



## Council Agenda Report

Item 5e

**Department:** Human Resources  
**Cost Center:** 2007  
**For Agenda of:** 4/19/2022  
**Placement:** Consent  
**Estimated Time:** N/A

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**SUBJECT:** 2022 SUCCESSOR RESOLUTION FOR UNREPRESENTED  
MANAGEMENT AND CONFIDENTIAL EMPLOYEE GROUPS

### RECOMMENDATION

1. Adopt a Resolution entitled, “A Resolution of the City Council of the City of San Luis Obispo, California, amending Management Compensation for Appointed Officials, Department Heads, and Management Employees and superseding previous Resolutions in conflict”; and
2. Adopt a Resolution entitled, “A Resolution of the City Council of the City of San Luis Obispo, California, regarding compensation for the Unrepresented Confidential Employees and superseding previous Resolutions in conflict”; and
3. Adopt a revised Recruitment, Referral, and Retention Incentive Program; and
4. Adopt a Regular and Supplemental Employee Salary Schedule Effective April 14, 2022, as required by the California Public Employees Retirement System.

### REPORT-IN-BRIEF

Three of the six employee groups’ resolutions outlining compensation and benefits are set to expire on June 30, 2022. The purpose of this report is to provide an overview of the conversations that have taken place with the Unrepresented Management and Confidential employee groups for successor resolutions. Three-year resolutions are recommended for the unrepresented groups which will provide adjustments to compensation to increase competitiveness in the market and to address recruitment and retention challenges. The increases proposed to compensation and benefits are incorporated into the City’s long-term financial forecast and are consistent with the City Council-adopted Compensation Philosophy. Negotiations are in progress with San Luis Obispo City Employees’ Association (SLOCEA), the third employee group whose agreement is set to expire in June 2022. Upon reaching a tentative agreement with SLOCEA, staff will return to Council with a recommended successor agreement. Additionally, the report recommends revisions to the City’s Recruitment, Referral, and Retention Incentive Program to address existing recruitment and retention challenges.

## DISCUSSION

### Background

The Unrepresented Management and Confidential Resolutions are set to expire on June 30, 2022. At the expiration of a Resolution, the terms and conditions remain status quo pending adoption of a successor Resolution. Below is an overview of the two employee groups:

1. **Unrepresented Management Employees.** The City's management group includes 103 employees: two appointed officials (the City Manager and the City Attorney), ten department heads (including the Assistant City Manager), and 91 other management employees. These are professional-level employees, exempt from the overtime provisions of the Federal Labor Standards Act (FLSA) and include first-line supervisors, program managers, senior planners and engineers, analysts, and other professionals.
2. **Unrepresented Confidential Employees.** The City's confidential group includes eight employees in City Administration, Finance, Human Resources, and the City Attorney's Office. These employees are designated as unrepresented in accordance with the Government Code 3507.5 and Employer-Employee Resolution 6620 because they are privy to information that affects employee relations and labor negotiations and therefore being represented could pose a conflict of interest.

Management and confidential employees are unrepresented, which means there are no formal negotiations as there are for represented employee groups. Management and confidential employees' compensation and benefits are set by resolution and adopted by Council. The unrepresented groups met in mid-March to form a recommendation consistent with the City's fiscal forecast and City Council-adopted [Compensation Philosophy](#). The Compensation Philosophy states the importance of considering: 1) labor market comparability factors, 2) recruitment and retention challenges, 3) the history of salary increases by bargaining unit, 4) financial sustainability, and 5) economic indicators.

### **Labor Market Comparability Factors**

As part of the Compensation Philosophy, the City periodically evaluates the fairness and competitiveness of its compensation structure. Staff presented the [2021 Benchmark Compensation Study Report \("2021 Report"\)](#) to Council on February 1, 2022. The report focused on the three employee groups, SLOCEA, Unrepresented Management, and Unrepresented Confidential, whose resolutions and agreements are expiring in June 2022. The 2021 Report found that, on average, SLOCEA, Unrepresented Management, and Confidential classifications were 7.4% under the median of comparison agencies when considering total compensation. As a general industry standard, classifications that survey within five (5%) percent of the market median are considered competitive. The results showed that just six (6) of the twenty-two (22) classifications surveyed, were considered competitive, with only one (1) classification being paid slightly above the median.

