



**HUMAN RESOURCES
MANAGEMENT DEPARTMENT**

DATE: December 15, 2015

TO: Mayor Butt and Members of the City Council

FROM: Lisa Stephenson, Human Resources Management Director

SUBJECT: California Elections Code Section 9212 Report on "Amendment to the Richmond Municipal Code to Establish Compensation Levels for City Officials and Employees"

1. INTRODUCTION

1.1 Purpose of Report

The Richmond City Clerk received a ballot measure petition in August 2015 proposing to amend the Richmond Municipal Code to: (1) require the City Manager to publicize compensation paid to exempt city service officials and employees, (2) obligate the City Council to set annual compensation for City exempt service officials and employees and (3) prohibit the City Council from compensating the City Manager in excess of five times the median household income for the City ("Initiative"). At its September 22, 2015 meeting, the Richmond City Council directed staff to prepare an impact report on the Initiative to be submitted to Council pursuant to California Elections Code section 9212.

1.2 Authorization for the Report

California Elections Code Section 9212 provides that the Richmond City Council, as the designated legislative body for the City of Richmond, may refer the proposed Initiative to any city agency for a report on fiscal impacts, general and specific plan consistency and any other matters the Council requests to be in the report.

1.3 Organization of this Report

This report will provide an overview and description of the Initiative. It will also discuss the financial impact of implementing the Initiative. Finally, the report will contain a discussion regarding the Initiative's potential impact of requiring the City Manager to publicize compensation paid to exempt city service officials and employees, obligating the City Council to set annual compensation for City exempt service officials and employees, and prohibiting the City Council from compensating the City Manager in excess of five times the median household income for the City.

2. THE INITIATIVE

2.1 Initiative Overview

The Initiative proposes to add Chapter 2.66¹ to Article II of the Municipal Code. In particular, the Initiative requires the City Manager to publicize the compensation paid to all City exempt service officials and employees, including City Councilmembers, board members, City Manager, City Clerk, and the City Attorney and his/her assistants as outlined in Article XIII, Section 3(a) of the City Charter. The published information would include the following: (1) total compensation, including pension, health, or any other financial benefit, paid by the City to, or for the benefit of, each designated official and employee in the immediately preceding calendar year and (2) total compensation including pension, health, or any other financial benefit, paid by the City to, or for the benefit of, each designated official and employee in the current calendar year.

The Initiative also requires the City Council to set annual compensation, including all benefits, of all City exempt services officials and employees as designated in Article XIII, Section 3(a) of the City Charter, by resolution.

Finally, the Initiative proposes to prohibit the City Council from setting or agreeing to pay compensation to the City Manager, including pension, health or other financial benefits that exceeds five (5) times the current reported median household income provided by the U.S. Census Bureau for the City of Richmond.

The full text of the Initiative is attached hereto as **Attachment 1**.

3. FISCAL IMPACT

If the Initiative is placed on the ballot, the City's General Fund will incur a one-time election related cost of \$200,000 to \$250,000 if a special election is held and not combined with other jurisdictions. If a special election for the Initiative is called and consolidated with the June 7, 2016 Presidential Primary Election, this amount would be reduced to between \$100,000 and \$120,000.

¹ Richmond Municipal Code Chapter 2.66 already exists as "Social Impact Bonds."

4. IMPACT OF PUBLICIZING COMPENSATION

The Initiative requires the City Manager to continuously publicize the compensation paid to all City Exempt service officials and employees. Currently, the salary ranges for all (classified and exempt) positions are posted on the City of Richmond's website in the Human Resources Management Department section. Benefits information such as the City's cost for health, dental, vision, life insurance, and the employee assistance program (EAP) is also available on the City's website.

