**City of Dixon**
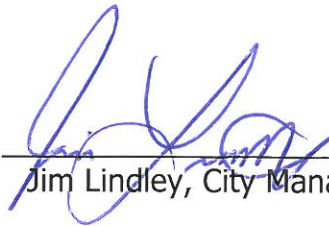**Salary Plan**

APPROVED: _____          3-20-14

Jim Lindley, City Manager                  Date

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## Administration Policies

Because pay administration touches so many areas of personnel administration, it is important to cover some of them in the Plan so that all the pieces can be seen and understood in the proper context. The City's various policies on salary adjustments, initial salary step appointment, minimum performance evaluation criteria, the effects of reclassification on salary, etc. are found in the City's Personnel Rules.

## Salary Structure Principles

The City utilizes a pay step system for its classes. All of the City's permanent classes consist of 5 steps with ranges that span approximately 28% from the minimum and maximum steps within the pay grade as provided for in this plan. There is a 5% difference between each pay step. For instance, the current Step B of the Maintenance Worker is $17.93 per hour and Step A is 5% lower at $17.08 per hour. This range size and structure is typical for a public agency. In addition to the basic structure of the pay ranges, a major guiding principle for salary structure is the acceptable differentials between various class levels.

## Class Level Differentials

While labor market data is a good indicator of market trends in pay, the concept of internal equity, e.g. how classes are paid relative to each other within the City's pay plan, is an equally, if not more important factor when establishing a pay plan.

Professional compensation practices provide some guidelines when reviewing internal equity between levels of classes, e.g. how a class in one level is paid relative to another level based on increasing duties and responsibilities and span of control. These guidelines can minimize compaction issues, e.g. supervisory or management positions that make less than their employees when overtime is taken into consideration. The guidelines are presented below in a range format with a minimally accepted low

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differential up to the maximum. Any salary differentials that fall below the minimum would be considered a salary compaction problem. Salary differentials towards the maximum of the range are to be used under unusual circumstances which are outlined later in this section. The City's ability to pay is also a factor that needs to be considered in setting the appropriate class level differentials. Salary differentials are measured by calculating the difference between the highest rate in one pay grade to the highest rate in the other pay grade. The differential ranges that are best practices are outlined below, though there are sometimes exceptions, especially at the top of the range. The following represents the optimal differentials between levels:

1. Entry to journey level of series = 10% - 15% differential

2. Journey to advanced journey level of series = 10% - 15% differential

3. Supervisory = 15% differential over the highest level supervised

4. Division management = 15% differential over the highest level supervised

5. City management = 15% differential over the highest level supervised

The special circumstances that would warrant a reasonable differential, based upon industry standards, between two classes at the upper end of the differential ranges are below:

For differences between working levels in a class series (# 1 and 2 above), the higher levels may be up 15% higher than the next lower level if the higher level job requires more education and/or experience to be considered qualified for advancement than other journey or advanced journey level jobs. The basic rule of thumb is to use the minimum differential (10%) when movement to the next higher class only requires one more year of experience and/or education. Any requirements higher than that will warrant a differential at the high end of the range.

For differences between subordinates and their supervisors (#3, 4, and 5 above), the range of acceptable differentials are greater to accommodate the variety of special circumstances that may occur and be accounted for. The main reasons for allowing a supervisor/subordinate differential to be at the high end of the range are:

- To ensure equitable compensation for supervisors over employees who earn high amounts of overtime.

- To compensate for supervisors who must possess a different and higher level of technical proficiency than their subordinates. For example, some organizations may require an engineer to oversee a division that consists of maintenance/trades personnel.

- To keep pace with the market.

## Internal Equity

Internally equitable pay systems clearly define the relative value of each job among all jobs within an organization. This ordered set of jobs represents the job structure or hierarchy. The basic concept is simple: jobs that require higher qualifications, more responsibilities, and more complex duties should be paid more than jobs that require lower qualifications, fewer responsibilities, and less complex job duties.

The City utilizes its current pay grade system as a means of effecting internal equity. One level of equity maintenance is achieved by the systematic approach to job/class studies that review certain jobs for proper classification, and therefore, proper salary placement. This process is called job analysis and is very important as a means to create and maintain an internally consistent job structure. Job analysis is almost purely a descriptive procedure. Effective job analysis identifies and defines job content by describing the job duties and tasks as well as other pertinent factors such as skill and effort needed to perform the job adequately. The City currently uses the Whole Job Method in conducting job analysis. This method utilizes the common allocation factors of: decision-making, scope and complexity, contact with others required by the job, supervision exercised and received, and the minimum qualifications that include the knowledge, skills, and abilities.

