing city services as efficiently and cost-effectively as possible a focus for the city? Is increasing employee capacity or competency/skills a focus?

Does the city wish to reward employees based on their contribution to the overall success of the city or the employee's specific department? If the city's main goal is outstanding customer service, then surveying residents about customer service issues and a compensation plan based on those results may be best suited to achieve the city's goals. Or if a priority is the city's budget, the city could develop rewards for departments producing cost savings. Whatever the priorities, the city should establish the employee compensation plan with these in mind and then build compensation models and tools providing employees incentives to achieve the desired results.

Additionally, a city will want to identify any existing recruitment or retention issues in play. Is the city's turnover rate higher than normal? Does the city have a difficult time recruiting qualified staff? Is there routine turnover the first one to three years of employment? Cities may find it easier to work through the initial compensation plan planning phase by keeping the following in mind:

Compensation tools should fit the desired results. A pay system based on longevity will likely result in increased employee retention. Education incentives will result in more highly trained employees. A city may wish to reward more than one type of employee behavior. For instance, a city could award employees who reach five years of service a three percent increase in pay to reward longevity.

RELEVANT LINKS:

Then, to reward excellent customer service to residents, a city could also increase its contribution to deferred compensation based on a resident satisfaction survey (e.g., 90 percent approval rating – five percent increase in city contribution).

- *Compensation strategies should take into account the labor market.* Establishing pay systems to reward certain employee behaviors will probably not provide the desired results if the city's base wages are substantially below the market. For example, a city with beginning wages at 75 percent of the market rate will not likely retain good performers long enough for them to receive any incentive pay. Or, the incentive pay may be insufficient to make up for the gap. It doesn't take long for most employees to figure out the market rate of their job.
- *Compensation strategies need to be simple to use and explain.* Sometimes compensation strategies are abandoned because they are too difficult to administer or too confusing for employees. A pay plan should not have too many components or rely on complex formulas. Ideally, a compensation strategy should be explainable in a few, simple sentences.
- *Cities should seek employee input in devising compensation strategies.* Often the best way to find out what motivates an employee is to ask them. Exit questionnaires and employee committees are a good source of information about how employees view their pay or benefit structure. Consider asking job applicants, "what type of pay or benefit structure are you looking for?"
- *Compensation systems need to be communicated to employees.* Most cities use a combination of methods: employee handbooks, new employee orientations through an onboarding process, staff meetings, email and Intranets. Whatever method is used, it should include a mechanism for employees to ask questions.

In addition to considering the goals and priorities of the organization, the city must be mindful of other factors in establishing its compensation plan. The city will want to consider both internal equity considerations (i.e., whether there are reasonable relationships between various job classes within the city) and market considerations (i.e., whether there are reasonable relationships between job classes and their appropriate comparison groups in the larger market). In order to do this, there are some preliminary steps the city may want to take prior to establishing its compensation plan:

- Job classification/review.
- Job evaluation (especially as it relates to pay equity compliance).
- Market comparison.

RELEVANT LINKS:

Job Description, LMC model form.

U.S. Equal Employment Opportunity Commission: *The ADA: Your Responsibilities as an Employer.*

LMC information memo, *FLSA: Determining Exempt vs. Non-Exempt Status.*

1. Job classification

One of the first steps in establishing a compensation plan is to review job duties and responsibilities and classify jobs accordingly.

Job classification establishes the foundation for grouping jobs into categories in order to compare them both internally (with similar jobs within the city) and externally (with similar jobs in the larger market).

Ideally, each position in the city should be reviewed to determine the following:

- What is the basic purpose or objective for the position? In other words, why was the position created?
- What are the primary or essential functions the individual in the job performs? (For purposes of the Americans with Disabilities Act (ADA), the essential functions should be defined carefully as they are likely to come into play if the city is ever challenged under the ADA).
- What are the criteria by which the position should be judged? In other words, how will the city know if the employee is doing a good job?
- What basic types of knowledge, skills, and abilities must the employee possess in order to successfully perform the duties of the job?
- What are the minimum requirements of the position with regard to education and experience, certifications, training, and licenses?
- What are the types of education, experience, certifications, training, or licenses that, while not required, would be helpful or desirable?
- Who does the position report to and which positions, if any, does it supervise?
- What is the degree of supervision received in the position; i.e., does the person work independently with just general guidance or do they receive substantial day-to-day supervision in the position?
- Is the position exempt (not eligible for overtime) under the Fair Labor Standards Act (FLSA) or nonexempt (eligible for overtime)?

