

**AGENDA**  
**Blue Ribbon Commission Phase II**

**October 22, 2009 Meeting**  
**6:00 p.m. to 8:00 p.m.**  
**Twenty Ninth Street Community Rooms**

Food will be provided since several members of the Commission are coming from other meetings or work.

<u><b>Time</b></u>	<u><b>Topic</b></u>
6:00 to 6:10	- Public Participation
6:10 to 7:40	- Compensation practices – Sue Bohline, Human Capital Connection
7:40 to 8:00	- General discussion on report recommendations

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# City of Boulder Blue Ribbon Commission Phase II

Update on Compensation Program Review

October 22, 2009

Sue Bohline  
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## Agenda

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- Introduce HCC, Inc.
- Study objectives
- Total compensation framework
- Environmental context – trends and best practices
- The City's current practices
- Next steps

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## About HCC, Inc.

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- Boutique, Boulder-based consulting firm specializing in:
  - Compensation
  - Performance management/talent management
  - Organizational development
  - Culture change
- Broad experience
  - Diverse client base – public sector, non-profit, for-profit
  - Diverse roles – compensation specialist, senior consultant/practice leader, senior executive
- “Big firm” experience and reach at “little firm” responsiveness and flexibility

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## Study Objectives

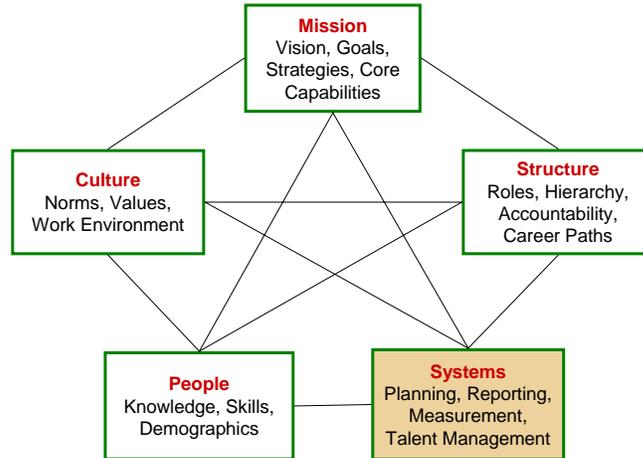
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- Comprehensive, independent review driven by:
  - Planned audit
  - Organizational/environmental changes
  - Increased emphasis on pay-for-performance
- Evaluation factors:
  - Compensation philosophy (continued fit, implementation)
  - Technical soundness (internal/external equity, performance/pay link)
  - Cost effectiveness
  - Administrative effectiveness (compliance, efficiency)
  - Communications effectiveness

*Note: employee benefits included in philosophy discussion; separate process for detailed design*

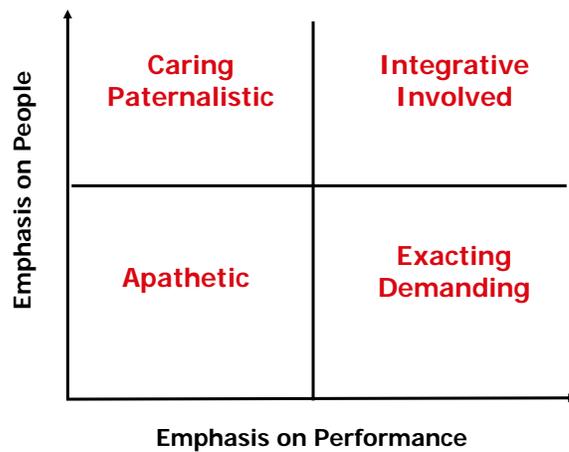
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## Compensation System Alignment



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## Key Component of Organizational Culture



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## Recognize Goals/Needs of Diverse Workforce

