

EXECUTIVE SUMMARY

Background

The Human Resources Philosophy adopted by the City Council is the guiding force for the development and administration of human resources programs. The Philosophy is included as **Attachment A** of this report. Of utmost importance, as provided in the Philosophy, is that the City of Charlotte “attract and retain qualified, productive and motivated employees who will provide efficient and effective services to the citizens.”

With regard to the development of pay and benefits recommendations, staff is guided by the provisions of the Philosophy which state:

- Pay will be based on performance while considering market conditions.
- Base pay is the primary type of pay used to maintain market competitiveness. City Council-approved policy is that market competitiveness for a specific job is based on the median of actual salaries paid in the applicable recruitment area for jobs of a similar nature.
- Incentive pay will be the primary pay method used to communicate the changing goals of the City and to encourage teamwork.
- Employees will also be rewarded for attaining skills which make them more flexible and useful in helping Departments meet their goals.
- Benefits plans will provide a moderate level of income protection against unexpected health, life and disability risks.
- Health care costs will be aggressively managed and employees will be expected to share fairly in the costs of their benefits.
- Wellness programs will be actively supported.

Survey of Market Conditions and Market Competitiveness

Market competitiveness is determined through ongoing surveys of the pay and benefits practices of other employers. Human Resources staff recently completed a review of local, regional and national pay increase trends, as well as a review of employer benefits practices. Competitive practice information was gathered directly by the Human Resources staff and evaluated along with survey information compiled from several consulting firms representing a large number of employers.

Survey Findings

- Mercer Consulting's *2015/2016 U.S. Compensation Planning Survey* reports that Salary increase budgets have remained close to 3.0% for the last several years and are expected to continue to do so in 2016.
- According to Julio A. Portalatin, President and CEO of Mercer, “Employers are moving on several fronts to hold down health cost growth. In the best scenarios, they're addressing workforce health, restructuring provider reimbursement to reward value, and putting the consumer front and center by providing more options and more support. In other cases, the pressure to avoid the excise tax is leading to some cost-shifting, plain and simple.”

Conclusions and Recommendations

- **Compensation**

- In the Public Safety Pay Plan, the following is recommended:
 - Merit steps of 2.5% to 5% be funded.
 - Market adjustment to the pay steps funded at 1.5% effective July 2, 2016.
- In the Broadbanding Pay Plan, it is recommended that there be funding for a 3.0% merit increase budget.
- Conversion of Non-exempt/hourly employees to new pay plan
- 1.5% Non-exempt/hourly market adjustment
- Increase minimum pay to \$28,260.

- **Benefits**

- It is recommended that the City's overall funding for group insurance coverages be increased by 7%.
- It is recommended that medical and pharmacy plan deductibles, coinsurance, copays, and out-of-pocket maximums and plan design changes be implemented consistent with competitive practices and the Human Resources Philosophy.
- Reinstate Veterans Day as an Official City Holiday

FY 2017 PAY RECOMMENDATIONS

Public Safety Pay Plan

The City's Public Safety Pay Plan covers all Police classes below the rank of Police Lieutenant and all Fire classes below the rank of Battalion Fire Chief. There are two components to the Public Safety Pay Plan. The first is progression through the steps and the second is market adjustments to the steps. The following recommendations are made:

- Funding for steps in the Public Safety Pay Plan at a range of 2.5% to 5.0%, so that those employees who have not yet reached the maximum step of their pay range will receive a step increase on their merit date.
- A 1.5% market adjustment to the Public Safety Pay Plan. Public Safety employees will receive this increase effective July 2, 2016.

Broadbanding Pay Plan

The City's Broadbanding Pay Plan covers all City employees with the exception of non-managerial Sworn Police and Uniformed Fire employees. There is no general pay (market) adjustment for employees in this pay plan as there is for employees in the Public Safety Pay Plan. Merit increases are based on the employee's performance and the employee's pay rate in relation to market.

