



COMMISSION WORK SESSION
MEETING MINUTES
January 24, 2023

COMMISSIONERS PRESENT: Stephen Rodriguez (Chair), Frederick Elofson (Vice-Chair), Michael Glenn (virtual), Vishnu Lakdawala, Willie Levenston, Jr., Nancy Stern, Elizabeth Taraski, and Ann Templeman.

1. **Compensation Study and Preliminary Review of FY-2024 Budget**

Mr. Steve de Mik, reviewed the number of job vacancies since 2022 and the reasons why people left their jobs; HRSD's experience with recruitment and retention challenges; past recruitment experiences for specific positions; HRSD's Compensation Policy and structure; frequency of compensation studies; inflationary pressures; 2022 current market study; custom survey and methodology; key findings; other issues with misalignment for certain positions and wholistic analysis of all positions have not been performed in 20 years; benefit comparison; staff conditional recommendations; Fitch Ratings for US Water Sewer Outlook in 2023; historical and projected rate increases; and FY-2024 budgetary estimates and highlights.

Staff also discussed various trades within HRSD as well as bonuses for positions that require specific licensing. The pay table will be provided to the Commission by email.

The Commission concurred with staff's compensation strategies as follows:

- Phase 1
 - July 1, adjust salary scales and all salaries by CPI-U inflation adjustments
 - Provide merit increases on anniversary date for employees on steps
- Phase 2
 - Perform a comprehensive study in FY-2024 to evaluate whether our compensation structure still serves us well
 - Include allocation in FY-2024 budget to consider and implement consultant recommendations by January 1, 2024, if necessary


Attachments: [Presentation](#)

Public Comment: None

Next Commission Meeting Date: February 28, 2023


Meeting Adjourned: 11:45 am

SUBMITTED:



Jennifer L. Cascio
Commission Secretary

APPROVED:



Stephen C. Rodriguez
Commission Chair



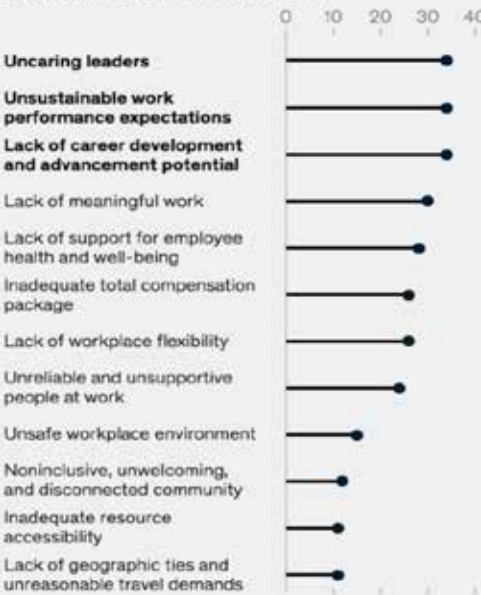
Commission Work Session

January 24, 2023

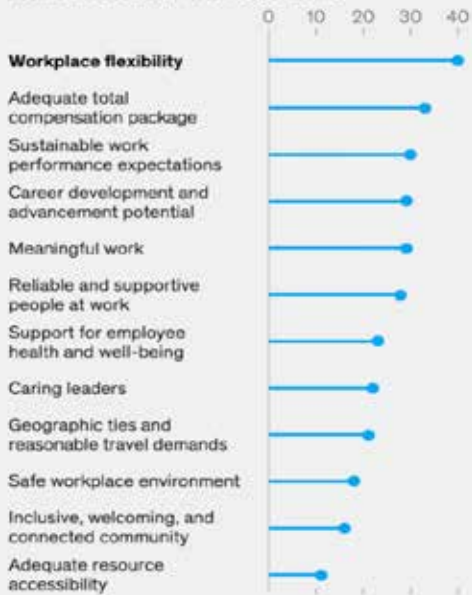
A Year to Remember

US employees have left and returned to the workforce for a number of reasons.

Top reasons why people left a job without another in hand,¹ % of respondents



Top reasons why people accepted their current job,² % of respondents



¹Based on top three ranked choices from respondents to McKinsey's Great Attrition, Great Attraction survey who left a job between Dec 2020 and Dec 2021 without another job offer in hand (n = 587).
²Based on top three ranked choices from survey respondents who left a job between Dec 2020 and Dec 2021 without another job offer in hand and returned to traditional employment (n = 215). Traditional employment refers to an employee–employer relationship in which a single employer hires and pays an employee and manages the employee's work.