Veterans (1922 – 1943)	Baby Boomers (1943 – 1960)	GenXers (1961 – 1980)	Millennials (1980– 2000)
~ 10% of US Workforce	~ 50% of US Workforce	~25% of US Workforce	~15% of US Workforce
~ 1% of City Workforce	~ 37% of City Workforce	~ 54% of City Workforce	~ 8% of City Workforce
<ul style="list-style-type: none"> <li>Work hard, disciplined, duty before pleasure</li> <li>Dedicated to helping organization succeed</li> <li>Great team players</li> <li>Like consistency and uniformity</li> <li>Conform</li> <li>Patient, comfortable with delayed rewards</li> <li>Conservative in spending</li> <li>"Good soldiers"</li> </ul>	<ul style="list-style-type: none"> <li>Work hard, play hard</li> <li>Optimistic, idealistic</li> <li>Like stability</li> <li>Want to be involved, to know they're valued</li> <li>Loyal</li> <li>Good team players</li> <li>Driven, love challenge</li> <li>Focused on building stellar career</li> <li>Highly competitive</li> <li>Want more work-life balance</li> <li>Personal gratification is important</li> </ul>	<ul style="list-style-type: none"> <li>Work hard if it doesn't interfere with play</li> <li>Value feedback, flexibility, autonomy</li> <li>Self-motivated, want autonomy</li> <li>Loyal to career</li> <li>Emphasize personal satisfaction</li> <li>Want fun, informal work environment</li> <li>Comfortable with change</li> <li>Think globally</li> <li>Skeptical</li> <li>Value learning &amp; skill development</li> <li>Green is important, must have a cause</li> </ul>	<ul style="list-style-type: none"> <li>Work effectively</li> <li>Confident, resilient, achievement-oriented</li> <li>Excellent team players</li> <li>Respect authority, want collaboration</li> <li>Respect and value differences</li> <li>Want to be judged by contributions, talent</li> <li>Time is important; demand flexibility</li> <li>Ethics and benefit to society are important</li> <li>Green is essential,</li> <li>Loyal to a point</li> </ul>

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## Total Compensation Framework



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## Compensation Trends

- **Public sector organizations moving towards private sector pay practices**
  - Broader definition of market
  - Stronger focus on performance
  - Limited use of COLA/general increases
  - Progression to salary range maximum not automatic
  
- **Private sector trends**
  - Increased focus on differentiating rewards
  - Increased focus on career development
  - Targeted strategies to develop and retain top performers
  - Increased use of variable pay

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## Total Compensation Toolkit

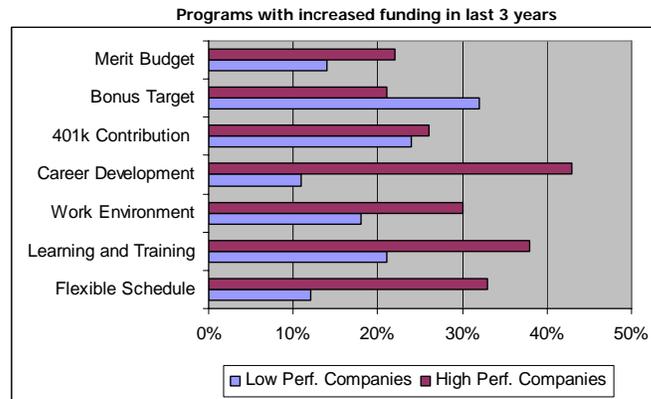
(Example)

What to Compensate	How to Compensation					
	Salary	Benefits	Incentives	Recognition	Develop.	Not at All
Market Comp. Increases	X	X				
Cost of Living						X
Individual Goal Achievement	X		X	X	X	
Overall Job Performance	X		X	X	X	
Job Growth, Promotion	X		X		X	
Knowledge/Skill Development	X			X	X	
Team Results			X	X		
Org Results	X	X	X	X		
Tenure		X		X		

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## Allocating Scarce Budget Dollars

*High performing organizations emphasizing training, career development, flexibility*



Source: Watson Wyatt 2007/2008 Strategic Rewards Survey

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## What's "Competitive" Varies



**Entry**

- Employees just entering the job (new hire, promotion)
- Less experience, less developed skill experience at this level

**Target**

- Fully experienced, fully proficient employees
- Meeting or exceeding all performance expectations
- Target range for most employees over time

