

A G E N D A

COMPENSATION COMMITTEE

MEETING OF
THURSDAY, APRIL 5, 2018, AT 1:30 P.M.
BOARDROOM - GATEWAY

1. MEETING CALLED TO ORDER: Chair Steve Roath.
2. ROLL CALL: Roath, Birdsall, Brown, Kelso
3. APPROVAL OF REPORT OF March 22, 2018 (Attachment)
4. RESIDENTS' FORUM
5. OLD BUSINESS: Continuation of discussions from March 22, 2018 meeting
 - a.) Alternate Indices (wage adjustment funding);
 - b) Relative position of GRF jobs within market bands;
 - c) Compensation Management Structure.
6. NEXT MEETING: To Be Determined
7. ADJOURN or RECESS

If an executive session is necessary, it will be announced during the regular meeting. Executive session topics are restricted to legal, personnel, and third-party contract matters.

cc: GRF Board

**COMPENSATION COMMITTEE REPORT
MEETING OF
WEDNESDAY, MARCH 21, 2018, AT 1:30 PM**

A regular meeting of the Compensation Committee was convened by Chair Steve Roath, at 1:35 PM, in the Board Room at the Gateway complex.

Call to Order

Present, in addition to the Chair, were Committee members Les Birdsall, Carl Brown, and Bob Kelso. Also in attendance were Tim O'Keefe, CEO of GRF; Anthony W. Grafals, General Counsel and Director of Confidential Services; Judith Perkins, Sr. Manager Human Resources.

Attendance

The report of the Committee's meeting held on January 24, 2018 was reviewed and approved by the Committee with one correction.

Report of
January 24,
2018 Approved

Directors Geri Pyle, Sue Adams, and Mary Neff, and resident Ken Haley were present. No comments were offered during the residents' forum.

Residents'
Forum

The Committee discussed several aspects of the current compensation philosophy, the structure of the current compensation management system (CMS), and current and future compensation funding practices. Staff was asked to report on possible alternative indices that could be used in place of the CPI-U to establish the base wage funding pool. In addition, staff was asked to prepare a chart indicating the distribution of wages within the GRF bands.

Open
Discussion

The next meeting of the Compensation Committee will be at 1:30 p.m. on Wednesday, April 5, 2018, in the Board Room at the Gateway Administration Building.

Next Meeting

The meeting was adjourned at 3:52 pm.

Adjournment

Steve Roath, Chair
Compensation Committee

JP/m

Meeting Date: 4/5/18

**SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE**

REPORT PREPARED BY: ANTHONY W. GRAFALS, GENERAL COUNSEL

REQUESTED ACTION/RECOMMENDATION: POSSIBLE ALTERNATIVE INDICES
FOR USE IN COMPENSATION MANAGEMENT SYSTEM

BACKGROUND:

At its March 21, 2018 meeting, the Committee asked staff to investigate possible alternative indices which could be used for evaluative purposes in administering GRF's Compensation Management System. What follows is a preliminary listing of sources available from the US Bureau of Labor Statistics.

ATTACHMENTS: K. Haley document, 5 a) 1

CRITERIA	Project:
Financial Impact	NONE
Operational Efficiencies	NONE
Dependencies	NONE
Subsequent Actions	NONE
Alternatives/Options	NONE
Time-Frame	NONE
Advantages/Benefits	NONE
Disadvantages/Risks	NONE

1. The Current Population Survey (CPS). The CPS is a household survey dating back to the 1940s. The primary goal of the CPS is to assess the employment status of persons by various demographic characteristics. However, earnings data are also collected. A household member is interviewed regarding employment and wages of all household members.

Drawbacks: Information may be less precise than that collected from employers. Earnings are considered usual if they are perceived as such by the respondent. If earnings are reported in annual, monthly, biweekly, or hourly form, they are converted to weekly data by BLS. Because this is a live survey it is labor intensive and random. Therefore, sample sizes are relatively small and particular job categories cannot be targeted.

Advantages: More demographic correlations like age, sex, race are collected on usual weekly earnings, which are defined as wages and salaries before taxes, and include overtime pay, commissions, and tips.

2. The Current Employment Statistics Survey (CES). The CES surveys employers and focuses on industry employment data. It also provides both an hourly and a weekly earnings summary. Data is aggregated by Standard Industrial Classification (SIC) codes.

The earnings data are based on actual reports of aggregate payrolls, which include pay before deductions for Social Security, unemployment insurance, group insurance, withholding tax, salary reduction plans, bonds, and union dues. The payroll figures include supplemental pay, such as shift differentials and overtime, but exclude tips, production bonuses, commissions, and lump-sum payments unless these are paid regularly, which is often the case in wholesale trade and some other industries.

Drawbacks: Data is available for production and nonsupervisory workers only. Data is not available by occupation.

Advantages: Data is available by state and for many metropolitan areas for manufacturing industries.

3. Covered Employment and Wages (ES-202). Total annual wages, annual wages per employee, and average weekly wages are tabulated by industry, type of ownership, and establishment employment size. Reports are produced for metropolitan statistical areas (MSAs), counties, States, and the Nation. Annual and quarterly average wages are also produced for the same categories. Average annual pay estimates in private industry are based on total wage figures as they are reported by employers to the Department of Labor for unemployment insurance purposes.

Average annual pay is computed by dividing total annual pay by annual average employment. Average weekly wages are obtained by dividing average annual pay estimates by 52.

In most States, the definition of total annual pay includes bonuses, stock options, the cash value of meals and lodging, and tips and other gratuities.

Employee contributions for old-age, survivors, and disability insurance (OASDI), health insurance, unemployment insurance, workers' compensation, and private pensions are considered pay. However, employer contributions to these programs are not considered pay.

Money withheld for income taxes and union dues is counted as pay.

Drawbacks: Data is not produced by occupation. Definitions of pay may vary from State to State. Employer contributions to deferred compensation plans such as 401(k)s are considered pay in some States but not others.

Advantages: This program is a virtual census of payroll resulting in comprehensive employment and wage data on workers covered by State unemployment insurance laws and the Unemployment Compensation for Federal Employees (UCFE) program.

4. Occupational Employment Statistics (OES). This program is a cooperative effort between BLS and State employment agencies. It produces series reports on occupational employment and earnings nationally, by State, and for approximately 330 metropolitan statistical areas. It is intended to collect data on national, State, and area occupational employment in cooperating States. Nonmanufacturing, manufacturing and State and local government establishments are included, as well as agricultural services.

Wage estimates by occupation are produced annually by industry. Wages in the OES survey are defined as pay before deductions, exclusive of premium pay. Included are the base rate, cost-of-living allowances, guaranteed pay (defined as minimum pay guaranteed to incentive-paid workers), hazardous duty pay, incentive pay including commissions and production bonuses, and on-call pay.

Excluded are back pay, jury-duty pay, overtime and severance pay, shift differentials, nonproduction bonuses, and tuition reimbursements.

Drawbacks: The OES is published annually. Participation in the OES is done through surveys distributed by state agencies and is voluntary. No data by employee or employer characteristics is available. Wages are aggregated by occupation without regard for the level of work or whether employment is full-time or part-time. Data presented does not differentiate between private, state, or local government employees

or employee characteristics such as union affiliation or type of pay such as incentive pay, etc. The OES also looks at employers with as few as 5 employees.

Advantages: Relies on larger sample size than most others. Provides a breakdown by mean and median hourly and annual pay. Provides data based on standardized occupational codes and by Primary Metropolitan Statistical Area, which limits the sample population reported as compared to the use of Consolidated Metropolitan Statistical Area surveys.

5. The Occupational Outlook Handbook, This is a biennial publication of the Office of Employment Projections. The *Handbook* contains brief articles for each occupation describing the educational requirements, employment prospects, working conditions, job responsibilities, and expected earnings. The articles differ in the amount and kinds of information provided for different occupations. Some include information such as pay increments gained with additional education or licensure, pay differentials between the private and the public sectors, and earnings differences by length of service.

Additional sources of information are also listed for each occupation. Most of the earnings data published in the *Handbook* is from the Occupational Employment Statistics (OES) program, in addition to some other sources such as the National Association of Colleges.

Drawbacks: Since the data comes primarily from the OES, it shares the same drawbacks as the OES, in addition to also being more summary in nature. Additionally, data is only available at the national level.

Advantages: It offers information on a wide variety of narrowly defined occupations.

6. National Compensation Survey (NCS) This survey encompasses a wide array of compensation measures. The NCS publishes information on occupational earnings, compensation cost trends, and employee benefits. The national and local area wage surveys under the NCS replaced the Occupational Compensation Program (OCS), which was used in the early 1990s to report adjustments in locality pay of Federal government employees in white-collar jobs, for a list of surveyed occupations identical in all areas. A key difference between the NCS and the OCS is the probability-based sample of occupations. The consequence of this new approach to sample selection is that earnings data are published for a wider variety of occupations. Mean hourly earnings and mean weekly hours are presented for all private industry employees, and State and local government workers, and the total non-Federal, nonagricultural workforce. Additional occupational wage data are produced by full-time and part-time status, union and nonunion status, time and incentive-pay status, major industry division, and employer size. Data is available nationally, for approximately 90 metropolitan areas and nonmetropolitan counties, and for nine census divisions.

Disadvantages: The sample size is smaller than the OES and some data presented is derivative, meaning it is calculated or estimated from data actually collected through the survey. Metropolitan areas are aggregated by CMSA rather than PMSA, which takes into account a larger geographic area. The NCS looks at only 450 occupations compared to 750 for the OES.

Advantages: In addition to mean hourly earnings estimates, which do not offer a detailed picture of how earnings figures are distributed within the range, hourly wage percentiles for establishment jobs are also published. The 10th, 25th, 50th (median), 75th, and 90th percentiles are presented, calculated from average hourly wages for sampled establishment jobs within each occupation.

Work-level data is presented by assessing the duties and responsibilities of the occupation, using nine factors, including such factors as knowledge of the job, complexity, full/part-time, and supervision required.

Pay relatives or ratios, which express an area's average pay as a percent of national pay are calculated by dividing the figure for a particular area by the corresponding national figure and then multiplying by 100. For example, a pay relative of 106 percent for an area means pay for this locality is 6 percent above the national average.

7. Employment Cost Index (ECI). The ECI is a principal Federal economic indicator and a widely used data series. The quarterly index is a measure of change in labor costs, which include wages and salaries, employer costs of benefits, and the two combined, total compensation.

National data are presented for private industry and State and local government workers, and the aggregate of the two, all civilian workers. The ECI also provides regional indexes and indexes by worker and establishment characteristics, such as occupational and industrial group, employer size, and union affiliation.

Employment Cost Index information has been integrated into the National Compensation Survey.

Data collected is expressed in a variety of forms, such as hourly rates or weekly or annual salary figures. The data is later converted to average wages per hour worked. To show cost changes free of the influences of employment shifts between occupations and industries, fixed employment weights are used to calculate the index. These industry and occupational weights are fixed over a period of approximately 10 years.

Disadvantages: The data is presented as a larger index and not by occupation. The data is derivative, meaning it is calculated as a byproduct of other data collected and appropriate adjustments are relied on to standardize data for use in the calculations.

Advantages: The ECI is a principal Federal economic indicator and widely used for planning and forecasting by government and private industry purposes making its use consistent with other businesses and government agencies.

8. Employer Costs for Employee Compensation (ECEC). This series shows average employer costs per hour worked of wages and salaries, benefits, and total compensation. Additionally, it shows the percent of compensation that each component represents. Data is presented quarterly by major geographic region as well as more detailed data by major industry division. The ECEC includes data on employer costs by various employee and employer characteristics, such as major occupation and industry group, full- and part-time status, union affiliation, and establishment employment size.

Drawbacks: limited by census region.

Advantages: Includes total compensation not limited to wages and salaries.

Meeting Date: 4/5/18

**SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE**

REPORT PREPARED BY: ANTHONY W. GRAFALS, GENERAL COUNSEL

**REQUESTED ACTION/RECOMMENDATION: RELATIVE POSITION OF GRF JOBS
WITHIN MARKET BANDS**

BACKGROUND:

At its March 22, 2018 meeting, the Committee asked staff to provide a bar chart indicating where GRF wages are, in comparison to the respective bands. The following chart illustrates this status.