- 2022 – A year to Remember
 - The number of job openings (10.9 million) exceeded the number of new hires (6.3 million)¹
 - People continued to quit their jobs—often without another one lined up¹
 - Uncaring leaders, unsustainable expectations of performance, and lack of career advancement were key reasons employees left the workforce¹
 - Workplace flexibility and adequate compensation topped the list as reasons employees returned to work¹

¹Source: McKinsey and Company, <https://www.mckinsey.com/featured-insights/2022-year-in-review/2022-the-year-in-charts>

HRSD's Experience - Recruitment/Retention Challenges

- Recruitment/Retention Initiatives
 - \$2,000 hiring bonus for “hard to fill positions”
 - 80 hours PTO on first paycheck
 - Hosted hiring events for Operations
 - Created new higher starting level pay table for trades positions
 - Reinstated bonus for employee with WW licenses and Class A CDL
 - Added 2 new positions to HR to focus primarily on recruitment

Selected Recruitment Experiences

Position	Internal Applicants	External Applicants	External Interviewed	Final Hiring/Disposition
Senior Level				
Director of Operations	6	5	0	Internal
Director of Finance (CFO)	3	7	0	None
Director of Water Quality	2	1	0	Internal
Chief of Information Technology	4 (none qualified)	2	0	None
Chief of Design and Construction	2	2	2	Internal

Selected Recruitment Experiences (Continued)

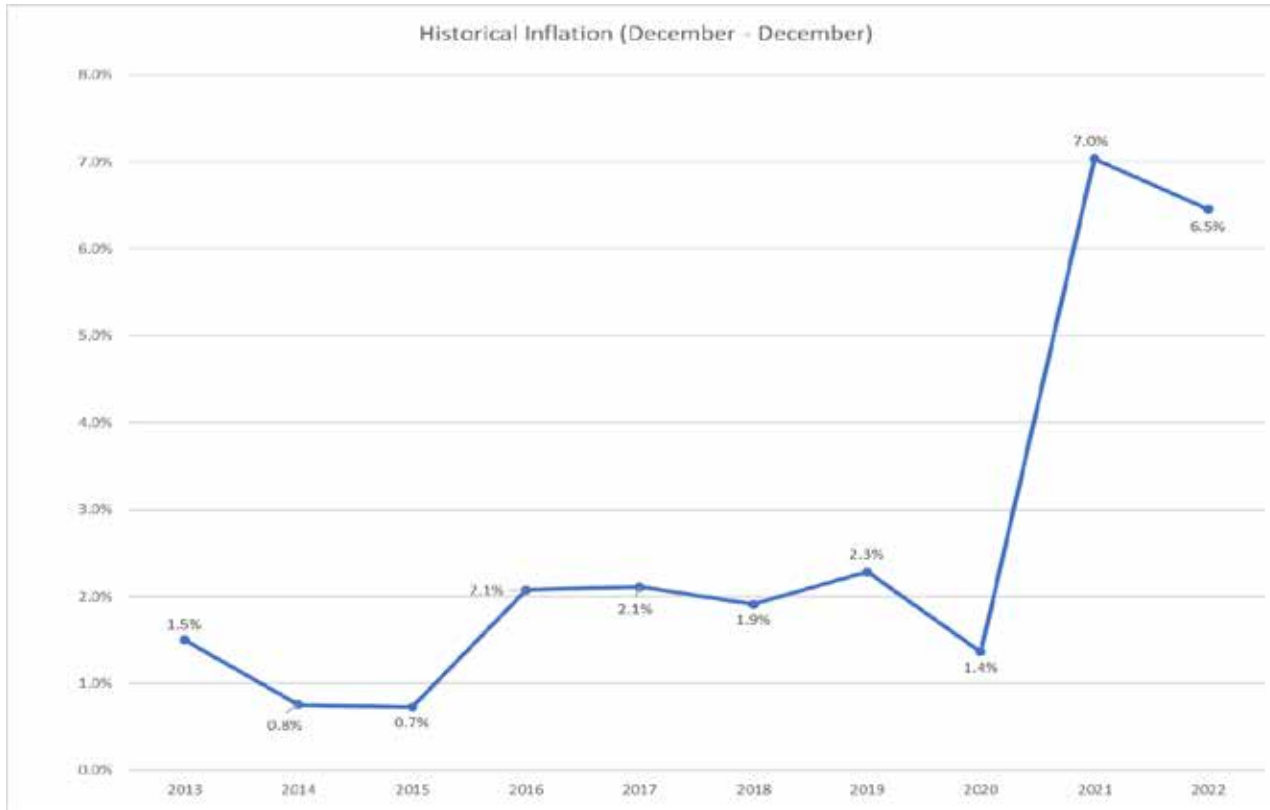
- **Engineering Project Managers** – Currently six vacancies, over the last two years 29 external applicants, 14 not qualified, three offers declined due to salary
- **Skilled Trades**
 - Interceptor Technician – currently 16 vacancies out of 30 positions
 - Struggling getting applicants to apply
 - Systems Operator – currently five vacancies out of 12 positions
 - Candidates attracted to other companies with equal or greater salaries