**Premium**

- Employees who have demonstrated superior performance over time

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## Emerging Trends/"Best" Practices

From	TO
<ul style="list-style-type: none"> <li>▪ "Total compensation" = pay and benefits</li> </ul>	<ul style="list-style-type: none"> <li>▪ Comprehensive integrated package</li> <li>▪ Pay, benefits, career opportunities, work environment</li> </ul>
<ul style="list-style-type: none"> <li>▪ Focus on program design/mechanics</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus on program implementation and communication</li> </ul>
<ul style="list-style-type: none"> <li>▪ Focus on market analysis, job leveling</li> </ul>	<ul style="list-style-type: none"> <li>▪ Focus on helping managers link pay to contributions</li> </ul>
<ul style="list-style-type: none"> <li>▪ Focus on merit increase differentiation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Increased use of variable pay</li> <li>▪ Increased focus on calibrating skills, contributions</li> </ul>
<ul style="list-style-type: none"> <li>▪ Performance management: employee performance against job description</li> </ul>	<ul style="list-style-type: none"> <li>▪ Performance management: tool to drive organizational performance</li> </ul>
<ul style="list-style-type: none"> <li>▪ One size fits all</li> </ul>	<ul style="list-style-type: none"> <li>▪ Differentiation based on position, skills, contributions</li> <li>▪ Targeted solutions for unique needs</li> </ul>
<ul style="list-style-type: none"> <li>▪ HR-led implementation</li> </ul>	<ul style="list-style-type: none"> <li>▪ Line-led implementation</li> </ul>
<ul style="list-style-type: none"> <li>▪ Goal: cost control</li> </ul>	<ul style="list-style-type: none"> <li>▪ Goal: maximize return-on-investment</li> </ul>

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## Public Sector "Best" Practices

- **Forbes: identifies "100 Best Cities for Jobs"**
  - Implication: tough competition for talent
  - Denver #15 on "Big Cities" list, Boulder #21 on "Small Cities" list
- **Schuster & Zingheim study: how do the municipal organizations in these cities compete for talent?**
  - Confidential interviews with 20 city governments
- **Common practices:**
  - Pay competitively
  - Pay scarce skills and top performers the most
  - Provide training and development
  - Create programs that reward growth
  - Address total compensation
  - Communicate
  - Move forward

*Source: Schuster & Zingheim, "Workforce Retention, Pay and Rewards Practices in Tough Market Cities: Implications for Public Sector Organizations", World at Work Journal, Fourth Quarter 2008*

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## Emerging Public Sector Practices

Best Practice	Representative Tactics
Pay competitively	<ul style="list-style-type: none"> <li>▪ Consistent with employment market, position, person</li> <li>▪ Re-visit traditional, internal job evaluation systems</li> <li>▪ Private sector market data</li> </ul>
Pay scarce skills and top performers the most	<ul style="list-style-type: none"> <li>▪ Re-allocate across-the-board adjustments</li> <li>▪ Increased use of variable pay (limited ability to differentiate through merit increases)</li> <li>▪ Targeted retention strategies for top talent</li> </ul>
Provide training & development	<ul style="list-style-type: none"> <li>▪ Prepare for current role and future needs</li> <li>▪ Develop "NexGen" skills, broader competencies</li> <li>▪ "In-job" development</li> </ul>
Create programs that reward growth	<ul style="list-style-type: none"> <li>▪ Career paths based on demonstrating skills, increasing responsibility</li> <li>▪ Performance = results, behaviors, skill/competency development</li> </ul>

Source: Schuster & Zingheim, World at Work Journal, Fourth Quarter 2008

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## Public Sector Best Practices (cont.)

