



MEMORANDUM

TO: Board of Aldermen

CC: Bola Akande, City Administrator
Kevin O’Keefe, City Attorney
Lynda Higbee, Higbee Associates, LLC

FROM: Chris Thornton, Mayor

DATE: October 26, 2015

SUBJECT: Compensation Discussion

I am writing to share my views with you on the subject of Brentwood’s employee compensation. I have listened carefully to all the views and opinions that have been expressed over the last eight weeks and I am of the opinion that the Board should adopt the recommendations made by Higbee Associates as a result of the 2014 Compensation Study. This memo sets forth my reasons.

Compensation of City Employees in Brentwood

Historically Brentwood has not observed salary caps on any position within the city (the City currently has established salary ranges for each position, but employees have been allowed to exceed the top end of the range). A city employee who performed at an acceptable level received an increase of about 3% each year. Over time, as a result of compounding, this practice led to many Brentwood employees receiving salaries considerably higher than those holding similar positions in other comparable municipalities. As the City’s payroll has grown over the years, the impact of the compounding effect has become more pronounced. Presently, the City’s annual payroll is \$6.7M.

We simply cannot continue to increase our payroll costs as we have in the past. I believe that the issue of employee compensation is one of the most important facing the City at this time. I believe very strongly that the City should adopt a compensation plan that is rational and sustainable or we may find the City in a financially untenable position and much sooner than we might think!

The 2014 Compensation Study

In August, 2014, the Board of Aldermen authorized the City to enter into an agreement with Higbee Associates, LLC, a nationally recognized compensation consulting firm, to perform an analysis of Brentwood’s compensation practices. The study identified 14 “comparator cities” that were used to define the labor market for the purposes of the study. The comparator cities were Ballwin, Chesterfield, Clayton, Creve Couer, Des Peres, Ellisville, Frontenac, Kirkwood, Ladue, Maplewood, Maryland Heights, Richmond Heights, Town and Country, and Webster Groves.

The positions (jobs) for each of the comparator cities and Brentwood were matched for “apples to apples” comparison. Ninety percent of Brentwood’s positions were matched with at least three comparators. The salaries of the matching positions were compared to determine where Brentwood stands among the comparator cities. For many positions, most notably in police and fire protection, Brentwood ranked 1st; its salaries were higher than any of the comparator cities. Brentwood was said to lead the market in these positions. For other positions, Brentwood ranked ahead of some comparator cities, but behind others. If 25% of the comparator cities ranked ahead of Brentwood, it was said to be in the 75th percentile. If 50% of the comparator cities ranked ahead of Brentwood, it was said to be in the 50th percentile. In general, the study found that many salaries in Brentwood are considerably higher than those in the comparator cities, although there are some cases where the opposite is true.

The study recommended that Brentwood take a market approach to its employee compensation going forward. Under this approach, the City would let the market (as defined by the comparator cities) determine the appropriate salary for each position. Over time, the City would try to bring its compensation into line with that of the comparator cities and ensure that salaries across various positions are more consistent relative to the comparator cities. In other words, we would try to make salaries for all City positions consistent with some target level relative to the comparator cities. Instead of having some positions that lead the market and some positions that lag the market, we would attempt to bring all positions to some consistent level defined by the market (for example, 50th or 75th percentile). I think this is very good advice. I encourage the Board to embrace the market approach to employee compensation going forward.

Assuming the Board is in favor of the market approach, the question becomes how to get the City’s compensation from where it is today to some consistent level relative to the comparator cities. For the positions that are lagging the market, the solution is “simple”. We can increase the salaries for these positions until they are consistent with whatever level we deem appropriate (i.e. increase the salaries for these positions until they move from the 25th percentile to the 75th percentile). This solution, of course, assumes we have the budget flexibility to accommodate these increases.

For the positions that are leading the market, the solution is not as simple. Of course, we could reduce the salaries for these positions, but this would be grossly unfair to our present employees and extremely disruptive. There has never been any suggestion that we would cut the salaries of our present employees. We can, however, dramatically slow the growth of the City’s payroll and begin bringing salaries in line with those in other municipalities by instituting a cap on the salary each position can be paid. In this scenario, the top salary for each position would be set at some level and when an employee reaches the cap, he or she would no longer be eligible for salary increases. Employees already making a salary above the top level for their position would continue to be paid at their current level, but they would no longer be eligible for increases.

By keeping the top level for a particular position fixed until the salaries paid by other municipalities “catch up” to those being paid by Brentwood, we can ensure that, over time, we will be paying salaries that are comparable to those paid by other municipalities for similar positions. If the City determines that it should be paying salaries at the 75th percentile, it would simply keep the top salaries fixed until the top salary paid by Brentwood for a given position is behind 25% of the comparator cities. This is the solution recommended by Higbee Associates.

Not surprisingly, it is the implementation of caps on salaries that has by far, the largest impact on the City’s budget. Where the caps are set has some impact, but it is small when compared to the effect of the caps themselves. Higbee Associates recommended setting the cap for each position at the higher of the top of the current Brentwood salary range or the median of the comparator cities’ salary. One of the main reasons for setting the caps this way was to avoid situations where two employees are doing the same job, at the same level, and yet one is being paid more than the other.