In keeping with policy approved by the City Council, the City benchmarks its competitiveness for a specific job based on the median of actual salaries paid in the applicable recruitment area for jobs of a similar nature. The median, or 50th percentile, is the middle salary in a list of salaries arranged from high to low. This benchmark, median salary, is for people at the mid-point or sometimes called the "journey" level. Therefore, the City's policy of maintaining market competitiveness results in 50% of comparable employers paying more and 50% of comparable employers paying less than the City. The following recommendations are made:

- Funding for a 3.0% merit pool for all departments. Department Directors will be held accountable for staying within budgeted funds. Pay decisions will be based on an employee's level of performance and a comparison of current salary to the market's 50th percentile for their specific job. Increases may be awarded as base pay or lump sum on the employee's merit date. Department Directors are required to make intentional efforts to allocate merit increases proportionately across all job levels, and between exempt and non-exempt staff.
- Increasing the band minimum and maximum rates in the Broadbanding Pay Plan structure by 3.0%, as reflected in **Attachment D**. The only impact of this recommendation will be to change the minimum and maximum rates in the City's six bands. Because no employee salary falls below the minimum of Band A, no employee will receive an increase as a result of this recommendation.

Non-Exempt/Hourly Pay Plan

It is recommended that a new pay plan for entry-level non-exempt employees in labor, trades, and administration positions (hourly classifications) be implemented. These employees would then be transitioned from Broadbanding to the new Non-Exempt/Hourly Pay Plan in FY2017. The proposed new pay plan will consist of 20 traditional ranges, each with a minimum, midpoint, and maximum. The midpoint will be equal to the median (50th percentile) of market data, similar to how market rates are identified in the Broadbanding Pay Plan. All non-exempt/hourly positions will be converted to their new pay range and will receive a market adjustment equal to half of

the Broadbanding merit percentage increase. In future fiscal years, non-exempt/hourly employees will receive an annual market adjustment equal to half of the Broadbanding merit percentage increase. These employees will also receive a merit increase each year; equal to half (on average) of the Broadbanding merit percentage increase.

Employees Currently Earning Below 60% of Area Median Income

- In FY2016, Council approved funds to bring employees to a minimum pay amount equal to 60% of the Area Median Income. The area median income has since increased to \$47,100. The cost in FY2017 to take employees to the current 60% threshold of \$28,260 (\$13.58 per hour) would be \$119,136. Most of this cost however, would be absorbed in the transition to the Non-Exempt Hourly pay plan, leaving only \$9,517 cost in the General Fund. It is recommended that Council maintain its policy of bringing employee salaries to a minimum pay amount equal to 60% of the area median income, \$28,260 for FY2017.

FY 2017 BENEFITS RECOMMENDATIONS

Funding for Insurance Coverages

The following group insurance coverages are provided and consistent with the Human Resources Philosophy adopted by the City Council: medical, including prescription drug; medical stop-loss; life; dental; and disability coverage.

It is recommended that the City's funding for group insurance coverages be increased by 7% for FY 2017.

Health Coverage

The City's medical insurance program is self-insured for active employees and non-Medicare retirees. Stop-loss insurance is purchased by the City to cover catastrophic claims that exceed \$425,000 per individual in a fiscal year. Third-party claims administrators are retained to provide medical management services and pay medical and prescription drug claims. When budgeting for future costs, the two cost components for the medical insurance plan are the claims projected to incur and the administrative fees to be paid to the claims administrators. BlueCross BlueShield NC is the medical claims administrator and CVS Caremark is the prescription drug plan administrator. The City has a fully-insured medical and prescription drug plan administered by AmWINS for Medicare-eligible retirees.