ATTACHMENTS: NONE

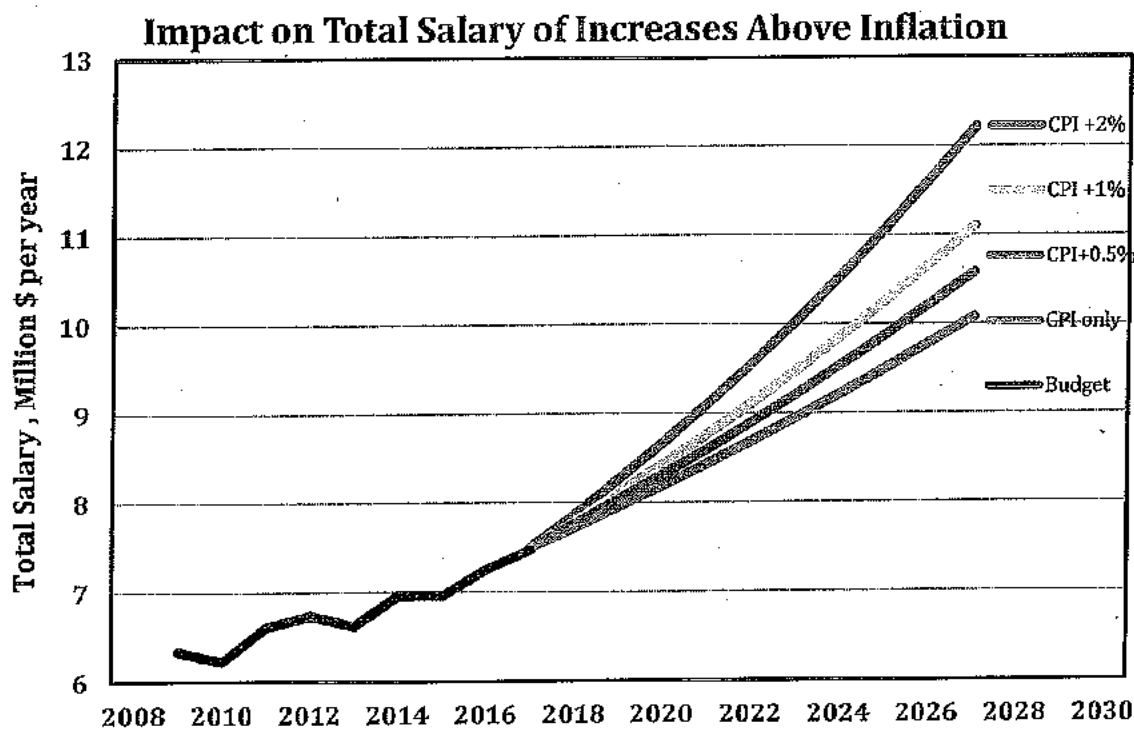
CRITERIA	Project:
Financial Impact	NONE
Operational Efficiencies	NONE
Dependencies	NONE
Subsequent Actions	NONE
Alternatives/Options	NONE
Time-Frame	NONE
Advantages/Benefits	NONE
Disadvantages/Risks	NONE

Increasing Salaries Above Inflation

Providing a salary pool that will allow salary increases above the rate of inflation for some employees is a valuable tool in salary management. It allows the best employees to move up in their salary band and eventually get promoted, replacing those who are retiring, presumably with relatively high salaries. The key question is how much should the salary pool be moved up beyond inflation.

Inflation alone will move the total GRF salary pool up by about \$2.5 million to over \$10 million in the next 10 years, assuming 3% per year inflation. [See the graph.] Adding an additional 2% per year to the pool would boost the total salary budget by another \$2+ million per year, boosting the total pool by \$4.7 million in the same 10 year period. That would increase the coupon by \$59 per month. Smaller increases would, of course, have smaller impact.

We need to get our employees distributed across their salary bands. That would allow most employees to get raises of inflation plus or minus 1%. Pre-committing to inflation-matching increases for everyone greatly reduces management's flexibility to administer the program. I would recommend a supplemental increase to the pool of less than 1%, preferably closer to 0.5%.



We need to get people that are still above their salary band back inside the band. If they are still above their band after no increases for 6 years, they were either grossly overpaid or the program has not been administered properly. I suspect it is the former. Thus, I suggest we develop a program to transition them to living within their bands. For example, we could reduce the supplemental payments next year to 2/3 of what they would otherwise have been. The following year we cut it to 1/3 of what they had been getting. Then supplemental payments could be discontinued.

Meeting Date: 4/5/18

**SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE**

REPORT PREPARED BY: ANTHONY W. GRAFALS, GENERAL COUNSEL

REQUESTED ACTION/RECOMMENDATION: RELATIVE POSITION OF GRF JOBS
WITHIN MARKET BANDS

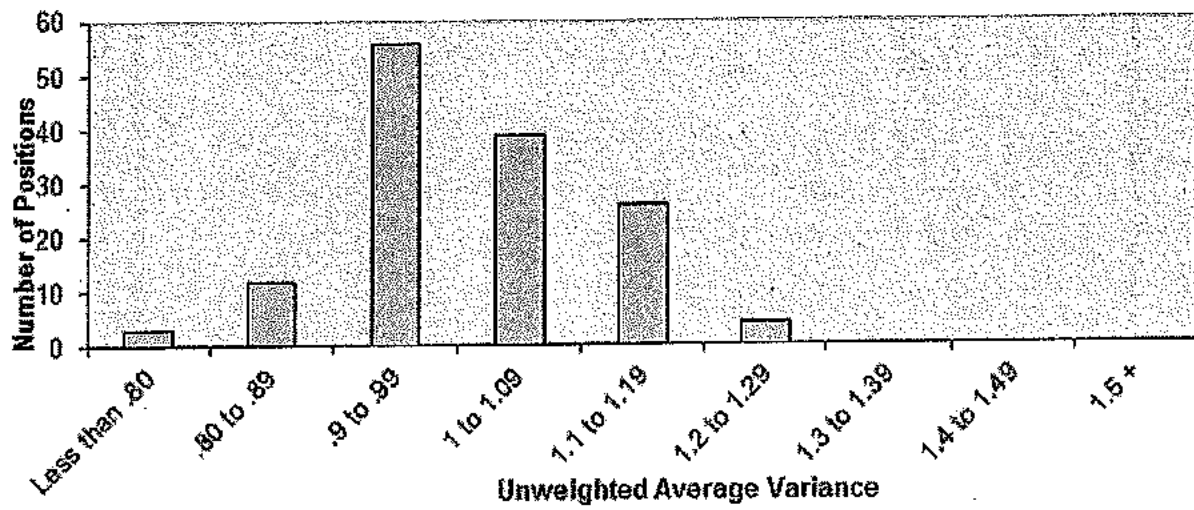
BACKGROUND:

At its March 21, 2018 meeting, the Committee asked staff to provide a bar chart indicating where GRF wages are, in comparison to the respective bands. The following chart illustrates this status.

ATTACHMENTS: NONE

CRITERIA	Project:
Financial Impact	NONE
Operational Efficiencies	NONE
Dependencies	NONE
Subsequent Actions	NONE
Alternatives/Options	NONE
Time-Frame	NONE
Advantages/Benefits	NONE
Disadvantages/Risks	NONE

Internal Comparison Unweighted Average Variance



Meeting Date: 4/5/18

**SUMMARY REPORT
GOLDEN RAIN FOUNDATION COMPENSATION COMMITTEE**

REPORT PREPARED BY: Judith Perkins, Sr. Manager Human Resources

REQUESTED ACTION/RECOMMENDATION: Discussion of Compensation Management Structure

BACKGROUND:

At its March 21, 2018 meeting, the Committee asked that Committee members and interested residents provide documents and materials in advance of the next meeting for inclusion in and review prior to the next Committee meeting.

ATTACHMENTS: Attachments 5 c) 1 through 5 c) 44

CRITERIA	Project:
Financial Impact	NONE
Operational Efficiencies	NONE
Dependencies	NONE
Subsequent Actions	NONE
Alternatives/Options	NONE
Time-Frame	NONE
Advantages/Benefits	NONE
Disadvantages/Risks	NONE

Attachment Listing, Compensation Management System (CMS)

ATT 1	Email Roath , O'Keefe, Grafals, Perkins Questions & Answers
ATT 8	Email Brown: Where We are in the Bands Market Leading Strategy SOC Band Review GRF Compensation Formulaic Approach Band 52-3022
ATT 25	Email Brown: Annual Band Reevaluation
ATT 28	Email Brown: Completing the CMS Model
ATT 33	Email Brown BLS Employment Cost Index
ATT 36	Email Brown Effect of 2012 to 2016 Wage Shifting
ATT 39	Email Birdsall Questions for Carl
ATT 40	Email Brown Effect of 2012 to 2016 Wage Shifting (SOC 43-2011)

Judith A. Perkins

From: Tim O'Keefe
Sent: Monday, March 19, 2018 12:10 PM
To: Steve Roath
Cc: Judith A. Perkins; Anthony Grafals
Subject: RE: Compensation Committee agenda

Steve-

In #7 below, Judith corrected Tony but I want to be clear so there is no misunderstanding: since I have been here, we have not approved any staff member for a wage increase that would cause their pay to exceed the top of their band.

Tim

From: Anthony Grafals
Sent: Sunday, March 18, 2018 11:10 PM
To: Steve Roath <sroath.f@gmail.com>
Cc: Judith A. Perkins <JPerkins@rossmoor.com>; Tim O'Keefe <TimOKeefe@rossmoor.com>
Subject: RE: Compensation Committee agenda

Responses to your original email from Judith and I are below. I can create an agenda with your issues as the topic(s) and send it to you for approval.

1. Discuss the CMS position that we achieve a median pay that is 5% above the Market Median for the same.....

(JP) This actually comes from the compensation philosophy which says the Foundation is going to offer "competitive compensation" in order to "attract and retain competent, experienced employees". That statement was derived from the Comp Committee and Ad Hoc Resident Committee advice and discussions, which set the entry level at .9 of median or average, and the cap at 1.2 of median/average or the 75th percentile, whichever is lower. The two ends were discussed extensively by both the Comp Committee and the Ad Hoc Resident Committee. The terms 'average or median' were used because not all surveys report in the same fashion, and it was necessary to provide enough flexibility to be useful.

2. Identify the level of Market pay rates at which we set the Floor (or, entry level) of a Band. NOTE: CMS says 90% of the Market Median for the job level (family etc).

(JP) See #1 above.

3. How and when are the Bands adjusted? And with what frequency? Are our Bands too restrictive? (High or Low)

[AWG] The band itself consists of the range i.e. high and low. The band (both the high and low) should be reviewed whenever we "touch" a compensation band. (JP) If the review indicates that our range is no longer appropriate, the range is adjusted. If the range is OK, we leave it alone. [AWG] This occurs when we post/hire for a job, modify a job description, and when we provide raises to anyone who is capped or below their floor, (JP) or an employee transfers between positions. [AWG] Raises given to employees earning near the middle of their band will not likely put someone over the top of their band. So, we don't need to look at a band when we give someone a 1% to 3% increase who is near the middle. However, if a person near the top of their band receives an increase that puts them close to cap, then

that is a trigger to look at their band. Likewise, when raises are given to someone below their band or near the bottom, we should re-evaluate their band at that time and report on their status as either being below, or in danger of dropping below the bottom. Staff does not have the resources to look at every band every year.

4. The CMS lists the Surveys we use. Describe their frequency, costs, and use..

(JP) We use 3 annual surveys for adjusting pay ranges. These are the A J Gallagher, Fair Pay for Northern California Non-Profits, and the World@Work salary surveys. The Gallagher survey is most useful, as it encompasses a very broad range of positions (many at multiple skill levels), draws the data from SF Bay Area for profit, non-profit, and government organizations, and can be used to evaluate pay ranges for many of our non-union positions. The Fair Pay survey looks at non-profits only throughout northern California; because GRF is not a charitable non-profit, this survey covers a much smaller portion of our non-union positions. And the World@Work national survey provides state-wide information and context for increases in positions not explicitly found in either Gallagher or Fair Pay. In addition we have access to a current market salary database through our benefits broker, WillisTowersWatson; this is a no-additional-cost service; the information is searchable by industry, job title, and area, so it is more generic than the Gallagher survey; it does offer guidance for some less common positions. And we also consult various specialty surveys for recreation/fitness, golf, and HOA positions, which are generally not available in any of the broader surveys.

The Gallagher, Fair Pay, and World@Work surveys are annual. Gallagher is typically published in October and will cost about \$600 in 2018; Fair Pay is typically published in June/July and cost \$120 in 2018; and the World@Work survey typically comes out in July/August and will cost \$425 in 2018. (These are all participant rates; non-participants pay \$100- \$200 more.)

The two HOA professional organizations (CACM and CAI) publish salary surveys on an intermittent basis; the last were published in 2014. They ran around \$150-\$200 each.

The California Park & Recreation group usually publishes a salary survey in alternate years. They missed in 2017.

Mark Heptig is sometimes able to get me salary survey information from the PGA; it's not regularly available however.

In the absence of regular salary information for the specialty positions, we consult local city and agency published salary information; job descriptions are also available from these sources, which makes it easier to match our jobs to theirs, as titles are only general indicators. We also use published salary guides from selected temp agencies for some lower level administrative positions, as the pay ranges for these positions don't always change at the same rate as the higher skilled administrative positions. And when all else fails, I tap my HR network to see if anyone to whom I'm connected can offer salary range guidance.

5. We apparently don't want persons to be above or below their Bands.. when would we know? And when adjusted?

[AWG] See #3 above.

(JP) We check ranges for a specific position whenever it is touched: new hires, internal transfers, changes in the job description, when someone either falls beneath the floor or hits the cap. We check a limited set of ranges each year when the surveys are all available (typically in late October/early November). Pay ranges are typically adjusted in November for the ensuing year.

6. "Merit Pay" does add to the total compensation for even those at the Cap of their Band. Discuss Options for handling.

[AWG] neither market nor merit increases are allowed to put someone over their band. For someone who is at or near the top or perhaps even above, the CEO has to approve giving a one-time lump sum to that person. That would be based on a manager's recommendation with the CEO's approval. Tim would have to weigh in on the circumstances under which he would approve or deny such a recommendation.

