



MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Brown, Carlson, Helgeson, Mital, Simpson
FROM: Lena Kostopulos, Chief Human Resources Officer
DATE: March 15, 2018
SUBJECT: Annual Compensation Review for General Manager – information only

In accordance with the terms of the General Manager's employment agreement and following the Board's annual evaluation of the General Manager's job performance, this memo provides information for the Board's review of the General Manager's annual salary and its consideration of any salary adjustment or one-time award.

Situation

General Manager, Frank Lawson's employment agreement sets forth that the Board of Commissioners shall engage in an annual review of the General Manager's salary. The Board has historically conducted the compensation review in the month following its evaluation of the General Manager's job performance, typically occurring in March as it did this year.

The specific citation, Paragraph A.3 from the General Manager's Employment Agreement follows:

The General Manager's base salary shall be reviewed annually in accordance with EWEB pay survey and compensation practices. It is intended that the General Manager's salary will be kept competitive with the public utility industry and comparative northwest power and water utilities as determined by the Board using data derived from a custom survey and/or as reported by published third-party survey(s) indicating the most recent salary and other compensation of comparative northwest power utilities and taking into consideration utilities with similar revenue and customer classes. Annual base salary adjustments will be effective on the first full pay period following May 1st of each year.

Background

Data Source and Comparator Group

The information within this memorandum includes compensation data derived from an independently conducted national salary survey administered and compiled by Milliman, an international compensation, benefits and actuarial services consulting firm. The survey has been adopted by the NWPPA (Northwest Public Power Association) as a preferred source of comparative compensation data.

The comparator group historically used by the Board since at least 2009 includes:

Central Lincoln PUD	EPUD
Chelan County PUD	Grant County PUD
City of Tacoma Utilities	Snohomish County PUD
Clark Public Utilities	SUB

These utilities have participated in the Milliman NW Utilities survey since it was adopted by the NWPPA. These utilities represent a balanced mix of comparators and include entities possessing both higher and lower revenue and customer classes.

Three of EWEB's comparators reported the payment of an annual "bonus." Due to anti-trust law, it is not possible to determine the specific amounts nor identify the utility awarding such bonuses. GM Lawson's compensation package does not include a "bonus" component, but he does receive an annual contribution of \$10,000 to his deferred compensation plan, bringing his annual compensation package to \$265,250.

While not included among the attachments, water utility salary information is available and published by the AWWA (American Water Works Association). This information is checked as a general reference and consistently indicates public water utility executive salaries are typically considerably lower than those of public power utilities. In as much as EWEB draws executive candidates from both public and private power utilities and its revenues are derived in large part from its electric business, EWEB's practice has been to rely on power utility comparators for executive salary determination. Further, the General Manager's Employment Agreement specifically calls out "northwest power utilities" with respect to salary comparison.

EWEB GM Salary as Compared to NW Average

The data sets for the Board's consideration are contained in the attachment to this memorandum. You will see that EWEB's current GM salary, including the deferred compensation contribution, totaling \$265,250, is less than the comparator group mean in all data sets. This gap represents a continuing pattern. The Board has previously been confronted by such gaps - at times considerable, between EWEB's GM salary and the northwest average. In 2014, this drove the Board to make a corrective adjustment of over 19%. In 2005, it prompted the Board to craft a revised employment contract extending retention incentive provisions. Factors particular to the General Manager(s) in place at the time may have compounded the gap. However, a look back at historical trends reveals factors about EWEB's methodology that may be contributing to the gap. There are common characteristics that may be driving GM salary escalation which have not been previously accounted for and which the Board may wish to consider in determining any salary adjustment.

These are described and illustrated in the following narrative, tables and chart.

GM Salary Drivers

As outlined in the table below, the average base pay of EWEB’s comparators has steadily increased over the last three years at an average rate of 5% per year. In contrast, EWEB GM pay escalation increased only 2.4% over the same period.

Historical Pay Data 2013-2017

Year	Comparators Base	Increase	EWEB	Increase	Gap
2013			\$ 207,000.00		
2014	\$ 247,000.00		\$ 247,000.00	19.324%	0.00%
2015	\$ 261,467.00	5.533%	\$ 249,690.00	1.089%	- 4.72%
2016	\$ 277,964.00	5.935%	\$ 260,000.00 *	4.129%	- 6.91%
2017	\$ 288,749.00	3.735%	\$ 265,250.00	2.100%	- 8.86%
Average Annual Escalation		5.068%		2.412%	

*GM Lawson’s starting salary

It merits mention that regarding GM Lawson specifically, the Board’s 2017 decision to award a 2.10% increase (equal to the increase in MAPT pay) was based in part on the fact that Lawson had only been in his role for six months of the rating period (6/2016 – 12/2016).

Data Publishing Lag Time

Another factor driving the gap to the average is the lag time from data collection to data publishing. Milliman collects participant survey data in the second quarter and releases the final results in the fourth quarter of each year. The salary information contained in the attached data sets is reflective of salaries in place in June 2017. In as much any GM adjustment would not be effective until May, the data used to determine the amount would already be nearly a year old.

Conventional compensation salary matching practices include the calculation of an “aging factor” which typically relies on CPI data to anticipate market growth. Unlike wage rate increases for other utility occupations, the increases in General Manager salaries do not correlate purely with cost of living or CPI data. Rather, these appear to be based on the negotiation or renegotiation of executive agreements. It is reasonable to conclude that initial salaries and subsequent adjustment negotiations are driven by the particular requirements of the respective utility employers and their General Managers.