## Market Surveys

Market-competitive pay systems play a significant role in setting a salary that will attract and retain the most qualified employees. Conversely, paying more than is necessary can undermine lowest-cost strategies and may represent an undue burden for the organization. Because money is a limited resource, the City must strike a balance between offering sufficiently high salaries to attract and retain highly qualified employees and providing sufficient resources to enable them to be productive. To this end, the City must have a strategy that includes surveying the relevant labor market to determine the organization's place in the external market and determining the most adequate frequency and benchmarks for surveys. Communicating the goals of the City to its employees is important, especially with helping to gain acceptance. Salaries of represented employees are subject to the collective bargaining unit process.

## Relevant Labor Market

Relevant labor markets represent the fields of potentially qualified candidates for particular jobs and are defined on the basis of occupational classification, geography, and service/function/industry provided.

The following factors should also be considered in determining the relevant labor market:

- The most effective number of survey agencies is between 8 and 12. Anything less than 8 survey agencies increases the chance that there will not be sufficient data collected when a job is hard to match. More than 10 or 12 agencies, however, do not significantly affect the data results in most cases. This is particularly important when the cost of surveying more agencies only serves to make the survey more costly and time consuming than necessary. The increased data adds little to the value of the survey.

- Geography is important for a couple of reasons. First, the potential candidate pools are shared by similar agencies that are close in proximity. If there is any potential of employees being recruited away from the City, it most likely will be by a closer agency such as a Bay Area agency. It is very doubtful that there will be any loss of employees of any significant degree to either Fresno or Los Angeles for instance.

- Size is another important factor because size strongly affects organization. A larger organization typically has more levels of management, supervision, and workers so to match a second-line Supervisor classification with a much smaller organization would be very difficult and will often lead to a lack of sufficient data on some jobs. While size is important, this factor should not trump an otherwise good market benchmark agency that may be smaller or larger but is well suited based upon location (local) and similarity of business (local government).

For some positions in transit and wastewater, the City may survey special districts.

**Market Areas**
There may be instances when a different combination or new agencies need to be surveyed due to an unexpected situation. For instance, if a recruitment of market sensitive positions result in a poor applicant pool, then a salary survey on a statewide level may be warranted since this is where the potential candidates may come from (such was the case in the late 1990's with respect to computer related fields). It is important that special circumstances be dealt with in a flexible and appropriate manner. It is expected that an evaluation of the City's relevant labor market will be conducted about every three to five years to ensure that our survey cities continue to provide similarity and balance based upon the outlined factors.

**Choosing Benchmark Jobs**
It is unnecessarily burdensome and expensive to survey all of the City's classifications. Benchmark jobs play an important role in compensation surveys because they allow pay levels to be determined from the information collected on one job to apply to other, similar jobs. Benchmark jobs have four characteristics:

- The job contents are well-known, relatively stable over time, and agreed upon by the employees involved.

- The jobs are common across a number of different employers.

- The jobs represent the entire range of jobs being evaluated within an organization.

- The jobs are generally accepted in the labor market for the purposes of setting pay levels.

Because it is so important to determine and survey benchmark classes, it is recommended that the City go through a benchmarking process before each survey is conducted. Once the original benchmarking takes place, then the process should only be an updating process thereafter.

## Using the Appropriate Statistics
There are two common statistics that are used in analyzing survey data: the mean and the median.

### *Mean*
The mean salary is calculated by adding all of the collected salaries and dividing by the total number of salaries in the set (the City's salary is not used in the equation). Many times, the set of salaries collected will contain one or more outliers (salaries that extremely large or small in comparison to the other salaries), which can lead to a distorted representation of the typical salary. The mean understates the true typical value when there are one or more extremely small values and it overstates the true typical value when there are one or more extremely large values. While this problem can be mitigated if numerous survey cities and data points are used, the additional work in collecting data from so many survey cities is often not worth the gain.

### *Median*
The median is the middle value in an ordered sequence of numerical data (excluding the City's data).  If there are an odd number of data points, the median is literally the middle observation.  If there are an even number of data points, the median is the mean of the values corresponding to the two middle numbers.  The median does not create distorted representations like the mean because its calculation is independent of the magnitude of each value.

Because the median is not influenced by outliers as the mean can be and is used with a lesser number of data points, it is recommended that the City calculate the median only on its market surveys and use it to determine its place in the market.