(JP) It is important to remember that lump sum awards do not add to the ongoing wage base, and so do not compound over time. In addition, the CMS does not address "total compensation" (a phrase which includes value of holidays, vacation, paid sick leave, professional development, etc.) but only the annual salary/wages paid for a position.

7. We have changed the CMS to add back the "merit" component as well as fund to catch-up the "few" by adding those

components in addition to the COLA component. What is the likely impact on Salaries positioned within our Bands?

[AWG] Generally, market (COLA) increases should keep pace with most positions. The only positions that would be adversely affected by a market-only increase would be those that are hard to fill because of demand.

(JP) In addition, employees at or near the bottom of the band may fall beneath the floor if the COLA increase is not as great as the market changes for that particular position because the position is in heavy demand.

[AWG] Presently, we're finding that to be the case with Counselors, life guards, transportation managers, and some other positions.

[AWG] Merit increases should be the only awards that would move a person higher within their band. Based on the percentages we generally deal with, only those that are already close to the top would be at risk of hitting their cap. If they hit their cap, then we go no higher, unless directed to by the CEO and/or the Board. Tim is generally very judicious about even considering paying someone anything above their band (JP) to date, he has not approved paying someone over the current band.

8. Discuss the use of BLS vs COLA data to adjust (project) the Bands for the coming year?

[AWG] BLS collects both the jobs data and the cost of living data we have been talking about. BLS data is not collected for the purpose of actually administering salaries or setting prices. The BLS itself says as much. Instead, BLS data provides a benchmark to compare actual price movements and wages against to see how it compares with the broader market.

BLS jobs data is for macro-economic analysis purposes and data is captured across very broad categories, too broad to be useful for a particular job, and the sample sizes for a particular position are too small within the job field to be useful for setting salaries. Plus, the index that Carl presented aggregates both full-time and part-time wages, which artificially pushes down the real numbers. For macro-economic purposes, it is used not to set actual wages, but for broader market trend analysis. For example, whether white collar jobs are trending higher versus blue collar, whether science, engineering, financial, etc. is moving in a particular direction, etc. Therefore, it's the movement from period to period in a like position/sector that is important, not the absolute dollar amount of a salary for a particular job.

Cost of Living (COLA) data similarly is a market comparator. It is not the absolute number of the index that's important, but the movement in the index from year to year. The cost of living gives a generic indication of the cost of a bundle of goods and services in the market place. If the index rises by 3%, then one can broadly conclude that the same bundle of goods and services costs 3% more in the later year measured. Therefore a person earning \$X in year one, would theoretically need to earn \$X times 3% in year

two to merely **MAINTAIN** the same standard of living. Earning more, raises their economic position, earning less lowers their economic position.

The surveys we subscribe to are specific and detailed. They focus narrowly on a particular job, not just a particular field or segment. The survey provides a detailed description of the job so that it can be used to compare with a similar job inside the organization, regardless of the job title. For example, titles like "administrator" could refer to either administrative assistants performing at a very low level, or a manager with a high degree of discretion. Therefore, it is **CRITICAL** to have that detailed job description so we can match similar positions against each other, regardless of the title. My title is General Counsel, but my job bears very little resemblance to the General Counsel for Microsoft. So, we don't want to compare me to the General Counsel for Microsoft. The data in the surveys we use is reported by the company, not a worker who may be trying to artificially inflate his position. The companies that report data also use the data, and pay a lot of money for the surveys. That means they have a vested interest in the accuracy of the data, and therefore, the best surveys have a high degree of accuracy, and cost more money. Additionally, top ranked surveys will include either a margin of error based on sample size, or provide sufficient information for the user to evaluate the validity of the data.

The reason we subscribe to more than one is that they cut across different markets, and because some samples tend to be more widely used by different industries. So, a sample that is excellent and has a large sampling of laborers, might not be as useful for white collar workers and vice versa.

Unfortunately, not all surveys report data in the same manner. So, there is some art in reading/interpreting and applying survey sample data in the workplace. Most well-trained HR professionals are proficient in that art. Judith has a Ph.D., and a certification from the Society for Human Resources Management, as well as several other distinguished designations. Those designations require a minimum number of years of experience and passage of a rigorous test that many people don't pass, and that she receive annual training of at least a minimum number of hours in a broad range of disciplines. I do not possess those credentials so I defer to her to decipher the information in the surveys and apply it.

Don't you too agree this would fill an agenda for the Wednesday Meeting?

[AWG] Yes. However, I would really like Judith to be present. Currently, she is predicting that the trial she is sitting on as a juror will end Tuesday, enabling her to be present on Wednesday. However, if it takes longer, then she will not be able to attend.

I'd suggest we get together as soon as possible to determine what documents we include in agenda (if any)

[AWG] I suggest that I bring a survey for the Committee members to examine and compare to the BLS data available on the website, and perhaps one or two job descriptions. We could compare that to the BLS data, and perhaps go through the exercise of using a surveyed position to calculate a salary range for a position in the survey. I would probably want Judith to coach me on that part of the exercise.

Steve R



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(925) 988-7692 FAX

From: Steve Roath [mailto:sroath.f@gmail.com]
Sent: Friday, March 16, 2018 5:32 PM
To: Anthony Grafals
Subject: Re: Compensation Committee agenda

I must have just left to run a errand at 3:30, having been here to work with you all day without our having gotten together.

The NEED for Staff input to agree upon the Committee agenda is about the same as it was when I sent the first e-mail.

I have sent you (not, Judith) a list of issues for that Agenda. I'd sure like your input. I am available again tomorrow and, of course on Monday.

Please do not distribute an agenda without discussing it with me.

Thanks
Steve

From: Steve Roath [mailto:sroath.f@gmail.com]
Sent: Friday, March 16, 2018 5:19 PM
To: Anthony Grafals
Subject: Re: Compensation Committee agenda

I knew that... That doesn't help to get agreement on the Agenda for next Wednesday NOR come-up with the figures we asked for earlier.

YES, the agenda is more important now.. AND, YES, I'd like to have input to that agenda before it's decided.

Thanks

Welcome Judith back I'll be she has her hands full right now.

On Fri, Mar 16, 2018 at 3:34 PM, Anthony Grafals <Agrafals@rossmoor.com> wrote:

I just learned that Judith is meeting with Gerry and Mary at Gateway regarding the CEO evaluation process.

5c) 6



A.W. (Tony) Grafals

General Counsel

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From: Anthony Grafals

Sent: Friday, March 16, 2018 3:22 PM

To: Steve Roath

Subject: RE: Compensation Committee agenda

Yes. I'm in.

Actually, Judith is in today as well. Her jury is on break, resuming next week.



A.W. (Tony) Grafals

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From: Steve Roath [mailto:sroath.f@gmail.com]

Sent: Friday, March 16, 2018 3:21 PM

To: Anthony Grafals

Cc: Carl Brown GRF

Subject: Compensation Committee agenda

Tony, we need to talk.. are you in your office?...

Here's what I have been talking to Carl about. These are issues that will provide understanding, clarity of direction, and some discussion of alternatives that ought to move us along toward our recommendation for the 2019 Budget Year.

1. Discuss the CMS position that we achieve a median pay that is 5% above the Market Median for the same.....
2. Identify the level of Market pay rates at which we set the Floor (or, entry level) of a Band. NOTE: CMS says 90% of the Market Median for the job level (family etc).
3. How and when are the Bands adjusted? And with what frequency? Are our Bands too restrictive? (High or Low)
4. The CMS lists the Surveys we use. Describe their frequency, costs, and use..
5. We apparently don't want persons to be above or below their Bands.. when would we know? And when adjusted?
6. "Merit Pay" does add to the total compensation for even those at the Cap of their Band. Discuss Options for handling.
7. We have changed the CMS to add back the "merit" component as well as fund to catch-up the "few".. by adding those components in addition to the COLA component. What is the likely impact on Salaries positioned within our Bands?
8. Discuss the use of BLS vs COLA data to adjust (project) the Bands for the coming year?

Don't you too agree this would fill an agenda for the Wednesday Meeting?

I'd suggest we get together as soon as possible to determine what documents we include in agenda (if any)

Steve R

54) 8

Judith A. Perkins

From: GRF <cbrowngrf@gmail.com>
Sent: Wednesday, March 21, 2018 7:12 PM
To: Bob Kelso; Les Birdsall; Mary Neff; Geri Pyle; Mel Fredlund; Sue DiMaggio Adams; Judith A. Perkins; Anthony Grafals; Tim O'Keefe
Subject: Copies of handouts
Attachments: Where We Are In The Bands.doc; Market Leading Strategy.doc; SOC Band Review.doc; GRF Compensation Formulaic Approach.doc; Band53-3022.xls

Bob,

I am providing copies of my handouts. I also am adding a sample of how we might automate some of the analysis. Also an excel spreadsheet that projects the next year's band with just the SOC.

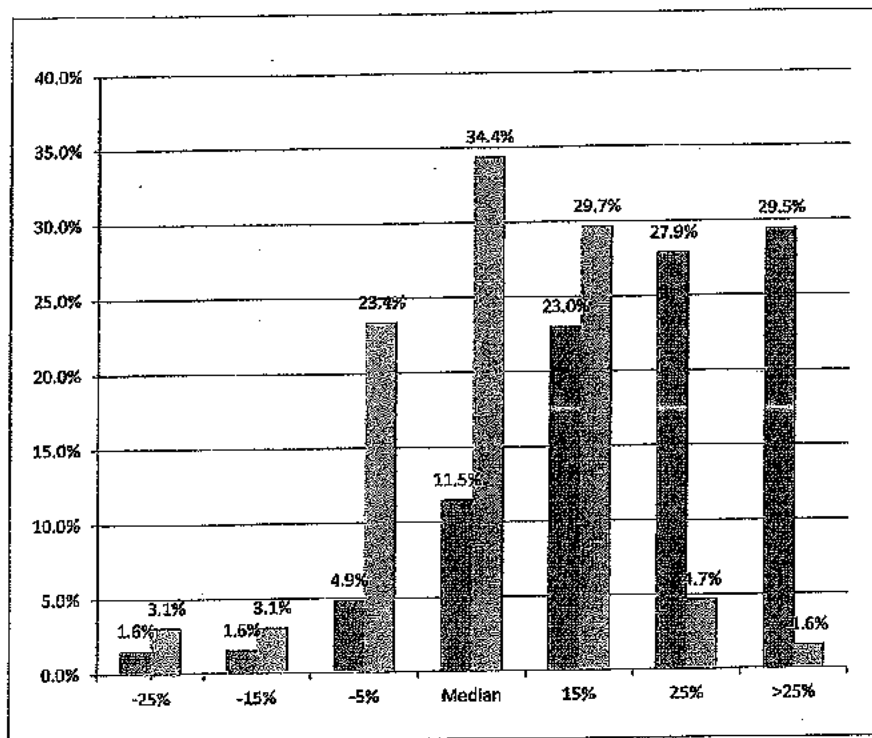
Carl



Virus-free. www.avg.com

Where We Are In The Bands

Gallagher did a 5 year follow up to see if we had improved our situation with regards to salaries in relationship to their bands.



2011 (Blue) 2016 (Red)

What is not clear is what is meant by median. Is it the 50th percentile or the GRF target median of the 50th percentile plus 5%. Biased on the skew it appears to be the 50th percentile with the apparent mean being about 5% above the median. This means that on average we have hit our goal.

Given that it is our intent to set ideal salaries +/- 15% of the target median means we should have our salaries ranging from -10% to +20% of 50th percentile median. It is apparent that this distribution has a significant number of salaries outside of our ideal range.

What remains unanswered is that this chart does not tell us if salaries clustering at the high end of the band are offsetting salaries clustered at the low end of the band. The only way to know if we are using the bands properly is either an analysis of band distribution deviation or examining the individual bands. Looking at the individual bands will also tell us what has happened to the job market for that job classification.

5c) 10

To determine where we sit in the bands I started with the EDD vs GRF 2017 data provided by Judith. I used an Excel spreadsheet to predict 2018 2nd quarter bands based on 2012 to 2017 EDD data. I ran the spreadsheet for each job specific SOC as identified. I did not run 53-3021 because all our drivers because should fall into 53-3022. I increased the 2017 salaries by 3.8% to get the base 2018 GRF salaries.

SOC 43-9199 did not exist in 2012 so I changed the range of the slope calculation to use the 2013 to 2017 range eliminating row 5 and the rest of the sheet worked.