Once these items are determined, they can be used to create or update a job description for the position. Job descriptions are the guiding document for many aspects of job classification, compensation, pay equity compliance, recruitment, performance evaluation, and sometimes discipline and termination. Therefore, it is a good practice for cities to develop job descriptions and periodically update them.

Once a city has completely reviewed each position and developed or updated job descriptions, it may be possible to group similar jobs into job classes. For example, in most cities, each police officer performs very similar duties to other police officers.

RELEVANT LINKS:

Minn. Stat. § 471.991.

See Section III-A-2, *Job evaluation and pay equity*.

Minn. Stat. §§ 181.66 - .71.

See LMC information memo, *Local Government Pay Equity Act*.

MN Mgmt. & Budget: State Job Match Job Evaluation System (May 2009).

One job description and one job class should serve for most of the police officer positions in the city.

The statute on pay equity in local governments defines job class as “one or more positions that have similar duties, responsibilities, and general qualifications necessary to perform the duties, with comparable selection procedures used to recruit employees and use of the same compensation schedule.” This is a useful definition for cities to use in making decisions about which positions to group together into one job class.

2. Job evaluation and pay equity

Minnesota law requires cities to analyze their pay structures to ensure women are not treated less favorably than men when they are performing work of similar value. In other words, cities need to ensure their wage structure doesn’t provide higher pay levels for jobs performed mostly by men than for similarly valued jobs performed mostly by women.

Therefore, after classifying the city’s jobs and developing job descriptions, the city must evaluate each job class in terms of skill, effort, responsibility, working conditions, and other relevant work-related criteria. Based on these criteria, the city assigns a value or “points.” There are a number of job evaluation systems available to help a city conduct this study or, in theory, the city can develop its own method (but would then need to ensure the method is defensible as being nondiscriminatory).

One job evaluation system available to cities is called the State Job Match. It is a listing of benchmark jobs typically used by cities throughout the state (e.g., city clerk, deputy clerk, clerk-treasurer, maintenance supervisor, etc.) for which a range of job values (points) has been determined. The city can simply compare its job classes to the ones on this list and assign the points in accordance with the State Job Match system. For example, a city might compare its job description for its maintenance supervisor to the description of the maintenance supervisor in the State Job Match, determine how close the match is, and then assign points accordingly.

Alternatively, the city can hire a consultant to do the job evaluation (assign job value points) for the city. The advantage of using a consultant is employees will generally perceive an outside consultant as less likely to be biased in how they assign points. Some systems require employees to complete a detailed questionnaire about their job duties; others require only an up-to-date job description.

The city should make sure they understand the system being offered and, ideally, compare it to other systems before choosing one to be used.

RELEVANT LINKS:

Minn. Stat. § 471.994.

Instructions for Completing Pay Equity Implementation Reports, MN Mgmt. and Budget, Pay Equity Office, (March 2019). Local Government Pay Equity, MN Mgmt. and Budget. Minn. Stat. § 471.994.

Minn. Stat. § 471.991.

Instructions for Completing Pay Equity Implementation Reports, MN Mgmt. and Budget, Pay Equity Office, (March 2019). Local Government Pay Equity, MN Mgmt. and Budget.

MN Management and Budget: Pay Equity Software Instructions.

Minn. Stat. § 471.992.

Minn. Stat. § 471.993.

Minn. Stat. § 471.994.

Instructions for Completing Pay Equity Implementation Reports, MN Mgmt. and Budget, Pay Equity Office, (March 2019).

After a job evaluation system is in place, state law requires the city update it to account for new job classes and changes in factors affecting the comparable worth value of existing job classes.

While a city can change systems periodically, there are certain legal requirements that come into play (such as notification to the commissioner of the Minnesota Department of Management and Budget), so the city should be mindful of these requirements when making such changes.

Once the points (or job value) are determined, the city must look at each job class to determine if it is “male-dominated,” “female-dominated,” or “balanced.” These terms are defined in the pay equity statute.

The final step is to compare job classes of equal or similar value to ensure there is no pattern in which male-dominated job classes are consistently paid more than female-dominated job classes. Balanced classes are considered “neutral.”

The State of Minnesota Department of Management and Budget has a web-based computer application which a city can use in order to determine whether there is a pattern of inequity in its pay structure. Additionally, jurisdictions can log on privately to the application to simulate changes without actually submitting a report.

