



MEMORANDUM

EUGENE WATER & ELECTRIC BOARD

Human Resources Division



TO: Commissioners Mital, Schlossberg, Helgeson, Brown and Carlson
FROM: Lena Kostopulos, Chief Workforce Officer
DATE: June 26, 2020
SUBJECT: Process to Ensure Competitive General Manager Salary
OBJECTIVE: Informational Only

Introduction

This memo is intended as a response to the Board's request, through Commissioner Helgeson during the May 05, 2020 Board of Commissioners Meeting, for a document which fully describes the process now in place for the Board's management of GM Lawson's compensation. This document is intended for the Board Record and also for referential use by current and future EWEB Commissioners.

Background

In 2019, GM Lawson and the Board renegotiated the General Manager's Employment Agreement. In addition to aligning his annual base salary with the regional average at the time, GM Lawson also sought to establish an ongoing compensation management process which matched, to the extent possible, that which is used to maintain market-competitive salaries for EWEB's MAPT (management, administrative, professional & technical) employees. The outcome of the negotiation yielded some parallels to the approach used to manage MAPT compensation but also some notable contractual departures as they relate to GM Lawson's Employment Agreement.

As a framework to enable the Board's understanding, I have included a high-level description of the MAPT salary structure, and the three foundational components used to manage it, followed by a brief discussion of how each parallels or departs with respect to the Board's management of GM Lawson's compensation.

This memorandum concludes with a summary of the Board's options for the management of GM Lawson's compensation and a brief overview of its annual responsibilities.

Discussion

Structure

MAPT - Jobs are arrayed in a vertical salary structure containing horizontal bands of pay ranges for each level. All non-bargained jobs, from the most entry-level positions to those having the highest level of organizational responsibility are contained in this single structure. The structural design supports legislated pay equity compliance in that it distinguishes the compensable relationship of one job or level to another

GM - Only the General Manager's position is outside this structure. There is no predetermined "salary range" for the General Manager. Rather, the Board has always selected a discrete salary point which

represents a percentage of the average of actual base salaries paid to GM's within the Board's historical comparator group.

In addition to GM Lawson's annual base salary, the Board authorized the establishment of an Executive Deferred Compensation Plan 401(a), in which he is the single plan participant. The terms of the plan were "fixed" at the time of its inception in accordance with IRS guidelines and require no recurring action by the Board.

Outside IRS regulations governing the 401(a) plan and the terms of the GM Employment Agreement, there are no legal requirements governing the Board's determination regarding the amount or manner of GM Lawson's compensation

Market Pricing

MAPT - Individual jobs or job families are priced mainly using Milliman's published survey data which is sliced to compare to northwest public utilities. The survey has been adopted for use by the NWPPA's Labor & Employee Relations Group and its subset, Milliman Northwest Utilities Compensation and Benefits Survey Committee. When sufficient job matches cannot be found within the public utilities data set, other Milliman surveys and/or other published salary data sources are used.

MAPT job pricing is revisited at naturally occurring opportunities, such as when a vacancy occurs. A cursory review occurs annually to track trending compensation. A detailed job-by-job analysis is done every three years. The last detailed study was completed in November 2019.

GM - Historically, a GM salary review was conducted annually using the same Milliman survey. While the survey has been a reliable information source, the timing of the previous GM evaluation process lagged the published survey data by nearly a year, producing a corresponding lag in EWEB's GM salary. This condition was one factor in the impetus for the renegotiation of the Agreement.

To address the gap, rather than relying solely on published survey information, EWEB sent public records requests to the comparator utilities asking for actual GM salary agreements and other detailed compensation information in effect as of July 2019. The resulting information was compiled and became the basis for the December 2019 adjustment of GM Lawson's salary.

There is no contractual requirement that GM Lawson's salary be re-evaluated or "market-priced" each year. That said, Milliman data or other published salary information may still be useful to the Board, if only as a simple indicator of how EWEB's GM salary is tracking against the rate of year-over-year regional GM salary escalation. Likewise, the public records request process could be repeated to coincide with the 3-year detailed analysis of MAPT salaries or, at some other time as the Board deems necessary.

GM Lawson's Employment Agreement does include an automatically occurring mechanism for annual salary escalation, discussed in the following section.

Structural Adjustment

MAPT - The salary structure is adjusted annually to keep pace with the regional salaries. There is no pre-determined minimum or maximum threshold. The adjustment is primarily driven by the CPI-U & W indices along with consideration of other economic indicators and EWEB financial conditions. The Portland/Salem regional index was used until it was discontinued in 2018. EWEB has since adopted the West, Class B/C regional index, as the replacement.

MAPT employees, excepting those who are not meeting performance expectations, receive the structural adjustment in January.

GM - GM Lawson's Employment Agreement now aligns with this annual practice. However, GM's Lawson's Agreement stipulates a minimum and maximum threshold, 2% and 4% respectively. Further, there is no contractual language connecting the annual escalation adjustment to performance so, it cannot be withheld unless by mutual agreement between the Board and GM Lawson.

In as much as the increase is "automatic," there is no required action by the Board. Since the rate of the 2020 MAPT structure adjustment was within the thresholds of the GM Lawson's Agreement, the rate of adjustment was the same for each. The percentage of increase was reported to the Board as a brief information item contained in the March Board Meeting materials as part of the GM Lawson's update correspondence.