C12		Σ =		=SLOPE(C6:C10;A6:A10)				
	A	B	C	D	E	F	G	H
1		SOC						
2		43-9199						
3		Office and Administrative Support Workers, All Other						
4	Years 1 to 6	mean	25th Percentile	50th percentile	75th percentile	mean annual		
5		1	#N/A	#N/A	#N/A	#N/A		#N/A
6		2	\$18.06	\$9.77	\$16.65	\$25.27	\$37,567.82	506
7		3	\$17.64	\$10.14	\$16.03	\$24.68	\$36,696.00	515
8		4	\$18.74	\$10.64	\$17.69	\$25.88	\$38,979.00	500
9		5	\$17.65	\$10.61	\$15.66	\$23.32	\$36,708.00	491
10		6	\$20.27	\$13.47	\$18.83	\$26.48	\$42,151.00	493
11								
12	Regression Slope	0.443	0.787	0.399	0.106	917.836		
13	Last 3 yr avg	\$18.89	\$11.57	\$17.39	\$26.23	\$39,279.33		
14	Year 7 2nd quarter	\$19.88	\$13.34	\$18.29	\$25.47	\$41,344.46		
15	Annual increase	2.36%	6.80%	2.29%	0.42%	2.34%		
16			% Median	Annual				
17	Floor	\$13.34	72.95%	\$27,755.69				
18	25th Percentile	\$13.34	72.95%	\$27,755.69				
19	50th Percentile * 90%	\$16.46		\$34,240.91				
20	50th Percentile	\$18.29		\$38,045.45				
21	50th Percentile * 105%	\$19.21		\$39,947.73				
22	50th Percentile * 120%	\$21.96		\$45,654.54				
23	75th Percentile	\$25.47	139.22%	\$52,967.55				
24	Cap	\$21.96	120.00%	\$45,654.54				
25								

The results for 2018 are as follows:

	A	B	C	D	E	F	G	
1	Projected 2018 band vs GRF Salaries							
2								
3	SOC	GRF	Floor %	Floor	50 th percentile	Target mean	Cap	Cap %
4	37-2011	\$21.03	77.29%	\$12.19	\$16.77	\$16.56	\$18.93	120.00% Custodian
5	43-6011	\$20.75	81.14%	\$28.80	\$35.50	\$37.27	\$41.01	115.54% Administrative assistant
6	43-6014	\$20.75	79.89%	\$17.26	\$21.59	\$22.57	\$25.91	120.00% Assistants non technical
7	43-9199	\$20.75	72.95%	\$13.34	\$18.29	\$19.21	\$21.95	120.00% Misc office workers
8	47-2031	\$24.67	76.45%	\$22.92	\$29.88	\$31.48	\$35.97	120.00% Carpenters
9	53-3022	\$22.63	75.84%	\$16.01	\$21.11	\$22.17	\$24.02	113.79% Bus Drivers

The target mean is our 5% over 50th percentile goal. This should represent the midpoint of our bell shaped curve. From that we want to have a +/- 15% distribution. This shows that according to our current policy the floor varies from 23.86-32.05% below the GRF target mean. Thus the floors are consistently well below the -15% distribution range.

The cap range is 6.21-15% above the target mean. In some cases this is cutting off the upper end of the distributional curve not allowing room for top performers to have a target salary much above the mean.

As I said before we need to review our floor and cap calculation policy.

Our salaries don't fit into the bands. We are paying custodians above the cap and administrative assistants below the floor. Bus drivers are just about right.

This points out the fact that we probably have problems with the bands and that we need a migration to target salary to allow a gradual migration to a better set of actual salaries.

If the current GRF salaries we set based on Gallagher data we need to better understand the discrepancies.

2016 EDD 1stQ vs 2016 BLS (May) vs 2017 EDD 1stQ vs 2017 Gallagher

	EDD 25	EDD 50	EDD 75	BLS 25	BLS 50	BLS 75	EDD 25	EDD 50	EDD 75	GAL 25	GAL 50	GAL 75
37-2011	11.59	15.04	18.79	12.47	15.77	20.13	12.81	18.20	20.68			
43-6011	25.49	32.13	37.87	26.78	32.67	38.73	27.34	33.36	39.55	19.00	22.03	24.50
43-6014	16.60	20.92	26.32	16.89	21.01	26.20	17.25	21.45	26.75			
43-9199	10.61	15.66	23.32	13.19	18.44	25.93	13.47	18.83	26.48			
47-2031	22.78	30.12	40.17	23.32	30.64	40.39	23.77	31.23	41.16			
53-3011	15.29	19.80	22.23	14.50	18.34	21.72	14.89	18.83	22.30			

It appears that EDD and BLS data for the most part is fairly consistent. A big difference is that EDD 1st Quarter data comes out in June. This is soon enough for us the use. The BLS May final data does not come out until March of the following year.

Market Leading Strategy

In 2011 we decided to implement a market leading strategy.

"An employer may choose to establish an internal compensation strategy that is in excess of the pay rates in the prevailing marketplace. This compensation strategy may increase the supply of candidates, increase selection rates of qualified applicants, decrease employee turnover, increase morale and productivity, or prevent unionization efforts. However, prior to implementing a lead compensation strategy, an organization should carefully consider what benefits it expects to realize from such a strategy, keeping in mind that this type of structure has the greatest propensity of increasing overall labor costs. This strategy may be most appropriate for organizations located in highly competitive labor markets that want to ensure their pay rates are continuously equal to the marketplace. Employers that adopt such a strategy will need to monitor it closely to determine whether or not the anticipated benefits of the strategy are being realized."

Search for "shrm compensation strategy" look for "Planning & Design: Compensation Philosophy: What are ..."

To do that we decided to implement CMS and set our mean (average) salary at 5% higher than the median (50th percentile) market salary. In other words we were setting our distribution of salaries shifted 5% higher than the typical organization. We expect that this will not only reduce our turnover and increase job satisfaction but also we expect that to hire superior people so that our 3 out of 5 merit is equivalent to a 4 in other organizations. By reducing job turnover and employing happier and more productive employees we hope to actually save money and provide better levels of service to our residents.

To make this work we now have to do two more things. First we need to need to monitor its effectiveness. We need to see if it is reducing turnover, decreasing the time it takes to fill vacancies and if residents feel that they are getting superior service.

Second we need to have a consistent way of implementing this leading strategy. To do this we need to treat each job category as a microcosm. We are hiring from a labor pool of people with similar qualifications so we must pay wages that deflect that labor pool. Likewise people will leave if we do not match that pool and match wages that reflect the market during the year that people are being paid. What happens in other labor pools for other job categories is irrelevant. We need good estimates of what the competitive market is for each job classifications that will reflect the market conditions a year after we set our budget.

SOC Band Review

	A	B	C	D	E	F
1		SOC				
2		37-2011				
3		Janitors and Cleaners, Except Maids and Housekeeping Cleaners				
4	Years 1 to 6	mean	25 th Percentile	50 th Percentile	75 th Percentile	mean annual
5	1	\$15.42	\$11.60	\$14.92	\$19.17	\$32,082.00
6	2	\$15.30	\$11.17	\$14.98	\$19.03	\$31,835.28
7	3	\$14.97	\$10.76	\$14.45	\$18.43	\$31,136.00
8	4	\$15.19	\$10.76	\$14.75	\$18.82	\$31,606.00
9	5	\$15.67	\$11.59	\$15.04	\$18.79	\$32,591.00
10	6	\$17.40	\$12.81	\$16.20	\$20.68	\$36,187.00
11						
12	Regression Slope	0.320857143	0.208857143	0.196571429	0.206285714	664.6331428571
13	Last 3 yr avg	\$16.09	\$11.72	\$15.33	\$19.43	\$33,461.33
14	Year 7 2 nd quarter	\$16.81	\$12.19	\$15.77	\$19.89	\$34,956.76
15	Annual increase	1.99%	1.78%	1.28%	1.06%	1.99%
16			% Median	Annual		
17	Floor	\$12.19	77.29%	\$25,355.05		
18	25th Percentile	\$12.19	77.29%	\$25,355.05		
19	50th Percentile * 90%	\$14.20		\$29,525.72		
20	50th Percentile	\$15.77		\$32,806.35		
21	50th Percentile * 105%	\$16.56		\$34,446.67		
22	50th Percentile * 120%	\$18.93		\$39,367.63		
23	75th Percentile	\$19.89	126.13%	\$41,379.82		
24	Cap	\$18.93	120.00%	\$39,367.63		
25						

GRF salary is \$21.03.

Even the 2017 salary of \$20.26 is above both the 75th percentile as well as 120% of the 50th percentile. Unless the type of work done at Rossmoor is a poor match to the job description, their wages are well above market. This could have occurred because their raises have been based on CPI-U or and adjusted CPI-U. The bands, however, have only raised a little more than 1% per year although the 2016 to 2017 increase was higher.

The low end of the spectrum has fared better possibly due to the 2016 minimum wage, which is just below the 25th percentile.

SC) 14

	A	B	C	D	E	F
1		SOC				
2		43-6011				
3		Executive Secretaries and Executive Administrative Assistants				
4	Years 1 to 6	mean	25th Percentile	50th Percentile	75th Percentile	mean annual
5	1	\$27.09	\$20.50	\$26.06	\$32.53	\$56,362.00
6	2	\$28.91	\$21.90	\$28.80	\$35.00	\$60,125.13
7	3	\$30.51	\$24.00	\$30.71	\$36.25	\$63,458.00
8	4	\$31.37	\$24.76	\$31.82	\$37.04	\$65,232.00
9	5	\$31.97	\$25.49	\$32.13	\$37.87	\$66,497.00
10	6	\$33.65	\$27.34	\$33.36	\$39.55	\$69,976.00
11						
12	Regression Slope	1.224	1.306571429	1.36	1.271428571	2541.703142857
13	Last 3 yr avg	\$32.33	\$25.86	\$32.44	\$38.15	\$67,235.00
14	Year 7 2 nd quarter	\$35.08	\$28.80	\$35.50	\$41.01	\$72,953.63
15	Annual increase	3.79%	5.05%	4.19%	3.33%	3.78%
16			% Median	Annual		
17	Floor	\$28.80	81.14%	\$59,910.49		
18	25th Percentile	\$28.80	81.14%	\$59,910.49		
19	50th Percentile * 90%	\$31.95		\$66,449.76		
20	50th Percentile	\$35.50		\$73,833.07		
21	50th Percentile * 105%	\$37.27		\$77,524.72		
22	50th Percentile * 120%	\$42.60		\$88,599.68		
23	75th Percentile	\$41.01	115.54%	\$85,309.22		
24	Cap	\$41.01	115.54%	\$85,309.22		
25						

GRF salary \$19.81 - \$20.75 Gallagher 2017 25/50/75 \$19.00/\$22.03/\$24.50

This is significantly below the floor. Gallagher has a lower band but even so the 2017 \$19.08 - \$19.99 range is just above that floor. This is a job that is growing in demand as wages have increased faster than the CPI-U. Since we have been paying CPI-U or less these salaries have slipped in relation to the market.

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	A	B	C	D	E	F
1		SOC				
2		43-6014				
3		Secretaries and Administrative Assistants, Except Legal, Medical,				
4	Years 1 to 6	mean	25 th Percentile	50 th Percentile	75 th Percentile	mean annual
5	1	\$20.24	\$15.88	\$19.73	\$24.87	\$42,102.00
6	2	\$20.93	\$16.33	\$20.62	\$25.64	\$43,546.47
7	3	\$20.67	\$16.23	\$20.44	\$24.93	\$42,984.00
8	4	\$20.88	\$16.39	\$20.56	\$25.27	\$43,444.00
9	5	\$21.31	\$16.60	\$20.92	\$26.32	\$44,321.00
10	6	\$21.92	\$17.25	\$21.45	\$26.75	\$45,602.00
11						
12	Regression Slope	0.278571429	0.223428571	0.274571429	0.336571429	579.5311428571
13	Last 3 yr avg	\$21.37	\$16.75	\$20.97	\$26.11	\$44,455.67
14	Year 7 2 nd quarter	\$22.00	\$17.25	\$21.69	\$26.87	\$45,769.61
15	Annual increase	1.30%	1.33%	1.31%	1.29%	1.30%
16			% Median	Annual		
17	Floor	\$17.25	79.89%	\$35,878.71		
18	25th Percentile	\$17.25	79.89%	\$35,878.71		
19	50th Percentile * 90%	\$19.43		\$40,418.57		
20	50th Percentile	\$21.59		\$44,909.53		
21	50th Percentile * 105%	\$22.67		\$47,155.00		
22	50th Percentile * 120%	\$25.91		\$53,891.43		
23	75th Percentile	\$26.87	124.45%	\$55,890.89		
24	Cap	\$25.91	120.00%	\$53,891.43		
25						

GRF salary \$19.81 - \$20.75

These salaries are 87-92% of the target median. This is another low growth profession. If the band continues to be flat there is some room for catch up for a few years until we are tracking the market leading goal.

	A	B	C	D	E	F
1		SOC				
2		43-9199				
3		Office and Administrative Support Workers, All Other				
4	Years 1 to 6	mean	25th Percentile	50th Percentile	75th Percentile	mean annual
5	1	#N/A	#N/A	#N/A	#N/A	#N/A
6	2	\$18.06	\$9.77	\$16.65	\$25.27	\$37,567.82
7	3	\$17.64	\$10.14	\$16.03	\$24.68	\$36,696.00
8	4	\$18.74	\$10.64	\$17.69	\$25.88	\$38,979.00
9	5	\$17.65	\$10.61	\$15.66	\$23.32	\$36,708.00
10	6	\$20.27	\$13.47	\$18.83	\$26.48	\$42,151.00
11						
12	Regression Slope	0.443	0.787	0.399	0.106	917.836
13	Last 3 yr avg	\$18.89	\$11.57	\$17.39	\$25.23	\$39,279.33
14	Year 7 2 nd quarter	\$19.88	\$13.34	\$18.29	\$25.47	\$41,344.46
15	Annual increase	2.35%	6.80%	2.29%	0.42%	2.34%
16			% Median	Annual		
17	Floor	\$13.34	72.95%	\$27,755.69		
18	25th Percentile	\$13.34	72.95%	\$27,755.69		
19	50th Percentile * 90%	\$16.46		\$34,240.91		
20	50th Percentile	\$18.29		\$38,045.45		
21	50th Percentile * 105%	\$19.21		\$39,947.73		
22	50th Percentile * 120%	\$21.95		\$45,654.54		
23	75th Percentile	\$25.47	139.22%	\$52,967.55		
24	Cap	\$21.95	120.00%	\$45,654.54		
25						

GRF salary \$19.81 - \$20.75

This band covers workers with a very wide range of responsibilities. Because of this the spread of this band may make it too wide to use especially if we limit ourselves to the target of a +/- 15% distribution of salaries. A better approach might be to find SOC's with similar training and responsibilities that might be a better wage range for each subset of employees in this group.