- Commission adopted - October 2016
- Total compensation approach (salary + benefits)
- Positions assigned to a grade (pay range) based on skills, knowledge and experience
- Policy goal is to attract most experienced talent at top of salary range
 - Entry level – at or above market median
 - Midpoint – targeted to 75th percentile of competitive market
 - Maximum – targeted within 10% of the 90th percentile

- All positions have a “finite market value”
 - 10 steps for each grade
 - Employees progress through steps over time (merit increases)
 - § A step increase represents an increase in employee skills and value to the organization
 - § Intent is for employee wealth to grow while progressing through steps
 - Once employee reaches step 10, compensation increases are limited to inflation to protect employee spending power
- Structure has served HRSD relatively well during periods of reasonable inflation and market stability

- Every 3-5 years periodic studies with samples of positions are evaluated
- Studies are done more frequently during periods of volatile or unstable markets
- Purpose of the study is to determine if positions are appropriately classified and if pay ranges are appropriate

Inflationary Pressures



- Recent years, far from normal
- Great resignation
- High inflation (historical average 3%)

- Evaluated 54 positions
 - 44 non-executive
 - 10 executive
- Custom Survey
 - Benchmark positions against selected similar entities
- Published Market Review
 - Benchmark positions against published data sources

- 17 organizations participated (9 new)
- 10 past participants declined

Org Name - All Participants (16)
Chesapeake Bay Bridge Tunnel
City of Chesapeake
City of Newport News
City of Suffolk
City of Virginia Beach
Clark County Water Reclamation District
Clean Water Services- Oregon
Denver Water
James City County
King County
Los Angeles County Sanitation District
Metropolitan St. Louis Sewer District
Metropolitan Water Reclamation District of Greater Chicago
Oklahoma City Sewer Enterprise, OK
Orange County Sanitation
City of Roanoke
*New Participants

Org Name - Declined: past participant (10)
Alexandria Renew Enterprises
City of Lynchburg
City of Houston Public Works, Engineering & Public Utilities
City of Norfolk
City of Portsmouth
Colorado Springs Utilities
Hampton Roads Planning District Commission
Henrico County
Metro Water Recovery - Denver (Formerly Metro Wastewater Reclamation District-Denver)
Washington Suburban Sanitary Commission



- Organizations were asked to match for only those jobs that reflected at least 80% of the duties as outlined in the benchmark summaries
- Followed the U.S. Department of Justice and Federal Trade Commission guidelines
 - 5 matches must exist per job in order to conduct statistical analyses or for drawing conclusions

- Published Survey Sources
 - Willis Towers Watson Survey Suite
 - CompData Benchmark Pro
 - Mercer Survey Suite
 - PRM Not-for-profit Survey
 - American Water Works Association Survey (AWWA)
 - Economic Research Institute (ERI)
 - Metro Water Recovery Custom Survey

Survey Methodology (Continued) - Published Survey Market Data

Job Type	Industry/Business	Geography	Size of Budget/Scope/Staff
Senior Management (Executives)	Utilities /All Industries/Public Sector	National / Regional	\$300M+/1,000 FTEs
Scientific Staff and Management	Public Sector /All Industries	National / Regional	\$300M+
Technical Management	Public Sector/ Utilities	National / Regional	\$300M+/1,000 FTEs
Engineering & IT	Public Sector /All Industries	Regional	\$300M+
Professional and Administrative	All Industries	Regional	\$300M+
Process, Electrical & Maintenance	All Industries	Regional	\$300M+/1,000 FTEs

Geographic Adjustments:

- Applied the Economic Research Institute (ERI) Geographic Differential to normalize all market salary data to reflect the local cost of labor level

Federal Data:

- ERI data scope: Industry: Government – Federal Support Services
 - 39 of 52 jobs had valid matches