The following recommendations are being made:

- **Medical Plans**

- As part of the FY10 budget process, City Council provided the City Manager or his designee the authority to approve future plan design amendments to the medical and dental plans including redesigning current plans to promote consumerism and wellness. Plan design changes which will become effective January 1, 2017 include:
 - Modifying the medical plan designs in the PPO Plus and PPO Basic plans to help contain cost, promote in-network utilization and remain competitive with market practices. These include changes to deductibles, out of pocket maximums, copays and coinsurance.
- Currently the medical benefit plan is administered by Blue Cross Blue Shield of North Carolina (BCBSNC). It is recommended that the City Manager or his designee be authorized to either renegotiate or rebid the current contract during FY 2017. If the contract is rebid, it is recommended that the City Manager or his designee be authorized to select a vendor and execute the contract and future contract amendments with the selected vendor upon completion of the bid process.

- **Medical Premiums**

- Effective January 1, 2017, adjust the employee cost sharing in the tiers of each plan in a phased approach towards an industry supported employee contribution strategy of 20/50/35/50. Employee only coverage contribution at 20%; Employee/Spouse at 50%; Employee/Child(ren) at 35%; and Employee/Family at 50%. Provide the City Manager or his designee the authority to establish the premium structure for employees within the overall health insurance budget.
- Effective January 1, 2017, increase the wellness incentive from \$40/\$80 to \$50/\$100. Employees who choose to participate in the Wellness Plan will receive a

\$50 (Employee Only or Employee/Child(ren) or \$100 (Employee/Spouse or Employee/Family) savings per month on medical insurance premiums.

- **Non-Medicare Retiree Premiums**

Effective January 1, 2017, adjust non-Medicare retiree premiums for medical coverage in a phased approach towards the adopted retiree cost-sharing philosophy of 45/50/50/50. Retiree only coverage contribution at 45%; and Retiree/Dependent coverage contribution at 50%. Provide the City Manager or his designee the authority to establish the premium structure for non-Medicare retirees within the overall health insurance budget.

- **Medicare-Eligible Retiree Premiums**

- As part of the FY 2010 budget process, City Council provided the City Manager or his designee the authority to approve changes including plan options, vendors, and future contracts/contract amendments to the fully-insured medical and prescription drug plans for Medicare-eligible retirees.
- Since these plans are fully insured, it is recommended that the City Manager or his designee be authorized to approve rate increases and vendor changes as necessary to appropriately fund these plans upon receipt of renewal rates from the Administrator of the Medicare-eligible retiree coverage.

- **Prescription Drug Plan**

- The City Manager or his designee is authorized to amend the prescription drug benefit contract. In an effort to contain prescription drug costs and promote utilization of generic drugs, the plan will be amended as follows:
 - Modifying the prescription drug plan design in order to contain costs, promote generic utilization and remain competitive with market practices. Changes include increase in copays and addition of coinsurance.
 - Continue to implement programs offered by CVS Caremark to control specialty drug trend cost increases.
- Currently the prescription drug benefit plan is administered by CVS Caremark. The current contract will conclude on June 30, 2017. It is recommended that the City Manager or his designee be authorized to either renegotiate or rebid the current contract. If the contract is rebid, it is recommended that the City Manager or his designee be authorized to select a vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

- **Dental Plan/Premiums**

- Currently the dental plan is administered by Ameritas. The City is completing a rebidding process for the dental plan. It is recommended that the City Manager or his designee be authorized to either renew the current contract or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.
- The City currently contributes \$28 per month to both dental plan options. Continue to fund the dental plans at the currently level of \$28 month.

- **Vision Plan**

- Currently the vision plan is administered by VSP. The City is completing a rebidding process for the vision plan. It is recommended that the City Manager or his designee be authorized to either renew the current contract or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.
- Since this plan is fully insured, it is recommended that the City Manager or his designee be authorized to approve vision premiums.

- **Benefits Consulting Services**

- The City currently has a contract with Willis Towers Watson for benefits consulting services. The current contract expires December 31, 2016.
- The City will be conducting a rebidding process for benefits consulting services. It is recommended that the City Manager or his designee be authorized to either renew the current contract or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the rebidding process.