	A	B	C	D	E	F
1		SOC				
2		47-2031				
3		Carpenters				
4	Years 1 to 6	mean	25th Percentile	50th percentile	75th percentile	mean annual
5	1	\$30.76	\$24.43	\$31.01	\$36.92	\$63,992.00
6	2	\$31.63	\$24.82	\$32.66	\$39.33	\$65,792.03
7	3	\$30.55	\$23.23	\$31.13	\$39.18	\$63,550.00
8	4	\$31.02	\$23.89	\$30.05	\$40.13	\$64,522.00
9	5	\$31.14	\$22.78	\$30.12	\$40.17	\$64,775.00
10	6	\$32.20	\$23.77	\$31.23	\$41.16	\$66,987.00
11						
12	Regression Slope	0.177142857	-0.250285714	-0.217142857	0.704857143	368.4545714286
13	Last 3 yr avg	\$31.45	\$23.48	\$30.47	\$40.49	\$65,428.00
14	Year 7 2 nd quarter	\$31.85	\$22.92	\$29.98	\$42.07	\$66,257.02
15	Annual increase	0.56%	-1.07%	-0.71%	1.74%	0.56%
16			% Median	Annual		
17	Floor	\$22.92	76.45%	\$47,667.06		
18	25th Percentile	\$22.92	76.45%	\$47,667.06		
19	50th Percentile * 90%	\$26.98		\$56,118.99		
20	50th Percentile	\$29.98		\$62,354.44		
21	50th Percentile * 105%	\$31.48		\$65,472.16		
22	50th Percentile * 120%	\$35.97		\$74,825.33		
23	75th Percentile	\$42.07	140.34%	\$87,511.00		
24	Cap	\$35.97	120.00%	\$74,825.33		
25						

GRF salary \$24.67

We are paying these people on average 22.38% below our target median. What is worse it while salaries have been stagnant for years they have jumped recently probably due to the Napa files and a shortage of workers. Recent ICE raids and stricter scrutiny of ID papers may also be contribution to this shortage. We may not be able to use historical data in the same way as other job classifications.

	A	B	C	D	E	F
1		SOC				
2		53-3022				
3		Bus Drivers, School or Special Client				
4	Years 1 to 6	mean	25th Percentile	50th percentile	75th percentile	mean annual
5	1	\$15.53	\$12.47	\$15.28	\$17.78	\$32,304.00
6	2	\$17.10	\$13.96	\$17.08	\$20.25	\$35,583.30
7	3	\$17.38	\$14.25	\$17.62	\$20.65	\$36,137.00
8	4	\$18.12	\$14.67	\$19.37	\$21.81	\$37,676.00
9	5	\$18.68	\$15.29	\$19.80	\$22.23	\$38,854.00
10	6	\$18.43	\$14.89	\$18.83	\$22.30	\$38,335.00
11						
12	Regression Slope	0.570857143	0.471714286	0.790285714	0.848571429	1185.945714286
13	Last 3 yr avg	\$18.41	\$14.95	\$19.33	\$22.11	\$38,289.00
14	Year 7 2 nd quarter	\$19.69	\$16.01	\$21.11	\$24.02	\$40,957.38
15	Annual increase	3.10%	3.16%	4.09%	3.84%	3.10%
16			% Median	Annual		
17	Floor	\$16.01	75.84%	\$33,303.62		
18	25th Percentile	\$16.01	75.84%	\$33,303.62		
19	50th Percentile * 90%	\$19.00		\$39,520.68		
20	50th Percentile	\$21.11		\$43,911.87		
21	50th Percentile * 105%	\$22.17		\$46,107.46		
22	50th Percentile * 120%	\$25.33		\$52,694.24		
23	75th Percentile	\$24.02	113.79%	\$49,967.05		
24	Cap	\$24.02	113.79%	\$49,967.05		
25						

GRF salary \$22.63

These salaries are close to our target median, however, the 2017 wages show a potential drop in the wage growth especially at the low end.

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GRF Compensation Formulaic Approach

Our goal is to pay employees competitive salaries. To do this we should use salary bands representing each job classification. In order to further ensure employee retention we should pay employees, on the average, above the job classification median salary.

This paper is not a proposal but instead is designed to stimulate a discussion of ideas and alternatives than might go into a compensation system

For this approach we need to project the 25th, 50th and 75th percentile salaries at the end of the 2nd quarter of the following year for each job classification. This can be done with EDD Occupational Employment Statistical data.

	B	C	D	E	F	G	H	I	J	K	
1	Occupational Employment (May 2016) & Wage (2017 - 1st Quarter) Data										
2	Occupational Employment Statistics (OES) Survey Results										
3	[Sorted by SOC Code]										
4											
5	(Released June 2017)										
6	These survey data are from the 2016 Occupational Employment Statistics (OES) survey. The wages have been updated to the first quarter of 2017 by applying the										
7	US Department of Labor's Employment Cost Index to the 2016 wages. Occupations are classified using the Standard Occupational Classification (SOC) codes. For details of the methodology,										
8	see the Overview of the OES Survey at http://www.labormarketinfo.edd.ca.gov .										
9											
10	Geography: Oakland-Hayward-Berkeley Metropolitan Division										
11	Counties: Alameda and Contra Costa										
12											
13	2017 - 1st Quarter Wages										
	MSA Code	Geographic Area Name	SOC Code	Occupational Title	May 2016 Employment Estimate	Mean Hourly Wage	Mean Annual Wage	Mean Relative Standard Error (%)	25th Percentile Hourly Wage	50th Percentile (Median) Hourly Wage	75th Percentile Hourly Wage
14	036004	Oakland-Hayward-Berkeley	00-0000	Total all occupations	1,094,340	\$36.70	\$83,955	0.90	\$14.65	\$23.25	\$36.69
15											
16	036004	Oakland-Hayward-Berkeley	11-0000	Management Occupations	70,680	\$66.38	\$142,176	1.26	\$40.38	\$99.59	\$166.13
17											
18	036004	Oakland-Hayward-Berkeley, CA	11-1011	Chief Executives	2,229	\$111.72	\$232,361	2.40	\$77.63	(4)	(4)
19	036004	Oakland-Hayward-Berkeley, CA	11-1021	General and Operations Managers	18,910	\$70.69	\$147,256	1.90	\$40.32	\$99.60	\$166.03
20	036004	Oakland-Hayward-Berkeley, CA	11-1031	Legislators	110	(2)	\$63,858	4.60	(2)	(2)	(2)
21	036004	Oakland-Hayward-Berkeley, CA	11-2011	Advertising and Promotions Managers	200	\$51.23	\$106,563	6.20	\$35.09	\$45.68	\$53.46
22	036004	Oakland-Hayward-Berkeley, CA	11-2021	Marketing Managers	2,760	\$63.17	\$132,599	2.30	\$38.60	\$76.98	>100.00
23	036004	Oakland-Hayward-Berkeley, CA	11-2022	Sales Managers	4,870	\$75.74	\$157,533	3.30	\$42.17	\$97.11	\$159.55
24	036004	Oakland-Hayward-Berkeley, CA	11-2031	Public Relations and Fundraising Managers	639	\$57.66	\$120,778	5.50	\$44.64	\$90.33	\$178.99
25	036004	Oakland-Hayward-Berkeley, CA	11-3011	Administrative Services Managers	2,500	\$53.68	\$110,420	1.60	\$35.58	\$96.69	\$165.79
26	036004	Oakland-Hayward-Berkeley, CA	11-3021	Computer and Information Systems Managers	3,750	\$68.93	\$143,329	2.20	\$38.80	\$75.62	\$121.23
27	036004	Oakland-Hayward-Berkeley, CA	11-3031	Financial Managers	5,420	\$76.27	\$158,766	2.70	\$51.97	\$70.28	\$95.04
28	036004	Oakland-Hayward-Berkeley, CA	11-3051	Industrial Production Managers	1,570	\$54.55	\$113,653	3.10	\$34.68	\$45.90	\$65.67
29	036004	Oakland-Hayward-Berkeley, CA	11-3081	Purchasing Managers	640	\$50.35	\$105,512	2.50	\$32.59	\$58.89	\$76.02
30	036004	Oakland-Hayward-Berkeley, CA	11-3091	Transportation, Storage, and Distribution Managers	1,280	\$66.47	\$138,767	2.60	\$41.01	\$55.95	\$73.13
31	036004	Oakland-Hayward-Berkeley, CA	11-3111	Compensation and Benefits Managers	140	\$75.32	\$156,656	4.30	\$50.87	\$70.34	\$91.39
32	036004	Oakland-Hayward-Berkeley, CA	11-3121	Human Resources Managers	1,340	\$70.17	\$145,961	2.10	\$46.32	\$64.71	\$83.28
33	036004	Oakland-Hayward-Berkeley, CA	11-3131	Training and Development Managers	300	\$71.50	\$148,721	3.60	\$56.95	\$65.68	\$84.15

This data is published in June each year and can be used to project the data needed as it contains 6 years of history. <http://www.labormarketinfo.edd.ca.gov/data/oes-employment-and-wages.html>

This is historical information that contains the 1st quarter salaries for the last 6 years. If we use Alameda/Contra Costa tables we can eliminate San Francisco/Silicon Valley distortions. What we need, however, are estimates for the percentiles for the upcoming salary year by job classification. We can use this data using linear regression techniques to determine the rate that these values are changing each year and then extrapolate to project the estimated salary percentiles for each job classification. These slopes will be calculated for the 25th, 50th and 75th percentile salaries separately to provide better estimates. Not only will each specific job classification change at a different rate, but also the low-end salaries for that classification may be changing at a different rate than the high-end. We can also project the midyear salary values rather than the 1st quarter salary for the next year to keep salaries competitive during the full year by extrapolating more than 12 months out.

We could, for example, use the Excel SLOPE function to provide a linear regression of the 25th, 50th and 75th percentiles and using the current year values project the following years bands. While this technique may not be as accurate as other most sophisticated techniques it is simple and easy to implement. We could improve the accuracy with techniques such as projecting the percentile based of an average of the projected amount based of the last three years to eliminate and yearly abnormalities. This will eliminate individual year anomalies and yet be more current than projecting from the six year values. Each SOC code for the types of employees we have, can be calculated to give us the bands for each employee classification.

The SLOPE calculation gives us the rate of change each year based on the values of the last 6 years. First take the average of the values for the last three-years. This average has a base line of a year before the last year so to project from these 1st quarter values we need to project the increase for 2.25 years in the future from that average 1st quarter point to estimate 2nd quarter next year.

From 25th, 50th and 75th percentiles we then set to salary floor to whichever is higher the 25th percentile or $0.9 \times$ the 50th percentile. We also set the cap to the higher of the 75th percentile or $1.2 \times$ the 50th percentile.

Raises can be easily set for each employee by having the manager determine the employee's ideal salary based on review. Employees below the salary floor will be adjusted to at least receive the floor amount. We could either freeze employees above the cap or give them fractional raises until they conform to the cap.

The rest of the employees would have a set target salary. Instead of a standard raise and bonus the better employees would have target salaries higher than average. Once the target is set then the amount of raise would be set to migrate the employee to meet the target. Employees below their target would receive higher raises than employees close to or exceeding their target.

A bonus program would be established for one-time bonuses for people making significant contributions in that year. People doing consistently excellent service should have a salary commensurate to their level of service. The bonus program should be for out of the ordinary contributions.

Projecting the increase in bands would set the base overall budget increase in salaries based on the projected 50th percentile increase in each job category time the number of people in the job category. For example if the median per hour for a specific job classification goes up in a year 68 cents an hour then the budget for that job goes up about \$1360.

There will be cases especially for job classifications where a majority of employees are below their anticipated target salaries and the budget amount falls below the aggregate salary targets. Over the years this factor should disappear except for unusual circumstances.