There are a number of provisions in the pay equity law cities should consider as they implement or update their compensation plan and pay equity report to the state:

- An arbitrator must consider pay equity, including the results of any job evaluation study and any employee objections to the study together with other standards appropriate to interest arbitration (i.e., arbitration over the terms of a union contract).
- The provisions of the Pay Equity Act do not diminish a city’s responsibility to bargain in good faith.
- The city must ensure wages for each position are reasonable when compared both internally and externally.
- Job evaluation systems must be updated to account for new job classes and changes in factors affecting the comparable work value of existing job classes.
- Cities must notify the commissioner of the Minnesota Department of Management and Budget when substantially modifying its job evaluation system or adopting a new system.
- Cities must meet and confer with employee unions on the development or selection of a job evaluation system.

RELEVANT LINKS:

Minn. Stat. § 471.995.

Minn. Stat. § 471.9966.

Minn. Stat. § 471.997.

Minn. Stat. § 471.9981.

Minn. Stat. § 471.999.
Minn. R. 3920.1200.

Minn. Stat. § 471.993.

- A report containing the results of the job evaluation system must be provided to the union to be used by both parties in contract negotiations.
- It is not an unfair labor practice for a city to set aside funds for the purpose of correcting inequitable relationships.
- The results of any job evaluation system can be used in court or by the Human Rights Department in any proceeding or action alleging discrimination.
- Cities with one or more employees must file a pay equity report with the Minnesota Department of Management and Budget, Human Resource Division every third year as required by the department.
- If a city is found in noncompliance, a notice will be issued to that city and the city may submit information for reconsideration of the finding. Ultimately, if the city is found not in compliance, the city may be subject to fines and/or penalties through reductions in state aid. However, the city may appeal the penalty to the commissioner for a hearing by an administrative law judge. The Minnesota Department of Management and Budget monitors compliance on an ongoing basis and reports to the legislature annually.

3. Market comparisons

Once the city has classified its employees, developed job descriptions, and assigned points and rankings within the city, the next step is to compare the various job classes to appropriate job categories and classes in the market.

Cities are not legally required to pay employees the market rate for their job. The state's pay equity law is primarily focused on internal relationships between all of the jobs in the city (i.e., it focuses on comparing jobs of a similar nature within the city to make sure that they are paid similarly). However, state law also requires the city to ensure wages for each position are reasonable when compared to similar positions with outside employers.

The market for any given job class can be determined in a couple of ways. It is up to each individual city as to how they want to define their market.

For example, the city will probably want to determine whether they generally recruit new employees from similarly situated cities, from county government, from smaller cities, from the private sector, from the nonprofit sector, or from other sources.

Exit questionnaires or exit interviews often provide other important information. Does the city lose employees to the private sector, to county or state government, other city governments, etc.?

RELEVANT LINKS:

LMC Salary and Benefits
Survey for MN Local
Governments

In addition, the city will want to look at whether they recruit from or lose employees mostly within their own region of the state, other regions of the state, or outside Minnesota.

All of these factors may be different for different job classes, and therefore, the city may want to define the market differently for different job classes.

Once the city has determined its market, it will need to look for appropriate comparisons from that sector/region.

There are a number of sources for these data. For example, the League of Minnesota Cities, the Association of Minnesota Counties, and the Association for Metropolitan Municipalities jointly sponsor a salary and benefits survey of benchmark positions throughout Minnesota. Member cities and participating organizations are allowed access.

There are also many private sector salary surveys, many of which include information from the not-for-profit sector. Unfortunately, the cost and availability of these surveys sometimes make it difficult for cities to obtain them. This is one reason many cities choose to hire compensation consultants to conduct market studies for them.

Market survey data is typically used to establish a salary range for each job class in the city. This is accomplished in conjunction with an established “pay philosophy” which is generally determined by or in consultation with the city council. For example, the city might have a pay philosophy stating employees will be paid right at or near the market rate. In this case, they might establish the midpoint of a salary range at or close to that market rate. Another city might have a philosophy stating it wants to pay employees substantially above the average, so it doesn’t lose employees to competitors. In this case, the city might establish the pay rate at the 75th percentile of the market.

While the city could simply adjust an employee’s wage rate each year to match the market rate, it is far more common for cities to establish salary ranges. The advantage of a salary range is it can be used to reward employees for longevity or performance. For example, the city may want to establish a practice of hiring employees below the market rate and then rewarding them through pay increases for years of service (and/or performance) until they are eventually paid at or above the market average.

In recent years, some cities have begun reviewing total compensation with market survey data.

Step and Grade Compensation Plans: Designing a Program to Drive More than Just Marketability

by Leah Davis, CPA (<https://aemcpas.com/our-partners/leah-davis-cpa/>).