### **Recruitment and Retention Challenges**

The City is committed to paying fair and competitive salaries to continue attracting and retaining talented, qualified, and experienced team members that provide the high-quality public services our community needs and expects as provided by policy, historic norms, values, etc.

The City is facing recruitment challenges that are impacting every department, in part due to the current compensation structure as noted during exit interviews and the overall malaise of the labor market. The City is experiencing qualified candidates dropping out during the process or not showing up to interviews. Some have declined job offers because other agencies' compensation packages are more attractive. In some cases, highly qualified candidates choose not to apply because of the City's compensation structure compared to other agencies in similar communities.

The City recognizes that salaries are not the only factor to consider when attracting and retaining talented, qualified, and experienced employees. Total compensation, nontraditional benefits, flexibility, and diversity, equity, and inclusion are all important considerations. But the City's Compensation Philosophy states that to attract and retain talented, qualified, and experienced employees, the City will pay fair, competitive salaries that allow the City to provide the high-quality public services our community needs and expects. Additionally, the Public Employees' Pension Reform Act (PEPRA) that took effect in January 2013 is putting additional pressure on employer salaries to attract and retain employees in the PEPRA retirement tier.

### **History of Salary Increases by Bargaining Unit**

Since 2010, Unrepresented Confidential employees have received an effective salary increase of seven (7%) percent, while Unrepresented Management employees have received an effective increase of one (1%) percent. These effective salary adjustments are due to a combination of cost-of-living adjustments (COLAs) and equity adjustments, with an offset of a greater employee contribution towards CalPERS retirement.

Table 1: Net Increases for all Employee Groups from January 2010 to July 2022

Employee Group	Current Term of Contract/ Resolutions	Total COLA	Total Equity	Total PERS Pick Up	Net Salary Increase <sup>1</sup>	Future Negotiated Increases
<b>SLOCEA</b>	1/1/19 - 6/30/22	17%	2.6% to 12%	(8%)	9%	--
<b>Management<sup>2</sup></b>	7/1/21 - 6/30/22	12%	5% to 15.7%	(11%)	1%	--
<b>Confidential</b>	7/1/21 - 6/30/22	18%	0%	(11%)	7%	--
<b>Police Officers' Association</b>	7/1/21 - 6/30/24	12%	8%	(6%)	14%	5% <sup>3</sup>
<b>Police Management</b>	7/1/19 - 6/30/23	17%	3.5% to 5%	(3%)	13.5%	--
<b>Fire</b>	1/1/21 - 12/31/23	19%	11%	(12%)	17.5%	4% <sup>4</sup>

The Police Officers' Association (POA) and Fire bargaining units are in the middle of multi-year agreements that include both equity adjustments to address market competitiveness and COLAs to keep pace with inflation rates.

At present, Unrepresented Management, Unrepresented Confidential, Fire, and Police Management groups are paying an additional 3% of the CalPERS employer cost. POA is currently paying an additional 3-6% of the CalPERS employer cost.

### Financial Sustainability

Council's adopted Labor Relations Objectives (Attachment H) and the Compensation Philosophy both speak to the City's adopted policies of paying competitively to attract and retain well qualified employees while ensuring that ongoing increases in employee compensation can be supported by projected and sustainable levels of ongoing revenue. As evidenced in Table 1, above, this approach has necessitated periodic equity adjustments and has resulted in annual salary increases averaging less than an assumed two (2%) percent inflation rate.

<sup>1</sup> Net Salary Increase is defined by across-the-board salary increases less the PERS retirement contribution.

<sup>2</sup> Equity adjustments were provided to some classifications in Unrepresented Management and SLOCEA that were considered under market as a result of the 2014-2015 Benchmark Compensation Study. Due to the wide range and because not all classifications received adjustments, the equity increase was not included in the Net Salary Increase column for these two groups.