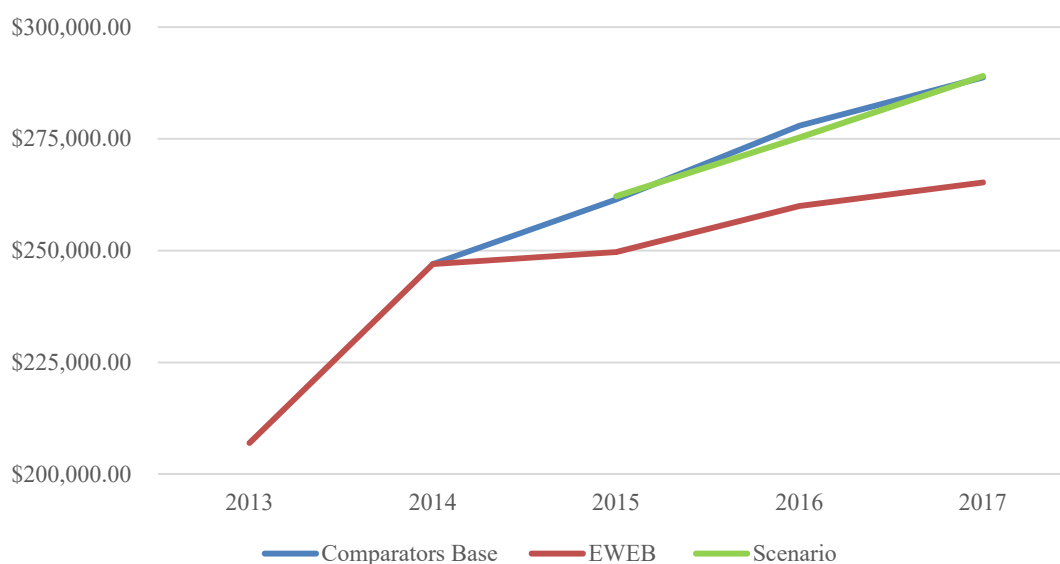
In the absence of a standard index such as CPI, the utility is left to determine a reasonable substitute. If a 5% “aging” factor (derived from the three-year average of increases across comparator GM salaries) had been applied annually from 2015-2017, the General Manager’s compensation would have been +/- 1% of the comparators for 2015-2017. The result being a much “smoother” salary trajectory which is more in line with the northwest average. The following scenario is offered to

illustrate the effect of applying an aging factor.

Historical vs. Potential Pay Data

Year	Comparators Base	EWEB	5% Scenario	% Difference
2013		\$ 207,000.00		
2014	\$ 247,000.00	\$ 247,000.00		
2015	\$ 261,467.00	\$ 249,690.00	\$ 262,174.50	0.270%
2016	\$ 277,964.00	\$ 260,000.00	\$ 275,283.23	-0.974%
2017	\$ 288,749.00	\$ 265,250.00	\$ 289,047.39	0.103%

Historical vs. Scenario Pay Data 2013-2017



Conclusion

If the Board is comfortable with the lag time in the published survey data, an increase of 8.86% would bring the General Manager to the average mean of the comparator group, keeping in mind that the data will be eleven months old at the time of the General Manager's adjustment.

If it is the objective of the Board for the General Manager's annual compensation to keep pace with the comparator group and to smooth the future salary trajectory, the aforementioned aging approach could be applied. This approach would require an adjustment of 14.3%. If the Board chooses to adopt this approach for the current year and in the future, we would propose using a three-year look back, as in the scenario, to determine the most appropriate figure to be used in the calculation.

Any adjustment to the General Manager's annual compensation is entirely at the Board's discretion. Should the Board elect to adjust the General Manager's annual salary, the adjustment will be applied

to the first full pay period following May 1st, in accordance with the General Manager's Employment Agreement. Further, the Board may elect a one-time award in addition to or as an alternative to a base salary adjustment. The Board could also elect to give no salary adjustment or one-time award.

Board Action

This explanation has been provided to support the Board's discussion in contemplating any salary adjustment or one-time award for EWEB's General Manager. In as much as the decision is entirely at the Board's discretion, there is no recommendation or request for Board action.

Historical Comparator Group

2017 Northwest Utilities Salary & Wage Survey Eugene Water & Electric Board (EWEB)

Job Category: 2.0 ADMINISTRATIVE SERVICES

Job Title: 2.01 General Manager

Job Description: Runs the utility at the discretion of the commissioners.

Effective Date: June 2017

Geographic Areas: Washington, Oregon

Industries: Cooperative, Municipality, Public Utility District (PUD), Other

Matching Organizations:

<i>Central Lincoln PUD</i>	<i>EPUD</i>
<i>Chelan County PUD</i>	<i>Grant County PUD</i>
<i>City of Tacoma Utilities</i>	<i>Snohomish County PUD</i>
<i>Clark Public Utilities</i>	<i>SUB</i>

Milliman Comparator Data Breakdown

Title	Internal Job Title	Job Match	AvgBase
General Manager	GENERAL MANAGER	Comparable	\$217,000
General Manager	GENERAL MANAGER	Comparable	\$229,638
General Manager	GENERAL MANAGER	Comparable	\$232,294
General Manager	CEO / GENERAL MANAGER	Comparable	\$270,000
General Manager	GENERAL MANAGER	Comparable	\$278,117
General Manager	GENERAL MANAGER	Comparable	\$345,547
General Manager	CEO / GENERAL MANAGER	Comparable	\$349,750
General Manager	UTILITIES DIRECTOR	Comparable	\$387,649
Average Base			\$ 288,749.38
Base High-Low Removed			\$ 284,224.33
EWEB Base + DC			\$ 265,250.00

EWEB vs Comparators: -8.86%

EWEB vs Comparators (High/Low Removed): -7.15%