Ask any employer today to name their greatest business or operational challenges and you are guaranteed to hear “finding qualified and skilled employees” in the top three of nearly every list. For many public employers, this struggle to build and retain a talented workforce can often be made even more difficult by budget constraints, changing political climates, and pay equity regulations, among many others. This environment has left many cities, counties, and school districts feeling like a fresh approach to compensation programs may be the answer.

Many public employers have been using some form of a step and grade (also called step and lane) compensation model for years. These models were originally developed to provide a transparent, predictable, and, ideally, equitable pay scale on which public employees and governance could rely heavily. Initial development of a customized compensation program, including an assessment of each position within the system, is often a major investment of time and financial resources for an organization, which can deter ongoing program maintenance and updates. However, when properly designed, implemented, and maintained, an effective compensation program drives far more than just marketable pay rates for employees.

Below are the most basic benefits of an effective and relevant compensation model:

- ***Position descriptions are kept current and accurate.***

ABDO EICK & MEYERS

The integrity of the entire compensation model relies on the assumption that all position descriptions, or job descriptions, accurately reflect the essential duties and requirements for each role. Employers should update these descriptions whenever there is a new position created, or if a permanent change to an existing position occurs. To help formalize a process of maintaining job descriptions, all positions should be reviewed bi-annually for accuracy.

- ***Objective position point assignment and classifications reflect overall impact.***

When consistently applied, a quality position pointing and classification methodology should provide leaders and employees with an objective and logical "hierarchy" of positions based on point value within the organization. This hierarchy, depending on the classification methodology used, is meant to represent the level of skills and experience needed for each position and the level of financial and operational impact that each position has within the specific organization. To be effective, all position classifications and pointing must be accurate both as an individual position and relative to all other positions.

- ***Steps and grades reflect competitive wage levels to attract and retain quality talent.***

Public employers should be aware of their competition also vying for top talent and what those other employers are offering related to compensation. Organizations should also review annual cost of living adjustments, which increase the entire compensation scale, on at least an annual basis to ensure that they are keeping up with the market.

- ***Pay equity compliance is actively managed.***

Public employers in Minnesota are required to file a report every three years to ensure that they are not engaging in discriminatory pay practices based on gender. A well-designed and maintained compensation program should ensure that all employees—regardless of gender—are compensated fairly.

While the above list details the key benefits of a position classification and compensation program, there are several additional questions that employers should be asking themselves when evaluating compensation program performance:

- ***How and why does our organization award step increases?***

Are step increases, which are in addition to annual cost of living adjustments, based on length of service, performance, or other factors? How have these step increases been awarded in the past; how do we wish to evaluate and award these increases going forward? Depending on the award methodology and

retention concerns, does our organization have the appropriate number of steps within our scale?

- ***If step increases are based in whole or in part on employee performance, does our organization have an effective performance evaluation process in place?***

Are employees clear about performance expectations? Are evaluations carried out consistently and effectively by managers across the organization? Does current evaluation criteria motivate the behaviors that actually drive organizational success?

- ***Is the current compensation program designed to grow with the organization?***

If our city, county, or school district expects to have future growth, does the current compensation scale provide enough "open space" to add new positions and responsibilities within and among the grades or lanes?

- ***Does our organization have a clear and consistent position classification and point review request process?***

When employees wish to have their position point assignments reviewed, for whatever reason, do we have documented request procedures, eligibility guidelines, and review processes? Are employees and supervisors aware of what factors actually impact a position's point assignment and what factors do not?

- ***How do our union contracts affect and influence our compensation model and its marketability?***

Do independent union scales impact the relevance of the overall, non-union compensation model?

- ***Do we have a documented policy for approving exceptional service and/or longevity pay above the approved compensation scale, if necessary?***

How might this exceptional service and/or longevity pay impact our organization's pay equity compliance?

- ***Do all exempt positions (not eligible for overtime pay) meet the Department of Labor Fair Labor Standards Act (FLSA) exemption guidelines?***

Has it been made clear when an employee can be classified as exempt from overtime? Are there employees who need to be reclassified and paid overtime when worked? How will this be communicated to reclassified employees?

When thoughtfully designed and carefully maintained, position classification and compensation programs can be a valuable asset for public employers. When well done, they provide the framework for not just pay rates, but workforce policies and practices that can attract, motivate, and retain the best employees. Just think—how many of your organization's top three challenges would seem a bit less daunting if you were the employer of choice for the most talented employees in the marketplace?