- **Affordable Care Act (ACA) Compliance Services**

- The City currently has a contract with Benelogic for ACA compliance services, such as ACA reporting and completion of required IRS forms. The initial scope of services will be completed by May 2016. It is recommended that the City Manager or his designee be authorized to extend the scope of the contract to include ACA compliance services with the selected vendor for the duration of a three year contract term.

- **Life Insurance and Disability**

- Currently the group life insurance program is administered by Aetna and the group short term and voluntary disability programs are administered by Unum. The City is currently in the process of contract renewal for these coverages. It is recommended that the City Manager or his designee be authorized to either renew the current contract(s) or select a new vendor(s) and execute the contract and future contract amendments with the selected vendor(s) upon completion of the renewal process.

- **Other benefits**

- It is projected by 2018, 50% of active employees will be ineligible for retiree medical insurance. During FY17, Human Resources will study the benefits options available to employees ineligible for retiree medical insurance as well as updating the City's employee cost methodology regarding retiree medical insurance to create equity for employees and retirees.
- In FY17, Human Resources will also review the City's medical plan contribution strategy. Currently, the City subsidizes a larger portion of the Plus PPO plan premiums. During this review process Human Resources will look into a consistent City medical plan contribution, regardless of medical plan selected, so that all employees will receive an equitable City contribution.

- **Reinstate Veterans Day as an Official City Holiday**

Veterans Day is an official United States public holiday, observed annually on November 11, intended to honor and thank all American veterans who served the United States in

all wars. For many years Veterans Day was an observed holiday for city employees.

In October 1994, City Council voted to change the City's holiday schedule, in part, in order to better complement the holiday schedule of Mecklenburg County. At that time, the official Veterans Day holiday was replaced by a floating holiday for city employees. In 2009, the floating holiday was subsequently exchanged for the day after Thanksgiving Day, also a holiday observed by Mecklenburg County.

Effective in calendar year 2015, the Mecklenburg County Board of Commissioners reinstated the Veterans Day holiday for county employees.

It is recommended that City Council reinstate Veterans Day as an official holiday for City employees. This action enables the City of Charlotte to maintain consistency in observed holidays of city and county employees and even more importantly, reaffirms the City's commitment to its employees who are veterans, many of whom continue to serve our country as active members of military reserve units.

For calendar year 2016, Veterans Day will be observed on Friday, November 11th.

Attachments

- Attachment A – **Human Resources Philosophy**
- Attachment B – **Market Movement Summary**
Summary of actual market movement for 2013-2016, 2017 projected market movement, and the five-year market movement average.
- Attachment C – **Recommended FY2017 Public Safety Pay Plan Structure**
New minimum, maximum and step rates in the Public Safety Pay Plan based on the 1.5% structural market adjustment recommended for FY2017.
- Attachment D – **Recommended FY2017 Broadbanding Pay Plan Structure**
New minimum and maximum rates in the Broadbanding Pay Plan based on the 3.0% structural adjustment recommended for FY2017.
- Attachment E – **Recommended FY2017 Non-Exempt/Hourly Pay Plan Structure**
Twenty range structure for Non-Exempt/Hourly Pay Plan recommended for FY2017.

City of Charlotte

Human Resources Philosophy

The City of Charlotte will attract and retain qualified, productive and motivated employees who will provide efficient and effective services to the citizens. Human resource programs will provide constructive support for the City's customer service, business and financial strategies. These programs will be reviewed on a regular basis and changed as circumstances warrant. They will be directed toward attaining measurable goals and organizational success.

Recruitment

The City will recruit and hire employees who are technically competent and customer focused.

Employee Responsibility

Employees will be held accountable for producing quality work and for exhibiting the highest commitment to honesty, integrity and customer service.