Consider the hypothetical position of file clerk with a hypothetical salary range of \$20 - \$35k per year and two file clerks named Washington and Adams. Washington is being paid \$35k per year, the top of the salary range, and Adams is being paid \$28k per year. If the City decided to cap the salary range for the file clerk position at \$30k per year, Washington would be frozen at \$35k per year, but the most Adams could expect to earn for doing the same job would be \$30k per year. Most people would agree that this is unfair. Furthermore, Adams, who accepted employment with the City with the understanding that the salary range for his position was \$20 - \$35k per year, suddenly learns that the most he can expect to earn in his position is \$30k per year. Higbee Associates said such a decision would be “punitive” and I agree.

Of course, we want to be fair to our employees, but as elected officials we have an obligation to be responsible with the taxpayers’ money. The recommendation from Higbee Associates allows us to be both fair and responsible. The table below shows the five year and annual costs (over and above our current \$6.7M payroll) of the recommendation from Higbee Associates, capping the salaries for all positions at the 75th percentile level defined by the market and the historical practice of giving 3% annual increases.

	Higbee Recommendation	75th Percentile Cap	3% Annual Increase
Total 5 Year Cost	\$1,845,635.70	\$1,645,884.30	\$3,188,530.00
Annual Cost	\$369,127.14	\$329,176.86	\$637,706.00

The annual cost of the Higbee recommendation is \$39,950.28 more than setting the salary cap for each position at the 75th percentile of the comparator cities’ salary range for each position. Note that the cost of either the Higbee recommendation or the 75th percentile cap is dramatically less than the cost of increasing salaries by 3% across the board. This is the effect of capping salaries. I think that (rounding up) forty thousand dollars, or 0.6% of our annual payroll, is a reasonable price to pay for being fair to our employees.

As I said before, setting the cap at the level recommended by Higbee Associates DOES NOT preclude the City from establishing compensation at the 75th percentile (or any other level) relative to the comparator cities. Once the cap is established, the City can simply wait until the desired level in the market (for example the 75th percentile) for each position catches up to the Brentwood salary and then begin moving the salaries for those positions in step with the desired level in the market. As you can see, regardless of where the cap is set now, over time, the City’s compensation can, and should, be brought into line with that of the comparator cities.

Other Discussions of Employee Compensation

As you can see, the recommendation from the 2014 Compensation study is not fiscally irresponsible. You may disagree with the reasoning behind the recommendation (although I think it is fair to ask why

you solicited the opinion of an expert in the first place), but it is not irresponsible from a budgetary standpoint. There has been very good discussion regarding step plans, benefits, employee incentives and where we believe the City should stand among the comparator cities in terms of employee compensation. I think these discussions are valuable and I hope they continue. There have been other discussions that I believe are completely unwarranted and injurious to the Board and the City.

It has been suggested that the City has routinely overpaid employees in both salaries and benefits. I find this offensive. It suggests that somehow our employees have not earned their compensation. Yes, over time, our compensation has gotten out of line with that paid by the comparator cities. This is NOT the fault of the employees, but rather the City itself. I cannot and will not fault an employee for requesting and/or accepting additional compensation. I absolutely reject the idea that an employee who sought or received the highest compensation he could obtain, should somehow be viewed as having done something wrong, immoral or unethical.

It has also been suggested that the poor performance of the City's employees does not warrant the level of compensation paid by the City. First, I do not believe this is true and I do not believe our citizens share this view. Second, even if it were true, reducing compensation to the level of poor performers, would, over time, ensure that the City would only be able to employ poor performers. These are two separate issues. The Board can and should hold the management and employees of the City accountable to a high level of performance. If the Board's expectations in this regard are not being met, it should focus on improving the management, not reducing compensation to meet the perceived poor level of performance.

Some of the most alarming discussions surrounding compensation suggest that there is some sort of conspiracy between City employees, the City's management team and certain members of the Board of Aldermen to "overpay" City employees in exchange for their support in local elections. This is outrageous, absurd and offensive to nearly everyone in the City.

There are approximately 10 City employees who are eligible to vote in the City of Brentwood. Even if we assume that these employees can muster and control 10 votes each, that's a total of 100 votes, hardly enough to carry elections in four wards. Of course, this assumes that all 10 of the employees are participating in the conspiracy. Even if this were true, the employees might be excused; after all, who among us does not vote in our own interest, but the baseless suggestion that our elected officials are acting in their own self-interest at the taxpayer's expense borders on slanderous. Similar suggestions that City management condones theft and other malfeasance are reckless and injurious to the City. What competent professional would choose to work for an employer who accuses them, without any shred of evidence, of conspiracy, theft, improper motives and all other manner of deceit?

I believe that these discussions and others like them are motivated by the unfounded view that City employees and City management have, perhaps with the assistance and approval of certain members of the Board of Aldermen, improperly enriched themselves at the taxpayers' expense. Indeed, this view has been stated publicly and often. This view has given rise to a desire to punish the City's management and employees for the "offense" of being "overpaid". It is clear to me that the goal of much of the discussion regarding the City's compensation to date has been to legitimize this point of view. I cannot condone this. I believe that espousing and promoting this point of view has damaged the City and if it continues, will continue to do so. It is not necessary or proper to "send a message" to the City's management and employees; only to bring our compensation in line with the comparator cities.