<sup>3</sup> POA employees will receive a 5% salary increase in July 2023 which is a combination of COLAs and equity adjustments.

<sup>4</sup> Fire employees will receive a 4% increase in July 2023 which is a combination of a COLAs and equity adjustments for sworn employees.

Over this time, the COLAs that Unrepresented Confidential and Unrepresented Management groups have been granted or negotiated have not kept pace with the assumed inflation rate. The Unrepresented Management group was granted the lowest percent increase over this time as a result of the group setting an example in times of financial hardship via downward compensation adjustments or CalPERS retirement cost-sharing. Lastly, the Unrepresented Management and Confidential employees are participating in retirement cost-sharing or paying a portion of the employer's retirement contribution. SLOCEA is the only bargaining unit at the City that did not agree to retirement cost-sharing during the last two rounds of negotiations to achieve Council adopted Labor Relations Objective<sup>5</sup> around retirement cost containment and share responsibility.

### **Economic Indicators**

The Consumer Price Index (CPI) for San Francisco-Oakland-Hayward has averaged an increase of three (3%) percent per year over the past five years. However, CPI averaged 4.2% in 2021 largely due to the reopening of the economy, pent up demand, bouts of pandemic resurgence and extraordinary levels of financial liquidity which led to greater consumer demand and supply chain constraints, driving overall inflation to 7% in December 2021. Whether inflation is brought down to the Federal Reserve target of 2% is unknown and the latest forecasts are that it may take multiple years to smooth out economic factors that have contributed to high inflation. Russia's attack on Ukraine certainly contributed to market volatility and uncertainty.

### **Summary of Key Changes in the Successor Resolutions for Unrepresented Management and Confidential Employee Groups:**

1. **Term of Resolution:** April 19, 2022 to June 30, 2025
2. **Cost of Living Adjustments (COLAs):** COLAs are being provided to all classifications in an effort to keep pace with inflation rates.
  - a. 1.5% COLA the first full pay period of July 2022
  - b. 3% COLA the first full pay period of July 2023
  - c. 3% COLA the first full pay period of July 2024

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<sup>5</sup> Labor Relations Objective #2: "Continue to make progress in the area of long-term systemic pension cost containment and reduction, including reversing the unfunded pension liability trend and other actions consistent with State law."

3. **Market Equity Adjustments:** Effective April 14, 2022, provide market equity adjustments for unrepresented confidential, management, department heads, and appointed officials classifications, as outlined in Exhibit “B” of Attachments A and C to help address market competitiveness based on the 2021 Benchmark Compensation Study Report. The market equity adjustments, which vary by classification, will bring classifications in the unrepresented groups to an average of the market median.
4. **Health Insurance Cost-Sharing:** The City will continue the current formula for health insurance for 2023, 2024, and 2025 calendar years whereby the City’s contribution will be calculated using a cost-sharing arrangement that increases the City’s contribution by 50% of the average percent increase in CalPERS medical premium increases. For example, if the average increase in CalPERS medical premiums increases eight (8%) percent, the City contribution would increase four (4%) percent, while employees absorb the remainder of the increased cost. This balanced cost-sharing model meets the Council’s Labor Relations Objectives.
5. **Additional Tier of Administrative Leave for Identified Management Classifications:** Provide management classifications who are expected to regularly attend off-schedule meetings in addition to their scheduled workweek an additional sixteen (16) hours of administrative leave per year.
6. **Bilingual Pay:** Provide Unrepresented Management and Confidential employee groups a bilingual pay incentive equivalent to SLOCEA and Fire employee groups.

The City is in contract negotiations with SLOCEA, whose contract is set to expire on June 30, 2022, and most SLOCEA employees are supervised by employees in the Unrepresented Management group. The City strives to maintain a reasonable difference in compensation between the top end of the salary range for management classifications and the top step of the classifications supervised. The difference is targeted at 10% but may be as low as 5%. The proposed equity adjustments recommended to management classifications take into consideration the optimal differentials, so it is unlikely this will need to be addressed. However, if SLOCEA negotiates wage increases that provide less than a 5% differential, staff agrees to re-open on this topic.