Sample salary

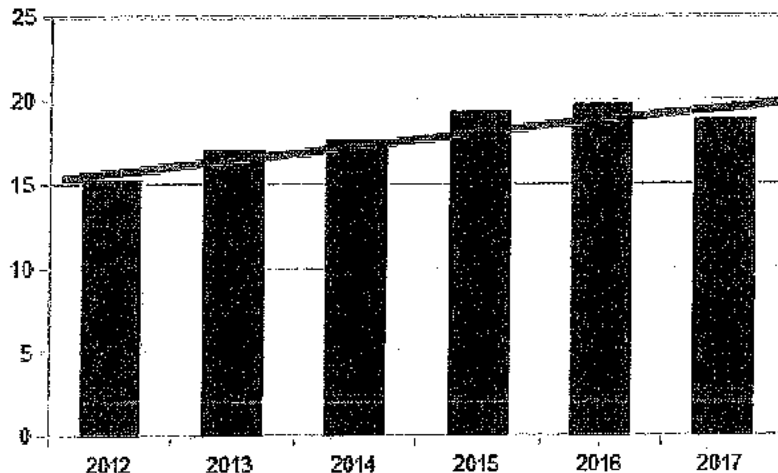
D10	<input type="checkbox"/>	\sum	=	=SLOPE(D3:D8;G3:G8)				
	A	B	C	D	E	F	G	H
1								
2		mean	25 th	50 th	75 th	annual		
3	2012	\$15.53	\$12.47	\$15.28	\$17.78	\$32,304.00	1	
4	2013	\$17.10	\$13.96	\$17.08	\$20.25	\$35,583.00	2	
5	2014	\$17.38	\$14.25	\$17.62	\$20.65	\$36,137.00	3	
6	2015	\$18.12	\$14.67	\$19.37	\$21.81	\$37,678.00	4	
7	2016	\$18.68	\$15.29	\$19.80	\$22.23	\$38,854.00	5	
8	2017	\$18.43	\$14.69	\$18.83	\$22.30	\$38,335.00	6	
9								
10	Regression Slope	0.570857143	0.471714286	0.790265714	0.848571429	1186.971428571		
11	Last 3 yr avg	\$18.41	\$14.96	\$19.33	\$22.11	\$38,289.00		
12	2018 2 nd quarter estimate	\$19.69	\$16.01	\$21.11	\$24.02	\$40,957.44		
13	Annual increase	3.10%	3.16%	4.09%	3.84%	3.10%		
14								
15	Regression slope points							
16	Midpoint	\$17.54	\$14.25	\$18.00	\$20.84	\$38,481.83		
17								
18	2012	\$16.11	\$13.08	\$16.02	\$18.72	\$33,515.90		
19	2013	\$16.68	\$13.55	\$16.81	\$19.56	\$34,702.88		
20	2014	\$17.25	\$14.02	\$17.60	\$20.41	\$35,888.85		
21	2015	\$17.83	\$14.49	\$18.39	\$21.26	\$37,074.82		
22	2016	\$18.40	\$14.96	\$19.18	\$22.11	\$38,260.79		
23	2017	\$18.97	\$15.43	\$19.97	\$22.96	\$39,446.76		
24								
25	Variance							
26	2012	-\$0.58	-\$0.61	-\$0.74	-\$0.94	-\$1,212.90		
27	2013	\$0.42	\$0.41	\$0.27	\$0.69	\$860.12		
28	2014	\$0.13	\$0.23	\$0.02	\$0.24	\$248.15		
29	2015	\$0.29	\$0.18	\$0.98	\$0.55	\$603.18		
30	2016	\$0.28	\$0.33	\$0.62	\$0.12	\$593.21		
31	2017	-\$0.54	-\$0.64	-\$1.14	-\$0.66	-\$1,111.76		
32								
33								
34								

This is an example of the type of calculations that could be done on the EDD data.

This is a simple Excel calculation based on 6 years of EDD data on a specific job classification for the Contra Costa/Alameda market. Firstly it used the Excel linear regression function "SLOPE" to use the data values for year 1 to 6 to calculate the slope of a line representing the annual increase of the value each year.

Next we calculate the average of the latest 3 years. This, to some degree, factors out specific year variances. In this example even though the numbers increased, most of the 2017 numbers actually dropped. Then we multiply the slope by 2.25 to project the 2nd quarter of the next year from the average of the last 1st quarter values.

The next table shows the points on the regression slope and the variance between the slope and the actual data. The following represents the 50th percentile:



The red line represents the regression slope (red line) that can be used to project estimated future values.

This is a random example however it does show information about the job that might otherwise not be noticed. Most obvious is that the low-end jobs have actually dropped in 2017 and the fact that the mean salary has increased by only almost a full percentage less than the median confirms an erosion of the low end of the spectrum. In other words the median salary is the salary that half the people have a higher salary and half have a lower salary and when the only way they that the average does not keep up with the median is if the average is being pulled down by those below the median. This seems to be confirmed in that the 25th percentile increase also is almost a percentage point below 50th percentile increase.

Because we compete at the mid to high end, this example is most likely not a big problem. When using these numbers in a tool to help managers set reasonable salary targets, other skewing might be a factor.

This skewing certainly can make budgeting more difficult because often salary increases are set based on mean averages like the CPI-U. If we base our raises on values that are averages can lead to distortions.

Most likely, because we expect to be paying slightly above the 50th percentile on average it might be a better indicator of expected increases. It may also be that in some cases it may have to be adjusted.

Giving bonuses is a poor method for rewarding performance. It not only makes it difficult to maintain the bands but also fails to fit into the band philosophy. If our intent is to pay people competitively that by inference our better performing employees should receive salaries in the higher end of the band where they are competing with other higher performing individuals.

This way were set salary points within the band where we feel that employees with a specific job rating should receive. Thus a person with a 4 rating will have a higher target salary than a person with a 3 rating. Managers then can recommend raises appropriate to migrate the person to the target. Someone well below the target will receive higher raises until they reach their target. If someone is above their target we could, if we wish, give only token raises until the target is reached.

"The CMS will establish a pay band floor and cap, relative to the external market, for each non-represented position. The floor is to be initially set at 0.9 of the market median or average and the cap will initially be set at 1.2 of the market median or average, not to exceed the market 75th percentile. The floor represents the minimum the Foundation will pay for employees in that position; the cap represents the maximum the Foundation will pay for that position."

This statement has a number of problems. First median and average are not the same. In our example the projected median for 2018 is \$21.11 and the projected average is \$19.69. We need to delete the references to average. Setting a cap of 1.2 of the market median not to exceed the market 75th percentile has different implications depending on the spread of salaries for the specific job classification. In our example $\$21.11 \times 1.2$ is \$25.33. The projected 2018 75th percentile is \$24.02, which is less than 14% more than the median. Setting the cap at the lower of the two, limits our ability to recruit top people. If for example we want to pay on the average about 5% above the median that is already \$22.17 and this does not leave much room for a spread of salaries for top performers. A better approach might be to set the cap at the greater of the two values. This gives us the ability to be competitive in the market for top performers and gives us a range of salaries to reward better performance. In some job classifications the 75th percentile is more than the median.

As to the minimum about in this case it works out to \$19.00, which is more than the projected 2018 25th percentile of \$16.01. However this may not always be the case. We should probably set the minimum about to be the higher of 0.9 of the market median and the 25th percentile. It may not apply to us but some job classifications have 25th percentile values higher than 0.9 of the market median and we probably do not want to pay lower than the 25th percentile.

This is only the base salary portion of the employment cost. Other costs like payroll taxes of about 13.75% plus 401K contributions are base salary related. Insurance is another matter.

Even though this process might be more complicated it hopefully will be fairer to both the employee and resident. First it will meet our goal of providing competitive salaries where we are able to hire and retain good people and on the other hand not over pay them and add unnecessarily to the coupon.

Also this should add stability to salary raises, which benefits both employees and residents. Employees can manage their expenses better if their salaries are more predictable and it adds stability to the coupon. Metrics like the CPI-U are much more volatile.

If we use salary data to set raises then employees will not have to face unanticipated adjustments if we only check the band data every 5 years or only check the top and bottom of the band and not their placement in the band.

5024

Sheet1

SOC		Bus Drivers, School or Special Client			
53-3022		mean			
Years 1 to 6	mean	25 th Percentile	50 th Percentile	75 th Percentile	mean annual
	1	\$15.53	\$12.47	\$15.28	\$17.78
	2	\$17.10	\$13.96	\$17.08	\$20.25
	3	\$17.38	\$14.25	\$17.62	\$20.65
	4	\$18.12	\$14.67	\$19.37	\$21.81
	5	\$18.68	\$15.29	\$19.80	\$22.23
	6	\$18.43	\$14.89	\$18.83	\$22.30
Regression Slope		0.57085714	0.47171429	0.79028571	0.84857143
Last 3 yr avg		\$18.41	\$14.95	\$19.33	\$22.11
Year 7 2 nd quarter		\$19.69	\$16.01	\$21.11	\$24.02
Annual Increase		3.10%	3.16%	4.09%	3.84%
Floor		% Median Annual			
25th Percentile		\$16.01	75.84%	\$33,303.62	1185.945714
50th Percentile * 90%		\$16.01	75.84%	\$33,303.62	\$38,289.00
50th Percentile		\$19.00		\$39,520.68	\$40,957.38
50th Percentile * 105%		\$21.11		\$43,911.87	3.10%
50th Percentile * 120%		\$22.17		\$46,107.46	
75th Percentile		\$25.33		\$52,694.24	
Cap		\$24.02	113.79%	\$49,967.05	
		\$24.02	113.79%	\$49,967.05	

Judith A. Perkins

From: Carl Brown Gmail <ablebodyworks@gmail.com>
Sent: Thursday, March 22, 2018 8:16 AM
To: Judith A. Perkins
Subject: Compensation
Attachments: Annual Band Reeevaluation.doc

I have today, tomorrow and most of next Friday (3/30/18)

I have trouble communicating at times. I don't think I got my point across nor did I understand what you meant by you band review and how it affects current employees. I gather that it was primarily focused on new hires and if so I think we have a problem.

We need to discuss a metric but this is why I don't think that is enough. I would like your take.

I am attaching some notes.

Carl.



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Annual Band Reevaluation

Lets take a person who consistently receives a 4.0 rating. With our 105% market median and +/- 15% spread this person should probably be receiving about 110-115% of market median.

If they are above the cap then their raises are frozen until they are at or below the cap. However, once they are below the cap they will stay at that 120% level unless the band increases faster than the annual adjustment. In any case even if this is true it may take years to get that person's pay in align with the salary that they deserve.

If they are below the floor then they will be bumped to the floor. Once they reach the floor they will stay at that 90% of market medium unless the annual increase exceeds the rate the band increases. If there is a merit bonus in place that year their supervisor could award them more. This bonus will vary form year to year and is not likely to be the 20-25% that they deserve.

The idea of a market leading strategy of 5% over market median should include the idea that a person doing a 4.0 job is likely the receive 105-110% of market median. This means we should be paying 110-120% of market median if we want to adhere to our +5% market leading commitment.

The merit system is too quixotic and arbitrary to really provide salaries from year to year that an employee can rely on. In years that are favorable they are happy but otherwise they are looking for a new job. We need to reward consistently good employees in a consistently appropriate way without also overpaying others.

We cannot just adjust the floor and cap and the annual adjustment to get employees to their ideal salaries. Nor can we wait to make these adjustments every 5 years. We need a way to track bands on and annual basis and have a mechanism to migrate salaries of each individual to their target (ideal) salary. However we need a system that is easy for HR to administer.

Judith A. Perkins

From: GRF <cbrowngrf@gmail.com>
Sent: Sunday, March 25, 2018 10:17 AM
To: Sue Adams; Les Birdsall; Steve Roath; Bob Kelso; Mel Fredlund; Geri Pyle; Mary Neff; Judith A. Perkins; Anthony Grafals; Tim O'Keefe
Subject: Compensation meeting
Attachments: Completing the CMS Model.doc

Judith & Tony,

Thank you for the productive meeting last Friday. I think we got a lot accomplished. I think we are in agreement with the general approach although many details need to be worked out.

I have put together a straw-man for discussion. This represents some of our discussion and some of my thoughts. The point of the straw-man is to put together what appears to be a rough proposal in order to stimulate a discussion that will lead to a proposal with input from everyone. This way one can visualize the issues better and look at something that can be critiqued to see what each one of us likes or does not like and maybe suggest better approaches.

I am hoping that if we keep it simple we might have something for the 2019 year but if not, at least we can start moving to complete the CMS approach.

I am sending this out now so you have time to think about it before our next meeting.

Carl



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Completing the CMS Model

We have moved out overall salaries more inline with what we should be spending for labor. However, we have not addressed the problem of paying employees a salary is high enough to be competitive but not so high that it raises the coupon unnecessarily. Managing just the floor and cap limits of the bands is not enough we need to position employees correctly within the band

THE PROBLEM

Lets take a person who consistently receives a 4.0 rating. With our 105% market median and +/- 15% spread this person should probably be receiving about 110-115% of market median.

If they are above the cap then their raises are frozen until they are at or below the cap. However, once they are below the cap they will stay at that 120% level unless the band increases faster than the annual adjustment. In any case even if this is true it may take years to get that person's pay in align with the salary that they deserve.

If they are below the floor then they will be bumped to the floor. Once they reach the floor they will stay at that 90% of market medium unless the annual increase exceeds the rate the band increases. If there is a merit bonus in place that year their supervisor could award them more. This bonus will vary form year to year and is not likely to be the 20-25% that they deserve.

The idea of a market leading strategy of 5% over market median should include the idea that a person doing a 4.0 job is likely the receive 105-110% of market median. This means we should be paying 110-120% of market median if we want to adhere to our +5% market leading commitment.

The merit system is too quixotic and arbitrary to really provide salaries from year to year that an employee can rely on. In years that are favorable they are happy but otherwise they are looking for a new job. We need to reward consistently good employees in a consistently appropriate way without also overpaying others.