Since GM Lawson's Agreement includes minimum and maximum thresholds and the MAPT structure adjustment does not, it is likely the rate of adjustment applied to the MAPT structure and GM Lawson's base salary will differ in the future. In that event, the CHRO or designee will submit a brief information item to the Board specifically regarding the adjustment applied to GM Lawson's annual base salary.

Progression/Merit/Recognition

MAPT – The MAPT compensation system also considers "progression" toward competency in a job as well as merit for exceptional performance and/or one-time awards for particular accomplishments.

Progression refers to an employee's level of competency as they advance from entry in the job to the point at which they are considered to be fully performing. As a general practice, MAPT employees are initially hired or promoted into pay rates which are below 100% of the job's assigned compensation rate. At the time of annual performance evaluation, employees are eligible for pay increases recognizing their progression toward 100% of the salary range assigned to their jobs. These increases are made as adjustments to base pay. The upper threshold of base pay is generally limited to 105% of the pay range.

Merit refers to recognition of employees who routinely demonstrate exceptional performance. These awards are limited and are not to be considered entitlements. Employees who are considered for these awards are those who have already reached, or are very near, full performance or 100% of their pay range. For those employees positioned under 105% of the salary range, merit awards can be made as either an adjustment to base pay or as a one-time payment. For employees whose compensation has reached 105% of the salary range, merit awards are given only as one-time payments.

One-time recognition awards can also be made in acknowledgment of some extraordinary - but likely non-recurring - effort or accomplishment. These recognition awards can be made to any employee regardless of their salary range position.

There are annual budgetary thresholds and guidance set by the Finance and Human Resources Divisions, governing the amount allowed to be issued for merit and recognition awards.

Unless no alternative exists, it is recommended that progression increases should not be withheld as a budgetary response to economic pressures. However, merit awards and one-time recognition awards

have been specifically tied to EWEB's ability to pay and have been withheld in the past.

GM - GM Lawson's Employment Agreement now also includes a provision requiring the Board to associate the consideration of a merit award as a component of his annual performance evaluation. However, the Board is not *required* to make any merit award.

In May of this year, the Board conducted GM Lawson's performance review and elected to forgo a merit award. This was in accordance with the Employment Agreement and also consistent with EWEB's principal regarding "ability to pay." In spite of a very favorable performance evaluation, the Board withheld the award based on projected financial impacts and surrounding economic conditions related to the COVID-19 pandemic.

Conclusion

Compensation Management

MAPT - The combination of annually tracking published survey data, the 3-year detailed analysis, and the annual CPI-based adjustment of the MAPT structure has been a reliable approach to maintaining market competitiveness and has aligned with EWEB's financial projections. For example, in 2018, a legally mandated detailed pay-equity study of EWEB jobs resulted in total adjustments of approximately only \$8,000. The scheduled three-year study completed in November 2019 yielded adjustments of only 0.7% of EWEB's total labor expense.

GM - GM Lawson's Employment Agreement calls out the Board's intention that the General Manager's salary will be kept competitive with comparable northwest utilities. The December 2019 adjustment of GM Lawson's annual base salary, combined with an annual escalation adjustment, is a theoretically solid approach to ensuring the EWEB's GM compensation is sufficient to be considered competitive in the region. The consideration and potential of a merit award may also be a good tool in terms of keeping pace with other utilities.

There are numerous conditions affecting GM salary levels. In particular, when regional GM vacancies occur, the "going rate" for a GM salary can change significantly depending on the degree to which an EWEB comparator must reach to attract and hire a qualified candidate. Often, vacancies occur in regional cycles and can create a cascading and amplifying effect.

The Board has another avenue to address compensation if it should determine that the GM salary has become insufficient for any reason, including falling out of step with regional pay.

GM Lawson's Employee Agreement provides for the Board's ability to make additional compensation awards at its discretion. This is an option the Board could leverage for any reason as the Agreement does not stipulate its nature (adjustment to base or one-time) or the reason for such an award.

Annual Performance Evaluation and Merit Consideration Process

The Board is required to conduct GM's Lawson's performance evaluation in April of each year. The timing of the review is intended to follow GM Lawson's written report and presentation to the Board regarding EWEB's results for the previous year. This presentation is typically scheduled to occur during the March Board Meeting.

In the week following the March meeting, Commissioners are provided with an annual evaluation form in which to document their performance ratings and remarks. The forms are completed independently of other Commissioners and submitted to Human Resources where the information is

consolidated into a single document. The consolidated evaluation form is sent to Commissioners for their review and as an opportunity to “calibrate” their ratings and comments against those of other Commissioners. Changes are submitted to Human Resources and incorporated into the consolidated evaluation form which is reviewed again by Commissioners before it is finalized. A copy of the final evaluation is provided to Commissioners and to GM Lawson for use during their performance results discussion. This discussion between Commissioners and GM Lawson is permitted to occur in Executive Session. The discussion must be limited to performance only and cannot include any deliberation in support of a final decision related to the potential merit award.

An overview of the Board’s performance evaluation results must be discussed during Public Session. Consideration, deliberation and a final determination pertaining to a merit award must also be a public discussion.

Finally, the Board can direct Human Resources to provide information or to conduct and present analysis regarding GM salary at any time. Regardless of the format in which such information may be delivered to the Board, the information is considered public. Should the Board decide to consider the option of an additional compensation award, any related discussion, deliberation and decision-making must be done publicly.