Overall Comparison of Market Movement

- Compared market rates of jobs that have matches from both current and previous study
- Demonstrates stability of data set

March 22 vs Nov 22 (50th)	March 22 vs Nov 22 (75th)	March 22 vs Nov 22 (90th)
6.01%	7.04%	10.69%

Key Findings (Continued)

Salary Range Comparison (All)

Comparison Group	Comparison Category (All Jobs)	Market Comparison Nov '22	Market Comparison March '22
Combined Market (Published + Custom)	HRSD Range Maximum vs. Market 90th	-12.8%	-7.7%
	HRSD Range Mid* vs. Market 75 th	-18.4%	-16.8%
	HRSD Range Minimum vs. Market 50 th	-23.4%	-22.7%
Peer Organizations (Custom)	HRSD Range Maximum vs. Market 90th	-21.4%	-7.2%
	HRSD Range Mid* vs. Market 75 th	-27.3%	-17.2%
	HRSD Range Minimum vs. Market 50 th	-30.4%	-24.6%
Federal	HRSD Range Maximum vs. Market 90th	-0.6%	n/a
	HRSD Range Mid* vs. Market 75 th	-10.6%	
	HRSD Range Minimum vs. Market 50 th	-17.7%	

- Overall, HRSD salary ranges are below market targets in all comparison groups
- Comparison to Federal jobs was added to study utilizing ERI data
- Federal ranges are lower than Combined and Custom comparators



Key Findings (Continued)

Salary Range Comparison (Executives)

Comparison Group	Comparison Category (All Jobs)	Market Comparison Nov '22	Market Comparison March '22
Combined Market (Published + Custom)	HRSD Range Maximum vs. Market 90th	-15.4%	-7.5%
	HRSD Range Mid* vs. Market 75 th	-19.4%	-15.4%
	HRSD Range Minimum vs. Market 50 th	-23.6%	-22.4%
Peer Organizations (Custom)	HRSD Range Maximum vs. Market 90th	-23.6%	-7.2%
	HRSD Range Mid* vs. Market 75 th	-29.0%	-17.1%
	HRSD Range Minimum vs. Market 50 th	-32.4%	-25.3%
Federal	HRSD Range Maximum vs. Market 90th	-11.7%	n/a
	HRSD Range Mid* vs. Market 75 th	-18.2%	
	HRSD Range Minimum vs. Market 50 th	-21.5%	

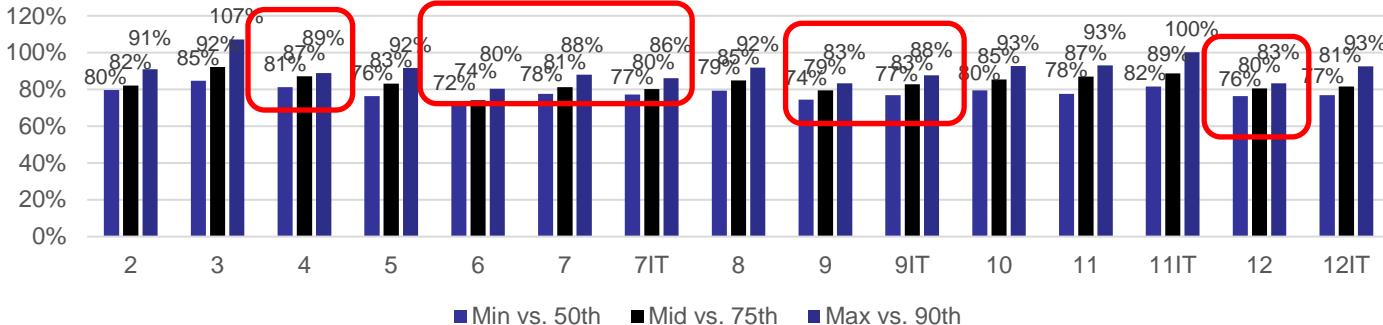
- Comparison results show similar patterns when it was limited to the Executive group



Salary Range Comparison – by Grade

- Below shows the comparisons to the salary range minimum/midpoint/maximum by grade vs. the combined market 50th/75th/90th.