**Recruitment, Referral, and Retention Incentive Program Updates**

The City's Relocation and Hiring Incentive Program was last updated in 2019. Given the significant recruitment and retention challenges impacting all departments as described in further detail above, the City Manager authorized an Emergency Recruitment and Hiring Incentive Program, with a sunset date of June 30, 2022. The revised Program has been enhanced to establish guidelines and procedures for the eligibility, approval, and processing of relocation, retention, and referral incentives for employees. Additions include providing one-time lump sum payments for positions deemed hard to fill by the Director of Human Resources and to provide a year-for-year accelerated vacation accrual for completed public sector years of service. Related to recruitment and retention challenges, staff plans to further assess housing assistance for department head classifications and will return to Council in open session at a future meeting to request approval to amend the Management Resolution.

**Policy Context**

Recommendations to unrepresented groups compensation are supported by the Compensation Philosophy that acknowledges the need for well-qualified employees who exemplify the organizational values to provide the services and programs the community requires.

**Public Engagement**

The 2021 Benchmark Compensation Study was presented to City Council on February 1, 2022. The Study is posted on the City's website, and the public had an opportunity to engage with the results of the Study at the February 1, 2022, meeting. Public comment on this item can be provided through written correspondence prior to the meeting and through public testimony at the meeting.

**Environmental Review**

The California Environmental Quality Act does not apply to the recommended action in this report, because the action does not constitute a "Project" under CEQA Guidelines Sec. 15378.

**Fiscal Impact**

Budgeted: No

Budget Year: 2022-25

Funding Identified: Yes

Unrepresented Management and Confidential Successor Resolutions

<b>Funding Sources</b>	<b>2022-23 Ongoing Cost</b>	<b>2023-2024 Ongoing Cost</b>	<b>2024-25 Ongoing Cost</b>
<b>Confidential</b>			
General Fund	\$64,880	\$90,324	\$108,454
<b>Management</b>			
General Fund	\$1,345,533	\$1,504,352	\$1,648,540
Tourism Fund	\$11,402	\$15,716	\$18,825
Water Fund	\$129,622	\$172,585	\$188,695
Sewer Fund	\$102,654	\$135,428	\$146,406
Parking Fund	\$32,075	\$38,878	\$42,590
Transit Fund	\$7,219	\$12,237	\$15,972
Whale Rock	\$32,348	\$42,176	\$47,207
<b>Total</b>	<b>\$1,725,734</b>	<b>\$2,011,695</b>	<b>\$2,216,689</b>

Recruitment, Referral, and Retention Incentive Program

The funding for this program will come from existing salary savings due to vacancies. In the event a department does not have available salary savings, the City Manager has authority to move other funding as needed to support this program.

**ALTERNATIVES**

1. ***Do not approve recommended changes to the resolutions.*** Instead, direct staff to have further conversations with unrepresented staff. This alternative is not recommended as the resolutions are consistent with previous Council direction and are within projected fiscal forecasts.
2. ***Do not approve the revised Recruitment, Referral, and Retention Incentive Program.*** Staff does not recommend this alternative as the City is facing unprecedented recruitment and retention challenges for critical positions across the organization.



**ATTACHMENTS**

- A - Draft Resolution amending Management Compensation, Appointed Officials, Department Heads, and Management Employees
- B - Unrepresented Management Resolution Exhibit A & B – Legislative Draft
- C - Draft Resolution amending compensation for Confidential Employees
- D - Unrepresented Confidential Resolution Exhibit A & B – Legislative Draft
- E - Revised Recruitment, Hiring, Retention, and Referral Incentive Program
- F - Regular and Contract Employee Salary Schedule Effective April 14, 2022
- G - Supplemental Employee Salary Schedule Effective April 14, 2022
- H - 2018 Council Adopted Labor Relations Objectives