Best Practice	Representative Tactics
Address total compensation	<ul style="list-style-type: none"> <li>▪ Broaden definition of total compensation</li> <li>▪ Fully communicate advantages, limitations of benefits package (e.g., defined-benefit retirement plan)</li> <li>▪ Flexible work arrangements</li> </ul>
Communicate	<ul style="list-style-type: none"> <li>▪ Enhance communications                             <ul style="list-style-type: none"> <li>– Increased focus on philosophy versus mechanics</li> </ul> </li> <li>▪ Re-frame conversation; contributions versus entitlement                             <ul style="list-style-type: none"> <li>– Focus on community and customer service</li> </ul> </li> </ul>
Move Forward	<ul style="list-style-type: none"> <li>▪ Targeted solutions versus organization wide</li> <li>▪ Pilot test and adjust</li> </ul>

*"We're trying to move toward the growth-oriented, agile culture top performers want"*

Source: Schuster & Zingheim, World at Work Journal, Fourth Quarter 2008

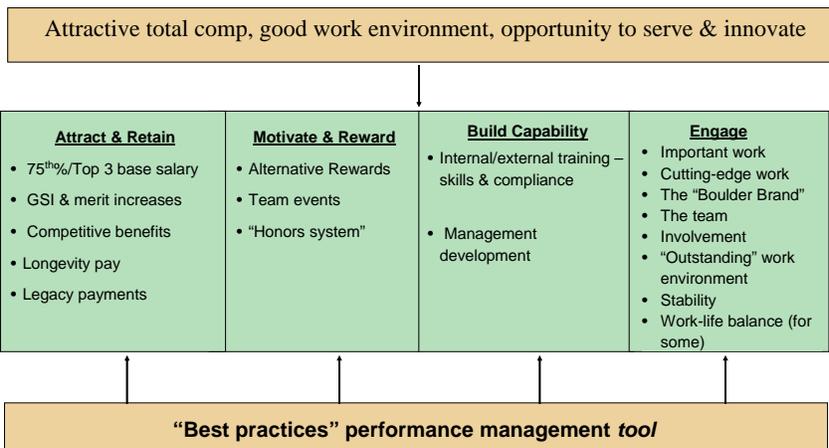
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## City of Boulder's Current Practices

Philosophical Construct	Current Practice
Definition of "total compensation"	<ul style="list-style-type: none"> <li>Narrowly defined – pay and benefits</li> </ul>
Competitive position	<ul style="list-style-type: none"> <li>Look at base salary and benefits separately</li> <li>"Attractive package" implemented as 75<sup>th</sup>% pay and competitive benefits</li> </ul>
Employment market definition	<ul style="list-style-type: none"> <li>Selected local public sector organizations</li> <li>Private sector data for selected position</li> </ul>
Internal versus external equity	<ul style="list-style-type: none"> <li>Job evaluation process focuses on internal equity</li> </ul>
Salary structure design	<ul style="list-style-type: none"> <li>Consistent with "best" practice</li> </ul>
Basis for pay progression	<ul style="list-style-type: none"> <li>General increases and merit</li> <li>Step increases in police and fire</li> </ul>
Performance rewards	<ul style="list-style-type: none"> <li>Primary cash reward is merit increases</li> <li>Alternative Rewards Program for non-cash rewards</li> </ul>

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## The City's Current Employment Relationship



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## The Current Compensation Model

What	How					
	Salary	Benefits	Premiums	Recognition	Develop.	Not at All
Market Comp. Increases	X	X				
Individual Performance	X			X		
Job Growth	X			X		
Knowledge/Skill Development						X
Team Performance				X		
Organizational Performance						X
Longevity	X	X	X			
Involvement				X		
Emergency Response			X			
Other?						

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## Program Evaluation Factors

	Plus	Minus
<b>Compensation Philosophy</b>	<ul style="list-style-type: none"> <li>Fits current culture</li> <li>Consistency</li> </ul>	<ul style="list-style-type: none"> <li>May not fit desired culture</li> <li>May not fit diverse jobs and businesses</li> <li>Implementation gaps                             <ul style="list-style-type: none"> <li>Pay for longevity</li> <li>"Constrained" pay-for-performance</li> <li>Total compensation approach only in BPOA</li> </ul> </li> </ul>
<b>Technical Soundness</b>	<ul style="list-style-type: none"> <li>Consistent with professional practices</li> <li>Detailed internal job evaluation</li> <li>Well-established market analysis process</li> <li>Well-designed salary structure</li> <li>Merit increase matrix links pay to performance</li> </ul>	<ul style="list-style-type: none"> <li>Internally focused</li> <li>Market analysis may not reflect true employment markets, scarce skills</li> <li>Technical measurement processes may "trump" logic</li> <li>Limited differentiation in merit increases</li> </ul>
<b>Cost-Effectiveness</b>	<ul style="list-style-type: none"> <li>Policies and procedures ensure affordability, budget compliance</li> </ul>	<ul style="list-style-type: none"> <li>Not leveraging variable cost programs (variable pay, rewards and recognition)</li> <li>Programs tend to be viewed as separate pieces versus integrated whole</li> </ul>

