

FT COMPENSATION STUDY REPORT

4. Receive and Review the Draft Compensation Study Report (presented by Moss Adams, LLP), was presented.

Member of the public Tricia Crane spoke on the recommendation.

Advisory Board Member Bush stated for the record that she was not aware of the information item titled The 2030 Challenge, and wanted to state that she was not included in approval of this recommendation. The information item appears to come as a recommendation from the whole Compensation Study Advisory Committee, which is not accurate. Her goal for being on the Compensation Committee was to bring her expertise in Compensation from the private sector, and not to make a recommendation on a very challenging problem of pension; it was to help review the Auditor's study. She felt that she had done her job by questioning the data and methodology. She was disappointed.

The Auditor briefly presented the Draft Compensation Study report and recommendations. The scope of work consisted of four areas: 1) Wage and Benefit Processes, 2) Wage and Benefit Packages, 3) Staffing Methodology, and 4) Public Safety Overtime. The methodology involved in creating the study included interviewing all department heads in the city and representatives from each labor group; reviewed documents and data; collecting data from the State of California, the City of Santa Monica; and interviewing eleven peer cities.

Findings were reported to be primarily equivalent to peer cities and included major takeaways in terms of wages and benefits, practices in terms of how compensation is set and defined, and what the proportion of compensation is. Each of these areas is similar when compared to any city in California because of the strict and straightforward laws that define how compensation is determined for Public Employees in California. On average, Santa Monica's cash compensation for employees is comparable to that of peers. However, management compensation is the highest amongst all identified peers. Drivers of compensation compared to peers is what makes Santa Monica stand out. The Council is committed to providing a living wage and to insourcing services that a lot of other cities outsource. Overall, Santa Monica has a higher workload and higher cost but productivity is comparable per FTE compared to peers. The higher workload and higher cost are primarily driven by the fact that Santa Monica is considered a "full service plus" city, which means the city provides all services except electric, and provides a lot of unique services to a unique population. Santa Monica has the highest number of employees compared to peers. Unlike peer cities, Santa Monica did not change the way employees were compensated during the recession.

Public Safety Overtime for the past three fiscal years has increased proportionally to each department's operating cost. The breakeven analysis shows that an hour of overtime is cheaper than an hour of a new Full Time Employee (FTE), but the total cost to the city of increased overtime might

be more because of the associated risk with respect to burnout and fatigue.

The Auditor reported there are 12 recommendations in the report that will help the City improve its fiscal sustainability. Topline recommendations include:

1. Enhance awareness and understanding of personnel costs by making this information readily accessible to the general public and provide explanations of each component of total compensation.
2. Develop and implement a formal compensation philosophy, including, but not limited to, compensation and benefits components, levels, and market competitiveness, to guide labor negotiations and set employee expectations with respect to compensation.
3. Evolve the in-house position-level compensation market study methodology to include medians and percentiles in accordance with best practices, accounting for labor relation requirements.
4. Continue to take steps whenever possible to mitigate the financial threat that pension liability places on the City.
5. Evaluate options to stabilize per-employee health care costs.
6. Consider staggering labor contracts and expanding the duration of all contracts to multiple years reduce the burden of negotiations on the City.
7. Develop financial and operational strategies to prepare for possible future recessions, since the City may not be able to absorb a future recession as easily.
8. Explore strategies for mitigating personnel costs, such as hiring personnel at lower steps, and leveraging training programs to equip personnel to take on greater responsibility earlier in their career.
9. Implement an evaluation framework to assess the lifecycle costs of proposed new programs and services, and evaluate outsourcing options, where applicable.
10. Continue initiatives already underway to develop a strategic plan, comprehensive performance indicators, and leverage the City's data for decision-making.
11. Continue to evaluate police staffing levels and use of overtime.
12. Conduct a staffing study to determine if additional firefighters are warranted to reduce the frequency of mandatory overtime.

Questions asked and answered of staff and the auditor included: Are the management positions part of an MOU, are they separate, or is there a mix; did we look at the age of the population, average wage perspective versus peer cities, and how long employees stay; what percent of our employees are management versus non-management; what does the chart on California total wages and average annual wages by sector say about Santa Monica; health benefits and the breakdown; what new programs were and were not included in the biennial budget; what other departments seem atypical or disproportionate to other cities; why are the contributions into PERS going down since 2012; what's the maximum allowable rate that an employee can pay under PEPRA and Classic; can we create a model that maintains a zero pension going forward; is there a way to maintain where we are and not add

any additional liability; if other cities brought in contracted services, what would that actual cost be for services for cities over \$500 million; how do you evaluate the long term effect of burnout and risk for overtime; Is there a format to enhance awareness and understanding of personnel costs by making this information readily accessible to the general public and provide explanations of each component of total compensation and how do you plan to implement that; were Y-rated managers included in the compensation study, and do we have the in-house compensation expertise to implement the recommendations of the study or will staffing be an additional cost.

*Committee Member excused
at 7:10 p.m.*

Considerable discussion ensued on topics including, but not limited to: The presentation of the The 2030 Challenge by two of the Advisory Board members. The Challenge is to pay off the pension liability no later than 2030 and to freeze all hiring, wage and salaries, and end all future “defined” pension obligations, forgo capital expenditures, and continue the Advisory Board beyond their current tenure; Pension liability is a large topic that needs to be addressed, including matrix and benchmarks on moving forward, and requires time and commitment; taking the recommendations and drilling them down to projects; creating a methodology to compare, which should not be a race to the bottom; protecting the lower wage paid employees; Setting wages more fairly; Preparing for future recessions proactively, instead of reactively; looking at service; if the Advisory board continues, they should take part in helping to figure out where to go; creating a workplan to build a model that gets the pension liability to 76 percent or 80 percent over the next five years; having outside negotiations come in to negotiate with bargaining unions, and maybe looking at other cities; managers are at the high end of pay, and that needs to be addressed.

On the consensus of the Committee, the information was received, filed, and comments accepted.

ADJOURNMENT

On order of the Chair, the Special Joint meeting of the Santa Monica Audit Subcommittee and Compensation Study Advisory meeting adjourned at 8:39 p.m.

ATTEST:



Denise Anderson-Warren
City Clerk

APPROVED:



Sue Himmelrich
Chair