TO: HONORABLE CITY COUNCIL

FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES

DATE: JULY 7, 2008 CMR: 300:08

SUBJECT: ADOPTION OF TWO RESOLUTIONS: (1) ADOPTING A COMPENSATION PLAN FOR MANAGEMENT AND PROFESSIONAL PERSONNEL AND COUNCIL APPOINTEES AND RESCINDING RESOLUTION NOS. 8748, 8799, 8821, 8832 AND (2) AMENDING SECTION 1701 OF THE MERIT SYSTEM RULES AND REGULATIONS TO INCORPORATE THE 2008-2009 COMPENSATION PLAN FOR MANAGEMENT AND PROFESSIONAL PERSONNEL AND COUNCIL APPOINTEES

RECOMMENDATION

Staff recommends Council adoption of the attached resolutions adopting a compensation plan for Management and Professional personnel and Council Appointees effective for the pay periods beginning July 1, 2008 and continuing through June 30, 2009; and amending the Merit System Rules and Regulations to incorporate the 2008-2009 compensation plan for Management and Professional personnel.

BACKGROUND

The Management and Professional group includes 236 active employees. Over the last five years, the City has strived to contain increases in personnel-related costs in the Management and Professional group. In 2003, these employees took the lead in addressing the City’s financial challenges by receiving no salary increase and a 1% salary decrease implemented through a mandatory furlough. The City implemented additional cost-saving measures for management and professional employees before other employee groups, including a cap for health insurance at the PERS Choice rate instead of the PERS Care rate; prorated benefits for new part time management and professional employees; and a two-tier retiree health program, raising the vesting requirement for eligibility for retiree medical benefits from 5 years to 20 years for new hires. By implementing a cap on medical benefits for Management and Professional employees, the City has avoided an estimated $3.5 million in costs since 2003.

In 2004, Council approved a 3% salary increase for the Management and Professional employees, offset by a mandated furlough equivalent to a 1% salary reduction. The Management and Professional group was the only unit that fully participated in this significant cost saving measure that year. In 2005, this group received a 3% control point increase effective July 1, 2005, followed by a 1% control point increase effective January 1, 2006. In 2006, the group received no salary
increase between July 1, 2006 and January 5, 2007. The Management and Professional employees received a 3% control point increase between January 6, 2007 and June 30, 2007, of which one percent was awarded at the discretion of the department heads based on merit. At the same time, management employees began contributing, for the first time, two percent of their salaries to the PERS employee share for the 2.7 percent @ 55 retirement benefit, effectively offsetting the 3% salary increase.

Recently, the City addressed a longstanding grievance from SEIU regarding a request from SEIU to move certain management group classifications into the SEIU Unit by participating in a Mediation/Arbitration with SEIU. That mediation resulted in a stipulated order and agreement to modify the Service Employee International Union (SEIU) unit by transferring 14 classifications involving 26 Management, Professional, & Confidential employees effective June 21, 2008. This Stipulated Order and Award leaves the Management and Professional group with 236 employees and 171 classifications to which the 2008-2009 Management Compensation Plan will apply. Staff has been working with SEIU to help ease the concerns of transitioning employees and will present Council with a change to the SEIU Memorandum of Agreement reflecting the stipulated order in the near future.

**DISCUSSION**
Each year, a committee comprised of one employee from each department provides the City Manager with feedback and concerns on behalf of the Management and Professional employees. This year, after considering this input, the City Manager recommends:

- A 3.5% salary control point increase.
- The Police Lieutenants will also receive an additional 14% salary increase. This will bring the Lieutenant’s pay above the Sergeants they supervise who earn overtime pay and other premium pay (Palo Alto Lieutenants are not eligible to receive overtime or premium pay) in addition to bringing the Lieutenant’s salaries closer to the salaries being paid in the market.
- An additional half percent to be allocated toward equity adjustments to address compaction problems, as determined by the City Manager.
- Allow Management, Professional and Confidential employees the ability to voluntarily purchase additional life insurance (paid by the employee at no cost to the City)

Other minor changes in the compensation plan have been made in order to clarify existing benefits, policies or processes.

**RESOURCE IMPACT**
The annual cost for the proposed Management and Professional Compensation Plan control point increase (beginning July 1, 2008) is $1,317,340 including salary and benefits, representing $689,600 in General Fund cost and $627,740 in enterprise and other fund costs. The total increase for the compensation plan is 2.9 percent based on total compensation, on an annual basis in fiscal year 2008-09. The 2008-09 Adopted Budget includes funding for this expense in the General Fund salary contingency. Staff traditionally transfers the enterprise and other funds’ portion of the salary contingency funding to those funds as part of the midyear report and budget amendment ordinance (BAO). Accordingly, staff will propose this transfer as part of the 2008-09 midyear report and BAO
in winter 2009.

**POLICY IMPLICATIONS**
The action recommended by this report is consistent with City Council direction.

**ENVIRONMENTAL REVIEW**
This is not a project under the California Environmental Quality Act (CEQA).

**ATTACHMENTS**
Attachment A: Resolution Adopting a Compensation Plan for Management and Professional Personnel Plan and Rescinding Resolution Nos. 8748, 8799, 8821 and 8832

Attachment B: Resolution Amending Section 1701 of the Merit System Rules and Regulations to Incorporate to 2008-2009 Compensation Plan

Attachment C: Redline Version of Management and Professional Compensation Plan

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