We cannot just adjust the floor and cap and the annual adjustment to get employees to their ideal salaries. Nor can we wait to make these adjustments every 5 years. We need a way to track bands on and annual basis and have a mechanism to migrate salaries of each individual to their target (ideal) salary. However we need a system that is easy for HR to administer.

This problem gets worse if we are underpaying an employee and the new hire is brought in at a market rate receiving more than the loyal employee who knows the job and is more experienced.

PROPOSAL:

- We need to complete our current CMS system. Changes should but be implemented as enhancements to our current system.
- Changes should be gradual and migrate salaries to proper levels.
- It must tie into a budgeting system.
- It must be easy to understand and administer.
- The system must be self-regulating.
- It must tie into the philosophy based on a market leading competitive wages.

It would start with setting a budget based on an employment cost index. Starting with actual salaries paid we would add a factor such as the latest BLS ECI which come out is September and December and has a figure for the San Jose-San Francisco-Oakland Bay Area. Unlike the CPI-U this is a pure employment index.

As you will see later while areas like San Francisco generally has a higher wage scale this figure is only an estimator. Because it starts with salaries actually paid the budget correction come for setting the proper competitive salaries.

We will need a separate budget that will replace the merit budget that will be used to gradually migrate salaries to their proper value either up or down.

Our goal is to pay on average 5% above the market medial (CMS Median) with a +/- 15% spread. This means in an ideal world a person who receives a 4 rating should be receiving a higher salary than a person receiving a 3 rating. We need to establish a Target Salary that is a reflection of their performance. This is an essential part of paying competitive salaries.

It is best to insure a sense of stability for employees and the coupon that we make incremental adjustments to a person's salary that migrate then to their target if they are either below or above their target salary. For example we could use ECI +/- 2% as an adjustment. This way each year the person would get closer to their target.

SETTING THE BANDS

If we use data to project the market place for the budget year is should not be too out of date. Ideally we could use the history of each band to estimate the band's performance. However, if instead we use a factor such as ECI we may not get as accurate prediction but we have a system that is easier to administrate and understand. Because each year we are using a new survey and inaccuracies are corrected.

White we are a non-profit, we do not compete with non-profit agencies and likewise we do not compete with governmental agencies either. Initial reviews show that even within the Bay Area wages vary. For example, San Francisco generally has higher wages because often commute time and costs are higher. We do not need to be market leading with all of the Bay Area wages just Contra Costa/Alameda.

RATINGS

If we are going to set Target Salaries primarily based on ratings we need to understand how they relate to percentiles. Lets assume a rating system from 1 to 5.

1 Unsatisfactory performance. The employee has serious problems meeting goals. Unless this person is a trainee they are typically fired.

2 Needs improvement. These people are generally on probation and in most organizations are in the minority. Hopefully less than a quarter of the employees receive this rating.

3 Meets goals. This person does a satisfactory job but nothing beyond that level or may do better in some areas and needs improvement in others. In some jobs it may be hard to excel but generally you want employees who do better than just meet goals. These people may be less than half your employees in a good organization.

4 Superior performance. In better companies this could be most of your employees.

5 Walk on water. These people are rare and often expensive. Everyone wants them a few organizations can afford them or actually need them

If we rate people like the rest of the market were do we stand in terms of our bands in setting Target Salaries?

Most likely a 2 or lower rating will have a Target Salary close to or at the band floor.

A 3 rating is most likely to be a little below our CMS Median and maybe close to the actual market median.

A full 4 rating will vary and in some organizations may constitute as much as 3/4 of the employees. This means that our cap strategy may not allow us to pay these people much more than the CMS Median. We shift the 50th percentile but not the 75th percentile. In some jobs there is not a significant difference in pay between the 50th percentile and the 75th percentile. While we do not expect to have 5 ratings we certainly can expect people who rate above a 4. Take lifeguards for example. The 25th percentile is 93% of the median and the 75th percentile is 111% of the median. That is only an 18% difference not a 30% spread that is part of CMS.

It becomes obvious that in most cases we will not see a linear distribution of salaries. It is also important to note that expectations and fairness play an important role in job satisfaction. This skewed distribution is a good reason to that the wording "average" out the CMS policy. Median (50th percentile) and mean (average) are too very different things and mean values are distorted not only by skewing but by values above the 75th percentile and below the 25th percentile which are not our concern.

STABILITY

If we set salaries based on market data that is no more than one year out of date and the budget based on actual salaries paid the system is self-correcting. If we migrate people to there target salaries slowly then it should not have a significant impact of either to coupon or employee wages. However, as people reach these Target Salaries we should expect the salary migration budget to shrink. When people start receiving their Target Salary we should find that our employment turnover should be lower. When employees look at what other companies are paying they will fine that they are no losing out even if they might have been over paid in the past.

The Target Salary program is an incentive to do better. If you do better you will see you Target Salary increase more than the band shift and if you don't do as well you well see that you might not get the raise you expected. This is much better than merit bonuses because it is more dependable.

If you are doing a commendable job you should be able to count on the fact that any new hires can be brought in without having to pay them considerably more than you get.

All in all it meets the intent of CMS.

SUMMARY

This is a basic concept to start a discussion. There is a lot of work to do to make this work. Hopefully it will also trigger new ideas and thoughts that will lead to a final system that we can all be proud of and will serve Rossmoor well.

Judith A. Perkins

From: GRF <cbrowngrf@gmail.com>
Sent: Monday, March 26, 2018 5:52 PM
To: Sue Adams; Les Birdsall; Steve Roath; Bob Kelso; Mel Fredlund; Geri Pyle; Mary Neff; Judith A. Perkins; Anthony Grafals
Cc: Tim O'Keefe; Ken Haley
Subject: BLS ECI
Attachments: BLS Employment Cost Index.pdf

ECI index. Unlike CPI-U this index is pure labor cost. This is a better index for labor market rates/

Carl



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


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Table 13. COMPENSATION AND WAGES AND SALARIES (NOT SEASONALLY ADJUSTED): Employment Cost Index for total compensation, and wages and salaries, for private industry workers, by area

Table 13. Employment Cost Index for total compensation,(1) and wages and salaries, for private industry workers, by area

(Not seasonally adjusted)

Census region and metropolitan area(2)	Percent changes for 12-months ended-					
	Total compensation			Wages and salaries		
	Dec. 2016	Sep. 2017	Dec. 2017	Dec. 2016	Sep. 2017	Dec. 2017
Northeast						
Boston-Worcester-Manchester, MA-NH CSA...	2.3	3.0	2.4	2.9	2.8	2.2
New York-Newark-Bridgeport, NY-NJ-CT-PA CSA.....	2.3	2.9	2.4	3.3	3.2	2.4
Philadelphia-Camden-Vineland, PA-NJ-DE-MD CSA.....	2.2	2.1	2.7	2.4	1.8	2.4
South						
Atlanta-Sandy Springs-Gainesville, GA-AL CSA.....	3.5	2.2	1.4	4.2	2.7	1.5
Dallas-Fort Worth, TX CSA.....	1.4	1.4	2.4	1.5	1.9	3.2
Houston-Baytown-Huntsville, TX CSA.....	1.7	2.1	1.7	2.3	2.6	2.0
Miami-Fort Lauderdale-Pompano Beach, FL MSA.....	3.4	3.7	2.2	3.6	3.9	2.3
Washington-Baltimore-Northern Virginia, DC-MD-VA-WV CSA.....	2.4	2.5	2.2	2.8	3.3	3.0
Midwest						
Chicago-Naperville-Michigan City, IL-IN-WI CSA.....	2.9	2.4	2.4	3.0	2.3	2.6
Detroit-Warren-Flint, MI CSA.....	1.8	2.5	2.8	2.3	2.8	3.2
Minneapolis-St. Paul-St. Cloud, MN-WI CSA	.7	1.1	1.4	-.2	1.0	1.1

West

Los Angeles-Long Beach-Riverside, CA CSA	2.6	3.6	3.7	3.1	3.2	3.3
Phoenix-Mesa-Scottsdale, AZ MSA.....	3.0	2.8	2.7	2.8	3.0	3.1
San Jose-San Francisco-Oakland, CA CSA...	2.6	2.9	3.4	2.9	2.9	3.6
Seattle-Tacoma-Olympia, WA CSA.....	2.8	7.6	6.9	3.7	3.8	3.4

5c) 35

1 Includes wages, salaries, and employer costs for employee benefits.

2 Note that some of these areas are Consolidated Statistical Areas (CSAs) and others are Metropolitan Statistical Areas (MSAs). For more information on metropolitan area definitions, visit the U.S. Census Bureau's Metropolitan and Micropolitan Statistical Areas page, on the Internet at www.census.gov/programs-surveys/metro-micro.html.

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www.bls.gov/ECT | Telephone: 1-202-691-6199 | [Contact ECT](#)

Judith A. Perkins

From: GRF <cbrowngrf@gmail.com>
Sent: Wednesday, March 28, 2018 10:48 AM
To: Sue Adams; Les Birdsall; Steve Roath; Bob Kelso; Mel Fredlund; Geri Pyle; Mary Neff; Judith A. Perkins; Anthony Grafals; Ken Haley
Subject: Compensation do we have a problem
Attachments: Effect of 2012 to 2016 Wage Shifting.doc

I tend to over complicate things. I have also been asked for examples. I believe the main questions that we need to decide are do we have a problem with our current salaries? I believe the answer is yes. The next question is can adjusting people to at least the floor and a set of merit increases fix the problem? I believe the answer is no.

In this example I used our real increases and a real sample band and its historical data. Then I added hypothetical salaries to illustrate the effect of our 2012 to 2016 salary adjustments would have had on these examples.

Last year we voted to stop this shift and set increases roughly comparable to the labor market and adjust salaries that were below the floor. However, We have no mechanism to move people at the cap to proper positions within the band nor move people off the floor and merit is not a good tool for that. We need a system where we gradually adjust salaries up and down to proper levels based on their performance.

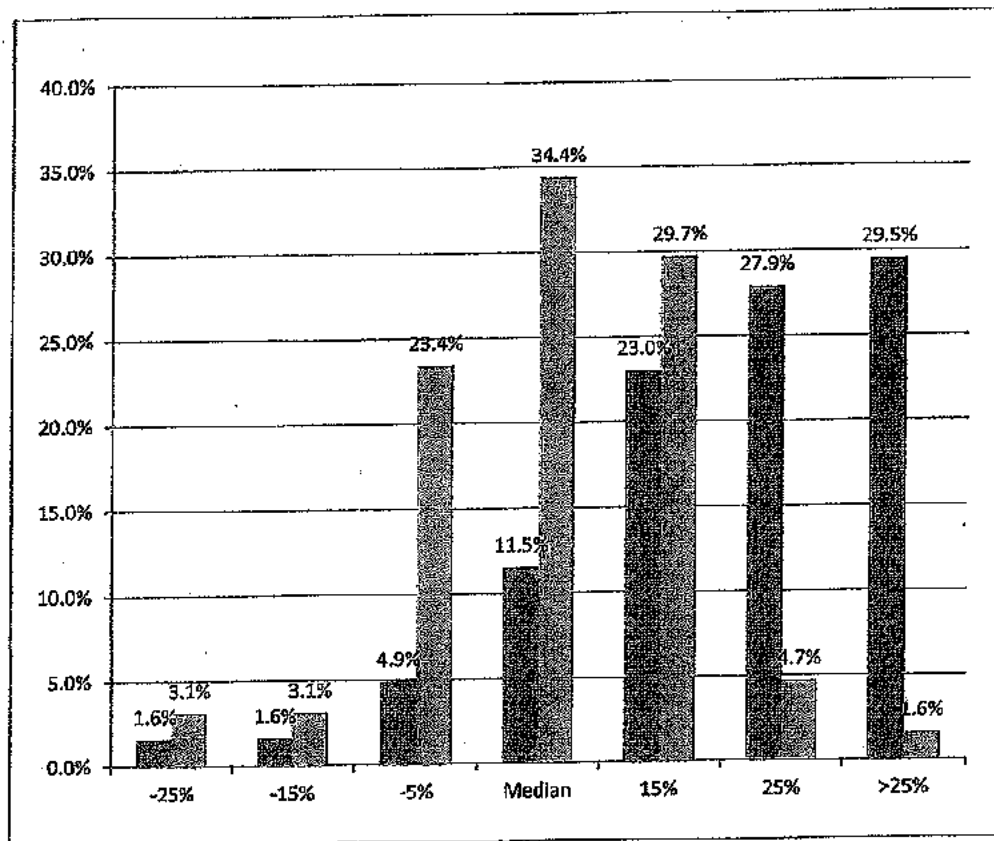
Carl



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Effect of 2012 to 2016 Wage Shifting

CMS was implemented because we had a significant number of employees who were receive salaries that were well above market rates. By reducing the annual wage increases we corrected that problem and introduce another problem. When we look at the overall shift is it clear that the salary distribution is no longer shifted to the high end of the pay scale.



Looking at the overall picture it looks good but lets look at what the shift has done to individual salaries.

For this illustration we are looking at the effects on 4 different hypothetical employees. Sample #1 is our overpaid employee. Sample #2 is a high performer who while not perfect generally has consistent excellent reviews. Sample #3 is the typical employee. They meet all expectations and exceed them in some cases. Sample #4 is a new hire that needed a lot of training and was hired close to our floor salary.