Since the Initiative does not define what constitutes "continuously," the amount of staff time to implement this Initiative may vary depending on whether "continuously" is interpreted to mean weekly, monthly or annually. Staff in the City Manager's Office, Human Resources Management Department, Finance Department and the Information Technology Department will be needed to publicize the total compensation for exempt officials and employees. Since it is not clear from the Initiative how often salary and benefits information needs to be publicized, it is difficult to speculate how much staff time is needed to complete this task. The greatest amount of staff time will be required after the Initiative is originally implemented. Staff will be required to access salary and some benefits information through Tyler's Munis Software, an enterprise resources planning system that the City uses to manage its financial and human resources functions; build a database that includes all relevant compensation data; input and/or transfer salary, benefits and other compensation information into the database; and post total compensation on the City's website.

5. IMPACT OF CITY COUNCIL SETTING ANNUAL COMPENSATION OF ALL CITY EXEMPT SERVICE OFFICIALS AND EMPLOYEES BY RESOLUTION

The Initiative requires the City Council to set annual compensation (salary, health benefits, pension, etc.) of all City exempt employees by Resolution. As written, the Initiative is unclear how the annual compensation will be set. Furthermore, it is also not clear if the Initiative will require the City Council to set total compensation of individual employees (by name) or by job classification.

The City's existing practice allows the City Council to set salary ranges for all City classifications by Ordinance. After the ranges are set, salary ranges of exempt employees are usually adjusted to match the cost of living increases that represented employees receive.

Unlike the represented employees in International Federation of Professional and Technical Employees, Local 21 (IFPTE 21) and Service Employee International Union Local 790 (SEIU 790), there are no policies or agreements that require exempt employees to automatically receive an annual salary increase. Once the salary ranges are set by Ordinance, the City Council, the City Manager and Department Head's with exempt employees have the discretion to set their employee's salary anywhere within

the approved salary range. These managers can choose to give increases annually or they can choose to give increases every few years. Ultimately, the manager determines if and when an exempt employee receives a salary increase and the amount of that increase.

The Initiative would require the City Council to change the City's current practice for setting the salaries for exempt employees. If the Initiative's intent is to be consistent with the current practice of setting salaries by ranges, then the City Council, the City Manager and Department Heads with exempt employees will continue to have the discretion to evaluate their staff and determine possible annual salary increases. On the other hand, if the Initiative is deemed not consistent with current City practice and instead requires setting salaries for individual exempt employees, this would strip key department heads of any discretion to evaluate the performance of their employees and to determine if they should receive an increase and the amount of the increase.

The City contracts with California Public Employee' Retirement System (CalPERS) for health and pensions benefits. Currently, exempt employees receive the same health and pension benefits as the City's represented employees. CalPERS sets these benefits and these benefits can only be changed by CalPERS. As a result, the Initiative will have a greater impact on exempt employees' salary rather than their health and pension benefits.

Staff time from the Human Resources Department will be required to establish salaries and benefits and prepare a resolution for Council's approval. Since health and pension benefits are set by CalPERS, minimal staff time will be required to pull together benefits information.

6. IMPACT OF LIMITING CITY MANAGER COMPENSATION TO FIVE TIMES THE MEDIAN HOUSEHOLD INCOME FOR THE CITY

The Initiative requires capping the City Manager compensation, including benefits and pension, to five times the median household income for Richmond residents. Capping the City Manager's salary could have a significant impact on the City's compensation plan for all employees, especially top level management and the City's ability to recruit and retain well qualified candidates.

The Richmond City Manager manages more departments than any other city in Contra Costa County. For instance, the City Manager has to manage a port, a housing authority, police, fire and employment & training program, unlike any other City Manager in the area.

- The **Richmond** City Manager manages (14) departments and has no Assistant or Deputy City Managers

- **Concord** has 10 departments, no fire department, and 5 departments report to an Assistant City Manager.
- **Walnut Creek** has 5 departments and no fire department
- **Fremont** has 8 departments, an Assistant City Manager and 2 Deputy City Managers
- **Vallejo** has 10 departments but no Port or Housing Authority

6.1. Recruitment and Retention Issues

Paying competitive salaries and benefits is required to recruit, hire and retain a qualified City Manager. The City Manager is the Chief Executive Officer of a multi-million dollar enterprise. As such, he/she is responsible for the day-to-day operations of the City, including the coordination of the department heads and other employees to provide services to the Richmond community. This also includes managing a multi-million dollar budget, implementing programs, coordinating the delivery of services and community outreach.

