



MEMORANDUM
EUGENE WATER & ELECTRIC BOARD

Rely on us.

TO: Commissioners Carlson, Mital, Brown, Helgeson, Schlossberg
FROM: Lena Kostopulos, Chief Human Resources Officer
DATE: March 22, 2019
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 to support 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 contained in this memorandum includes compensation data derived from an independently conducted salary survey for northwest utilities which is administered and compiled by Milliman, an international compensation, benefits and actuarial services consulting firm.

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

It should be noted that Grant County PUD did not participate in the 2018 survey so, compensation information for Grant was obtained through publicly available sources.

For the Board's information and for potential use in the future, the Northwest Public Power Association (NWPPA) recently released its first survey specifically designed to capture compensation and benefits information for General Managers. Data collection is currently underway with published survey results anticipated in May 2019. The publication of this survey may drive EWEB comparators away from Milliman's more general northwest utilities survey. Depending on the participation of EWEB's comparator utilities, the results of this survey may provide a fuller picture of regional GM compensation practices. Also, during 2019 Human Resources intends to pursue compensation and benefits information as well as copies of actual GM employment agreements through public records requests.

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.

Survey Treatment of "Additional Pay"

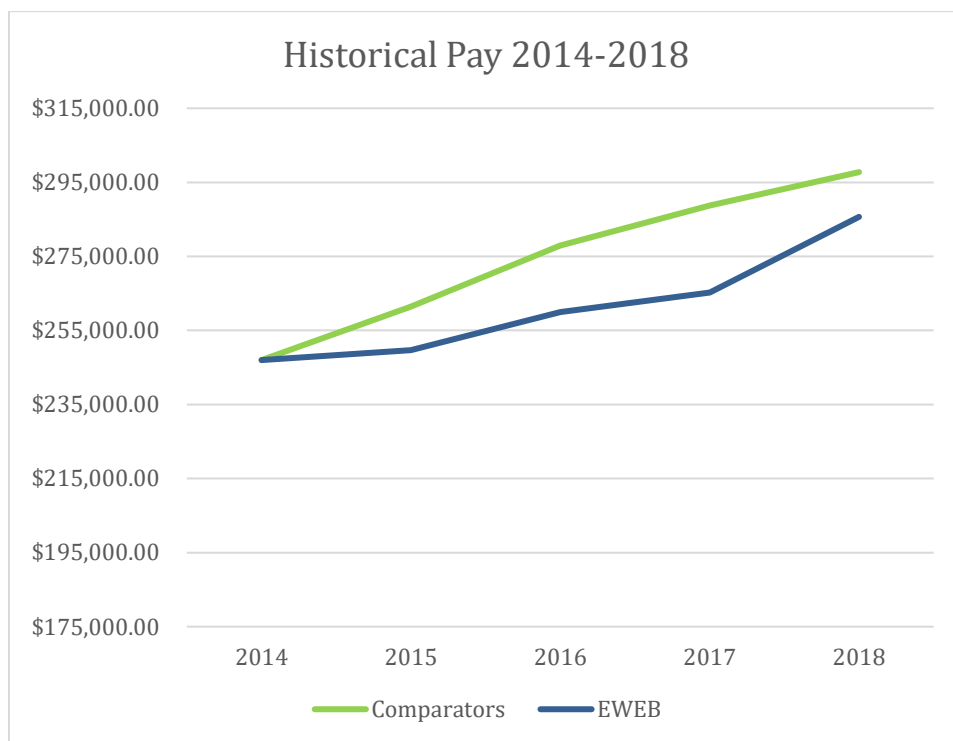
Three of EWEB's comparators reported the payment of additional annual cash compensation. It is not possible to determine the specific amounts or the identities of the comparator utilities reporting additional cash, but the data reflect that this amount averaged 4.3%. GM Lawson's compensation package includes an annual flat \$10,000 contribution to an executive deferred pay plan. This currently represents 3.62% of his base salary of \$275,670. Since the \$10,000 is a flat contribution, the percentage will diminish as GM Lawson's base salary increases. Since the survey report is ambiguous regarding the inclusion of additional cash in reported salary figures, EWEB analysis has historically considered its GM's total compensation, presently \$285,670, in comparison of EWEB's salary against the comparator mean. If the comparators adopt the new NWPPA survey, more detail will emerge and may indicate a more significant gap between EWEB total compensation and that of the comparators.

Comparator GM Salary Escalation

Unlike wage rate increases for other utility occupations, increases in compensation for General Managers do not correlate purely with cost of living 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.