This band data come from the OES Administrative Assistant tables and represent actual band data and how it has moved over the 5-year span. The raise percentages are the GRF actual percentages. The actual salaries are hypothetical.

Wage Shift 2012 to 2016

Year	2011	2012	2013	2104	2015	2016
Floor		\$23.45	\$25.92	\$27.64	\$28.64	\$28.92
50th Percentile		\$26.06	\$28.80	\$30.71	\$31.82	\$32.13
CMS Median		\$27.36	\$30.24	\$32.25	\$33.41	\$33.74
120 Percent		\$31.27	\$34.56	\$36.85	\$38.18	\$38.56
75th Percentile		\$32.53	\$35	\$36.25	\$37.04	\$37.87
Cap		\$31.27	\$34.56	\$36.25	\$37.04	\$37.87
Raise percent		1.50%	2.00%	2.00%	3.00%	2.50%
Sample #1	\$37	\$37.00	\$37.00	\$37.00	\$37.04	\$37.87
CMS Percentage		135.22%	122.35%	114.74%	110.86%	112.25%
Sample #2	\$32	\$32.00	\$32.64	\$33.29	\$34.29	\$35.15
CMS Percentage		116.95%	107.94%	103.25%	102.64%	104.19%
Sample #3	\$27	\$27.41	\$27.95	\$28.51	\$29.37	\$30.10
CMS Percentage		100.15%	92.44%	88.42%	87.90%	89.23%
Sample #4	\$24	\$24.36	\$24.85	\$25.34	\$26.10	\$26.76
CMS Percentage		89.03%	82.17%	78.60%	78.13%	79.31%
CMS Floor		85%	85%	85%	85%	85%
% Below Floor			2.83%	6.40%	6.87%	5.69%

#1 was at the cap and will stay at the cap regardless of their performance because once they are under the cap if they receive a raise that matches the shift in the band they will stay at the cap.

#2 was brought under the cap and will continue to be at the high end.

#3 was at our CMS median pay but now is only 4.23% above the floor.

#4 was just above the floor and now is seriously below it. If after 5 years they deserve the CMS median salary then just adjusting them to the floor is not enough. They are 20.69% underpaid.

Judith A. Perkins

From: Les Birdsall <birdsallgrf@gmail.com>
Sent: Wednesday, March 28, 2018 2:00 PM
To: Carl Brown Board
Cc: Sue Adams; Steve Roath Board; Bob Kelso Board; Mel Fredlund Board; Geri Pyle Board; Mary Neff Board; Judith A. Perkins; Anthony Grafals; Ken Haley; Tim O'Keefe
Subject: Re: Compensation do we have a problem

Carl,

I've read all of your materials and find them very interesting. I've made several notes for discussion at our next meeting.

With regards to your 4 examples I also have some questions and comments.

- Your 120% values: it's not clear where that came from. 120% of what?
- Evaluating all 4 of your examples it appears the CMS we have used has accomplished what we want. In the first 3 examples everyone is within their band and the cap has increased each year.
- The 4th example is the one we have been concerned about. That's why we provided the extra money to move employees inside their band.

Do we really need to change our method?

Les

On Mar 28, 2018, at 10:48 AM, GRF <cbrowngrf@gmail.com> wrote:

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Carl



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<Effect of 2012 to 2016 Wage Shifting.doc>

Judith A. Perkins

From: GRF <cbrowngrf@gmail.com>
Sent: Thursday, March 29, 2018 5:36 PM
To: Judith A. Perkins
Subject: Evaluating Target Salary and Merit increases
Attachments: Effect of 2012 to 2016 Wage Shifting.doc

Judith,

I used the SOC 43-2011 Executive Secretaries and Executive Administrative Assistants values from BLS/EDD as an example of why we need a system of migration to Target Salaries instead of merit bonuses.

First how our single adjustment system to fix the over cap problem created problems for people below the cap.

Next to fix this an pay people the proper wages a system of Target Salary based on band and rating to establish position in the band and why the merit system does not fix the problem and will cost us more.

If I can get the committee to buy off on the idea then we will need to do a sophisticated study to determine what we will need for the salary adjustment budget. To do that I will need access to salaries and band data. It will have to be the actual band data we plan to use. Fortunately this will be a one time study because once we establish the budget it will be easy to adjust for subsequent years.

Attached is the update of my previous document adding the reason not to keep the merit system.

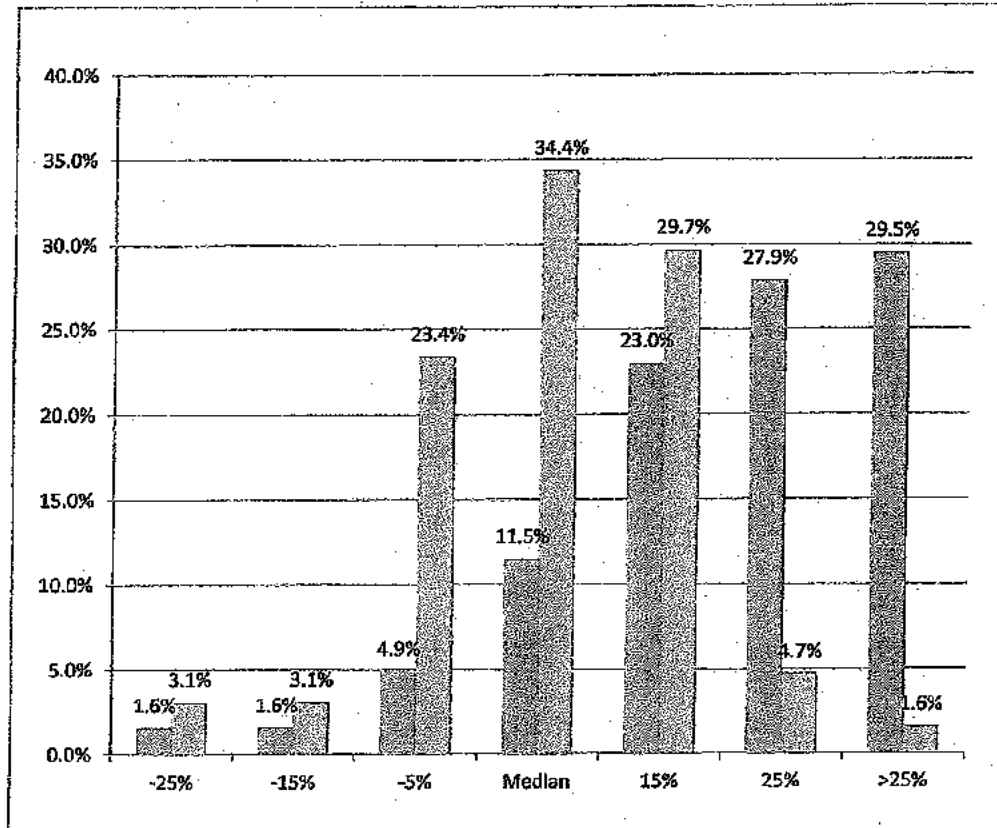
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Fixing the problem.

The #3 is an example where they have fallen in the market place even though they were not near the floor or cap when they started.

If #4 is now doing a good job with about half the people doing better and the other half not quite as good then we should be paying this person about \$33.74 according to CMS and if we raise them to the floor of \$28.92 we are still underpaying them. Putting people at the right level with merit is a mess. If the all perform the same you will be overpaying #1 by \$4.13 and #2 \$1.41. #3 would be underpaid by \$3.64 and #4 by \$6.98. If you raise #4 to the floor they are still underpaid by \$4.82. We need a system that migrates then over a few years to the ideal salary for that band and performance rating.

Let us take another hypothetical. Assume that all four of these employees get a 3.3 performance rating. Ideally we should be paying all 4 about the same thing, our CMS median of 5% above market median. So we look at approaches that will get us to that place gradually as we do not want to either cut wages or dramatically increase the coupon.

We can take two approaches. The Target Salary approach where we give people in the band higher salary increases if they are below their Target Salary and lower salary increases if they are above their Target Salary. Lets compare it to a merit bonus program where we migrate them to their ideal salary with incremental merit pay until we meet their appropriate pay level.

For the Target Salary method we are going to assume an ECI of 3.5% and that the specific band also moves at 3.5% as see what the impact over the years of the adjustment proves has on a salary adjustment budget.

While we could use more suplicated means to predict the effect of our band movement, ECI is probably the most accurate simple predictor because it is based just on wages. Some of our bands will move faster and others slower. Faster moving bands will use the salary adjustment budget and slower bands will actually contribute to this budget item and over the years when salaries stabilize, this budget should shrink to almost nothing. Eventually it can be merged with the base salary budget as an extra adjustment factor.

To keep the example simple we are assuming that that everything will adjust by 3.5% including the main budget, the CMS median and the cap. The standard raise will also be 3.5% for those who are at their Target Salary. We will vary the actual raises by +/- 2% so that we can give people as much as 5.5% or as little as 1.5% raises to bring them closer to their target. People above the cap will still receive no raise.

Salary Adjustment vs. Merit Budget Costs

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
CMS Median	\$33.74	\$34.92	\$36.14	\$37.41	\$38.72	\$40.07	\$41.48	\$42.93
Cap	\$37.87	\$39.20	\$40.57	\$41.99	\$43.46	\$44.98	\$46.55	\$48.18
Target Salary Method								
Sample #1	\$37.87	\$38.44	\$39.01	\$39.60	\$40.19	\$40.80	\$41.48	\$42.93
ECI Budget Raise		\$1.33	\$1.35	\$1.37	\$1.39	\$1.41	\$1.43	\$1.45
Actual Raise		\$0.57	\$0.58	\$0.59	\$0.59	\$0.60	\$0.68	\$1.45
Salary Adjustment Cost		(\$0.76)	(\$0.77)	(\$0.78)	(\$0.79)	(\$0.80)	(\$0.75)	\$0.00
Sample #2	\$35.15	\$35.68	\$36.21	\$37.41	\$38.72	\$40.08	\$41.48	\$42.93
ECI Budget Raise		\$1.23	\$1.25	\$1.27	\$1.31	\$1.36	\$1.40	\$1.45
Actual Raise		\$0.53	\$0.54	\$1.20	\$1.31	\$1.38	\$1.40	\$1.45
Salary Adjustment Cost		(\$0.70)	(\$0.71)	(\$0.07)	\$0.00	\$0.00	\$0.00	\$0.00
Sample #3	\$30.10	\$31.76	\$33.50	\$35.34	\$37.29	\$39.34	\$41.48	\$42.93
ECI Budget Raise		\$1.05	\$1.11	\$1.17	\$1.24	\$1.31	\$1.38	\$1.45
Actual Raise		\$1.66	\$1.75	\$1.84	\$1.94	\$2.05	\$2.14	\$1.45
Salary Adjustment Cost		\$0.60	\$0.64	\$0.67	\$0.71	\$0.75	\$0.76	\$0.00
Sample #4	\$26.76	\$28.23	\$29.78	\$31.42	\$33.15	\$34.97	\$36.90	\$38.93
ECI Budget Raise		\$0.94	\$0.99	\$1.04	\$1.10	\$1.16	\$1.22	\$1.29
Actual Raise		\$1.47	\$1.55	\$1.64	\$1.73	\$1.82	\$1.92	\$2.03
Salary Adjustment Cost		\$0.54	\$0.56	\$0.60	\$0.63	\$0.66	\$0.70	\$0.74
Total Adjustment		(\$0.32)	(\$0.28)	\$0.42	\$0.54	\$0.60	\$0.71	\$0.74
Merit Adjustment								\$2.41
Sample #3	\$30.10	\$31.76	\$33.50	\$35.34	\$37.29	\$39.34	\$41.48	\$42.93
ECI Budget Raise		\$1.05	\$1.11	\$1.17	\$1.24	\$1.31	\$1.38	\$1.45
Base Salary		\$31.15	\$32.27	\$33.44	\$34.67	\$35.98	\$37.36	\$38.81
Merit Adjustment Cost		\$0.61	\$1.23	\$1.90	\$2.62	\$3.36	\$4.12	\$4.12
Sample #4	\$26.76	\$28.23	\$29.78	\$31.42	\$33.15	\$34.97	\$36.90	\$38.93
ECI Budget Raise		\$0.94	\$0.99	\$1.04	\$1.10	\$1.16	\$1.22	\$1.29
Base Salary		\$27.70	\$28.68	\$29.73	\$30.83	\$31.99	\$33.21	\$34.50
Merit Adjustment Cost		\$0.53	\$1.10	\$1.69	\$2.32	\$2.98	\$3.69	\$4.43
Total Adjustment		\$1.14	\$2.33	\$3.60	\$4.94	\$6.34	\$7.81	\$8.55
								\$34.71

After 10 years an Sample #4 reaches Target Salary the adjustments will all reach zero. But that is theory. In actuality people ratings change for year to year and there is job turnover so there will always be some adjustments.

Sample #1 & #2 are not included in merit adjustments because there is no mechanism to adjust these salaries using merit and they will stay at or near the cap.

The other difference is that at the end of 7 years in this sample the base salaries are \$167.72 with the salary adjustment of Target Salaries system. With the merit adjustments this is \$169.67 largely because Sample #1 & #2 were not adjusted.