The current City Manager makes a base salary of \$270,576 and total benefits of \$114,694 (30% of total compensation) for a total of \$385,270. This salary and benefits is commensurate with Mr. Lindsay's experience and in line with other City salaries. The Initiative proposes to cap the City Manager's salary to five times the median household income, which currently is $\$54,589 \times 5 = \$272,945$.

The Initiative "is not intended to and shall not be interpreted to invalidate or interfere with an employment contract executed prior to the adoption of this measure..." (Section 2.66.010(d) (2)). Accordingly, the current City Manager's compensation level, as established by the terms of his contract with the City, will not be affected by the Initiative for the current term of his contract.

However, if the Initiative is enacted – and using the current City Manager's compensation as a guide – the City Manager's salary and benefits will be reduced by nearly 30 percent. As written, the Initiative would reduce the City Manager's salary to about \$191,000. A thirty percent reduction in salary and benefits would likely make it impossible to recruit a qualified City Manager. Even if the City is able to recruit and hire a City Manager, the City would likely not be able to retain a strong City Manager because he/she would leave for another higher paying position.

In addition, the Initiative could force an annual pay cut for the City Manager. If every year benefits (health and pension) costs rise (which they invariably do) then the cap would force the City Manager's salary down.

In sum, capping the amount that a City Manager can be paid to five times the median household income will significantly hinder the City's ability to recruit and retain qualified City Managers. The total compensation would be well below market rate, and the salary will likely decline every year. This will undercut the City's ability to recruit, hire and retain a City Manager who is capable of managing a complex City.

6.2. Comparison to Direct Reports

If the Initiative goes into effect, the City Manager would make significantly less money than most, if not all of his direct reports. The current City Manager's salary is 20 percent above the next highest paid department head, which is consistent with industry practice in both the private and public sectors. If the City of Richmond hires a new City Manager even at the middle of salary range for City Managers, he/she will likely be making less than nearly all of his/her direct reports. It will make it nearly impossible to recruit, hire and retain a City Manager who will agree to make less money than the Police Chief, Human Resources Director, Planning Director, and Port Director, to name a few of his/her direct reports.

6.3 Compaction

Capping the City Manager's salary may impact the salaries of not only his/her direct reports, but also the salaries of City employees in the future. The City of Richmond's compensation plan – like other public agencies – has been developed to ensure that there is a meaningful relationship between the duties and responsibilities of the positions and the level of compensation for those positions. Compensation plans are also designed to ensure that the salary and benefits of each position are competitive with other agencies that are competing for a limited pool of qualified applicants. Therefore, compensation is a critical factor in recruiting and retaining a quality workforce. Current compensation levels have been established through comparison with similar cities in the same geographic region.

Salary compression occurs when the salary of lower-level employees is almost as much as their colleagues in higher level jobs. If the Initiative is enacted, the City Manager's lower salary will cause salary compression among his/her direct report, the department heads. In addition, any salary increase negotiated by each of the unions in their individual labor agreements would have to consider the salary of top management. A consequence may also be that the salaries of represented employees would continue to rise while the salary of the City Manager and his/her direct reports would decrease.

7. CONCLUSION

The Initiative, if adopted, would limit the amount of total compensation that can be paid to a City Manager to an amount well below market rates. This would significantly hamper the City's ability to attract and retain qualified candidates to serve as City Manager. Moreover, capping the City Manager's total compensation may lead to "salary compression," where lower level employees are making as much as colleagues in higher level jobs, which may also affect recruiting and retention efforts for certain City positions. Finally, depending on how the Initiative is interpreted, the ability of department heads and managers to evaluate and authorize compensation adjustments based on performance could be restricted, if not altogether stripped, for all

City exempt employees.