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## Program Evaluation Factors (cont)

	Plus	Minus
<b>Administrative Effectiveness</b>	<ul style="list-style-type: none"> <li>Processes designed to ensure regulatory compliance, consistent treatment</li> <li>Consistent with City's process-orientation</li> </ul>	<ul style="list-style-type: none"> <li>Some processes are time-consuming, bureaucratic</li> <li>Significant time required to make decisions, administer programs</li> </ul>
<b>Communications Effectiveness</b>	<ul style="list-style-type: none"> <li>Strong on facts</li> </ul>	<ul style="list-style-type: none"> <li>Light on messages</li> </ul>
<b>Fit with "Best" Practices</b>	<ul style="list-style-type: none"> <li>Performance management system and tools</li> </ul>	<ul style="list-style-type: none"> <li>Internal focus</li> <li>Limited focus on career paths, development</li> <li>Market analysis scope</li> </ul>

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## Does the City's employment package "fit"?

(Discussion Draft)

Veterans (1922 – 1943)	Baby Boomers (1943 – 1960)	GenXers (1961 – 1980)	Millennials (1980– 2000)
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~ 1% of City Workforce	~ 37% of City Workforce	~ 54% of City Workforce	~ 8% of City Workforce
<p><b>Effective</b></p> <ul style="list-style-type: none"> <li>Attractive pay</li> <li>Stability</li> <li>PERA</li> <li>Time-off/flexibility</li> <li>Longevity pay</li> <li>Legacy programs</li> <li>Culture (team, consistency)</li> </ul> <p><b>Less Effective</b></p> <ul style="list-style-type: none"> <li>Defined contribution retirement plans in police &amp; fire</li> </ul>	<p><b>Effective</b></p> <ul style="list-style-type: none"> <li>Same as Veterans</li> <li>Culture (involvement, team, challenge)</li> </ul> <p><b>Less Effective</b></p> <ul style="list-style-type: none"> <li>Defined contribution retirement plans in police &amp; fire</li> <li>Pay not strongly linked to performance</li> <li>Personal gratification (can they make a difference?)</li> <li>Culture (hours)</li> </ul>	<p><b>Effective</b></p> <ul style="list-style-type: none"> <li>Attractive pay</li> <li>Cutting edge work</li> <li>Time-off/flexibility</li> <li>Boulder</li> <li>"Green"</li> <li>Work environment</li> </ul> <p><b>Less Effective</b></p> <ul style="list-style-type: none"> <li>Demographics may impact career growth</li> <li>Limited focus on training and development</li> <li>Benefits of PERA too far off</li> <li>Public service often not first choice for top talent</li> <li>Culture (change-resistant, hours, autonomy)</li> </ul>	<p><b>Effective</b></p> <ul style="list-style-type: none"> <li>Same as GenXers</li> <li>Learn from the best</li> <li>Culture (teams, collaboration)</li> </ul> <p><b>Less Effective</b></p> <ul style="list-style-type: none"> <li>Same as GenX</li> <li>Culture (inefficient, hours, can they make a difference?)</li> </ul>

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## Next Steps

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Finalize Assessment	November 1, 2009
Develop Action Plan	January 1, 2010
Employee Communications	December/January
Initial Market Analysis Complete	March, 2010
Implement Study Recommendations	Q1, 2010 – Initial Priorities 2010/2011 – Longer-Term Development
Monitor and Fine-Tune	On-going