Between years 2015-2017, average comparator pay increased approximately 5% per year. EWEB’s GM pay increased only 2.4% over the same period. Last year, the Board issued an 8% increase to the GM’s base rate (7.7% when considering the \$10,000 annual contribution), keeping EWEB pay slightly below the average at the time. This year’s analysis indicates EWEB’s compensation is 4.2% below the comparator mean.

Historical Pay 2014-2018					
Year	Comparators	Comparator % Increase	EWEB	EWEB % Increase	Gap
2014	\$ 247,000.00		\$ 247,000.00	19.32%	0.00%
2015	\$ 261,467.00	5.86%	\$ 249,690.00	1.09%	-4.72%
2016	\$ 277,964.00	6.31%	\$ 260,000.00	4.13%	-6.91%
2017	\$ 288,749.00	3.88%	\$ 265,250.00	2.10%	-8.86%
2018	\$ 297,748.38	3.12%	\$ 285,670.00	7.70%	-4.23%
Average Annual Escalation		4.79%		6.87%	
Average Annual Escalation		4.44%		4.64%	
<i>(2016-2018)</i>					



While a gap of 4.2% does not appear significant, it is important to understand there is nearly a year lag-time from survey data collection in June of each year to the following May, when the Board would award any adjustment. Conventional compensation salary matching practices include the use of an “aging factor.” To date, the Board has not opted to apply an aging calculation to the published data.

EWEB GM compensation has been consistently below the annually reported mean as a result of using “un-aged” data. The chart above illustrates that even though a 2014 adjustment of 19% brought EWEB to the mean at that time, not aging the data had the effect of causing EWEB pay to drop below the

mean again the next year.

The table below models the effect of applying an “aging” factor. In as much as GM pay does not appear to be driven by CPI, the aging factor is derived from the three-year average of increases across comparator GM salaries. This approach could be adopted if the Board wishes to address the ongoing gap and to provide a “smoother” salary trajectory which would track more closely with the actual northwest average.

The table below illustrates the effect that using this aging methodology in 2018 would have had on EWEB GM pay escalation in relationship to its comparators in 2019.

Year	Comparator Mean	EWEB Salary + \$10k DC	Gap	Aging Factor	Adjustment	Total Compensation
2018	\$ 288,749.00	\$ 265,250.00	(9.00%)	5%	14%	\$302,385
2019	\$ 297,748.38	\$ 302,285.00	1.50%	4.4%	2.9%	\$311,275.12

Conclusion

If the Board is comfortable with the lagging data as published in the survey, an increase of 4.2% would bring the General Manager to the mean of the comparator group, keeping in mind that the data will be eleven months old at the time of the adjustment. It merits mention that matching to the mean does not consider any factor of GM Lawson’s performance, which the Board rated as “exceptional” in March.

If it is the objective of the Board for the General Manager’s annual compensation to keep pace with the mean of the comparator group and to smooth the future gap in salary trajectory, the aforementioned aging approach could be applied. To adopt this approach this year, including an aging factor would require a total adjustment of just under 9%, (4.23% to reach the survey mean plus the 4.44% aging factor).

Board Action

The information contained in this memo has been provided only to support the Board’s annual discussion in reviewing the compensation of EWEB’s General Manager.

The Board may elect to issue a percentage or flat dollar adjustment to the General Manager’s annual salary, a one-time award in addition to or as an alternative to a base salary adjustment or, to give no salary adjustment or one-time award. Should the Board elect to take a salary action, the adjustment or award will be applied to the first full pay period following May 1st, in accordance with the General Manager’s Employment Agreement.

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

2018 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 2018

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	\$229,638
General Manager	GENERAL MANAGER	Comparable	\$232,000
General Manager	GENERAL MANAGER	Comparable	\$237,515
General Manager	CEO / GENERAL MANAGER	Comparable	\$280,000
General Manager	GENERAL MANAGER	Comparable	\$292,032
General Manager	GENERAL MANAGER	Comparable	\$355,913
General Manager	UTILITIES DIRECTOR	Comparable	\$364,645
General Manager	CEO / GENERAL MANAGER	Comparable	\$390,244
Average Base			\$ 297,748.38
Base High-Low Removed			\$ 293,684.17
EWEB Base + DC			\$ 285,670.00

EWEB vs Comparators:	-4.23%
EWEB vs Comparators (High/Low Removed):	-2.81%

*Grant PUD did not participate in the 2018 Survey. Information obtained through public records.