Commitment to Competition

The City of Charlotte is committed to providing quality services at a market competitive cost through service delivery by City employees or, when costs would be lower, through privatization. The City is committed to the skills development of its employees to enhance services to citizens and to make the City more competitive. When necessary due to organizational changes or privatization, the City is further committed to skills development to prepare employees for other opportunities within or outside of the City organization.

Employee Pay and Benefits

All types of employee pay, whether base pay, incentives or benefits, will be used to encourage employees to attain measurable performance goals/targets that support the City's mission. Pay will be based on performance while considering market conditions.

Base pay is the primary type of pay used to maintain market competitiveness; incentive pay will be the primary pay method used to communicate the changing goals of the City and to encourage teamwork. Employees will also be rewarded for attaining skills which make them more flexible and useful in helping Business Units meet their goals.

The City's Benefits Plan will provide a moderate level of income protection to employees against unexpected health, life and disability risks. Employees will be expected to share fairly in the cost of their benefits. The City will aggressively manage health care costs and actively support employee safety and wellness programs to reduce future health care costs.

Health and Safety

Employees will be reasonably protected against safety and environmental risks in the workplace.

Training and Development

Employees will receive sufficient training and counseling to successfully perform their jobs.

Employee Communications

Employees will receive clear and timely communications on issues which affect their work life and will have a reasonable opportunity for input into decisions on these issues.

Employee Relations

Employees will be treated with respect and without regard to race, religion, color, sex, national origin, sexual orientation, age, disability, political affiliation, or on the basis of actual or perceived gender as expressed through dress, appearance or behavior or for any other reason not related to their organizational contributions. Diversity will be respected and viewed as an asset to our workforce.

Approved by City Council 1993, revised 1995, revised 2014 in FY15 Pay & Benefits Recommendation

Market Movement Summary

(Average Percent Change)

Source	2013 Actual Market Movement	2014 Actual Market Movement	2015 Actual Market Movement	2016 Actual Market Movement	2017 Projected Market Movement (to date)	5 Year Average Market Movement
National Statistics Provided by World at Work, Hewitt, Mercer	3.0	2.9	3.0	3.0	3.0	3.0
National Municipalities *	1.7	2.4	2.7	2.4	2.4	2.3
Charlotte Area Municipalities *	2.8	2.6	2.6	3.0	2.7	2.7
Large Charlotte Employers (private sector)	2.5	2.5	2.7	2.8	2.7	2.6
The Employers Association	2.6	3.1	3.1	3.0	3.1	3.0
City of Charlotte	2.0	2.0	3.0	1.5	3.0 (Proposed)	2.3

* FY2017 projected market movement based on limited data

Recommended FY2017 Broadbanding Pay Plan Structure

Band	Minimum	Maximum
Band A	\$27,000	\$62,309
Band B	\$38,221	\$76,444
Band C	\$49,677	\$99,354
Band D	\$67,050	\$134,100
Band E	\$90,496	\$180,993
Band F	\$122,184	\$244,368

Recommended FY2017 Non-Exempt/Hourly Pay Plan Structure

Range	Minimum	Midpoint	Maximum
Range 1	27,569	30,632	35,227
Range 2	28,947	32,164	36,988
Range 3	30,395	33,772	38,838
Range 4	31,914	35,460	40,779
Range 5	33,510	37,233	42,818
Range 6	35,186	39,095	44,959
Range 7	36,945	41,050	47,207
Range 8	38,792	43,102	49,568
Range 9	40,732	45,257	52,046
Range 10	42,768	47,520	54,648
Range 11	44,907	49,896	57,381
Range 12	47,152	52,391	60,250
Range 13	49,510	55,011	63,262
Range 14	51,985	57,761	66,425
Range 15	54,584	60,649	69,747
Range 16	57,314	63,682	73,234
Range 17	60,179	66,866	76,896
Range 18	63,188	70,209	80,740
Range 19	66,348	73,720	84,777
Range 20	69,665	77,406	89,016

Note: Effective February 4, 2017 Ranges will be increased by 1.5% and minimum pay will be increased to \$28,260