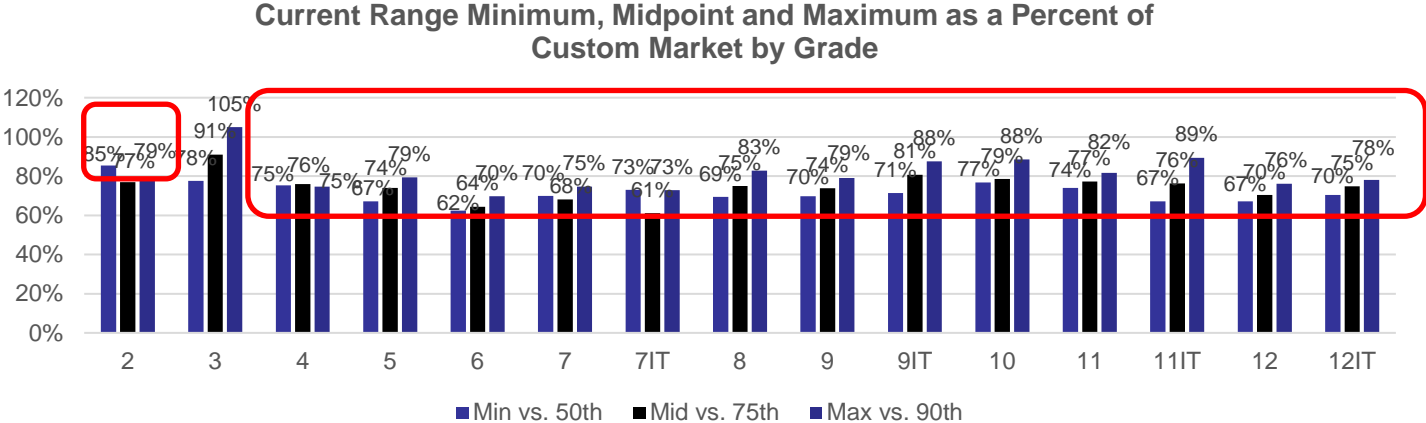
Current Range Minimum, Midpoint and Maximum as a Percent of Combined Market by Grade



- This data suggests the greatest misalignments of Grades 4/6/7/7IT/9/9IT/12, outside of HRSD compensation policy for range maximum.

Salary Range Comparison – by Grade

- Below shows the comparisons to the salary range minimum/midpoint/maximum by grade vs. the custom market 50th/75th/90th.



- This data suggests a greater misalignment in the custom market of all grades except for Grade 3, outside of HRSD compensation policy for range maximum.

- Recommendations highlight significant market misalignment for certain positions
- Wholistic analysis of all positions has not been performed in at least 20 years
 - Selective adjustments to seriously misaligned positions could jeopardize internal equity
 - Over time, differential between grades has become inconsistent

GRADE/ Step	Midpoint (Avg. of Step 5/6)	Current Midpoint Differential
01.0	\$42,205	
02.0	\$44,068	4.41%
03.0	\$46,006	4.40%
04.0	\$50,145	9.00%
05.0	\$54,647	8.98%
06.0	\$62,188	13.80%
07.0	\$70,779	13.81%
08.0	\$84,089	18.81%
09.0	\$95,701	13.81%
10.0	\$104,317	9.00%
11.0	\$118,698	13.79%
12.0	\$147,197	24.01%

- Benefits offered are in-line with Custom Market
- Medical (Monthly Employer Cost)

	Market 50 th	Market 75 th	HRSD
Family	\$1,560	\$1,818	\$1,976
Individual	\$429	\$576	\$697

- Comp Policy – medical costs s/b $\leq 10\%$ of Grade 2, Step 1 salary
- Retirement/Pension – complex and difficult to compare

Staff Conditional Recommendations

- Assumes
 - 2023 rate forecast can be maintained
 - Financial Forecast remains strong and financially viable
- Compensation Recommendations
 - Phase 1
 - § July 1, adjust salary scales and all salaries by CPI-U inflation adjustments
 - § Provide merit increases on anniversary date for employees on steps
 - Phase 2
 - § Perform a comprehensive study in FY 24 to evaluate whether our compensation structure still serves us well
 - § Put some money in FY 24 budget to consider and implement consultant recommendations by January 1, 2024, if necessary

FY 2024 Budgetary Estimates

		Increase	Effective Date	Estimated Cost
Pay Ranges and Employees on X Range	Inflation Adjustment	6.50%	July 1	\$ 4,600,000
Step Adjustment	Merit Increase	4.40%	Merit Date	\$ 800,000
Total				\$ 5,400,000
Distribution				
Operating Budget				\$ 5,100,000.00
Capital Plan				\$ 300,000.00
Total				\$ 5,400,000.00

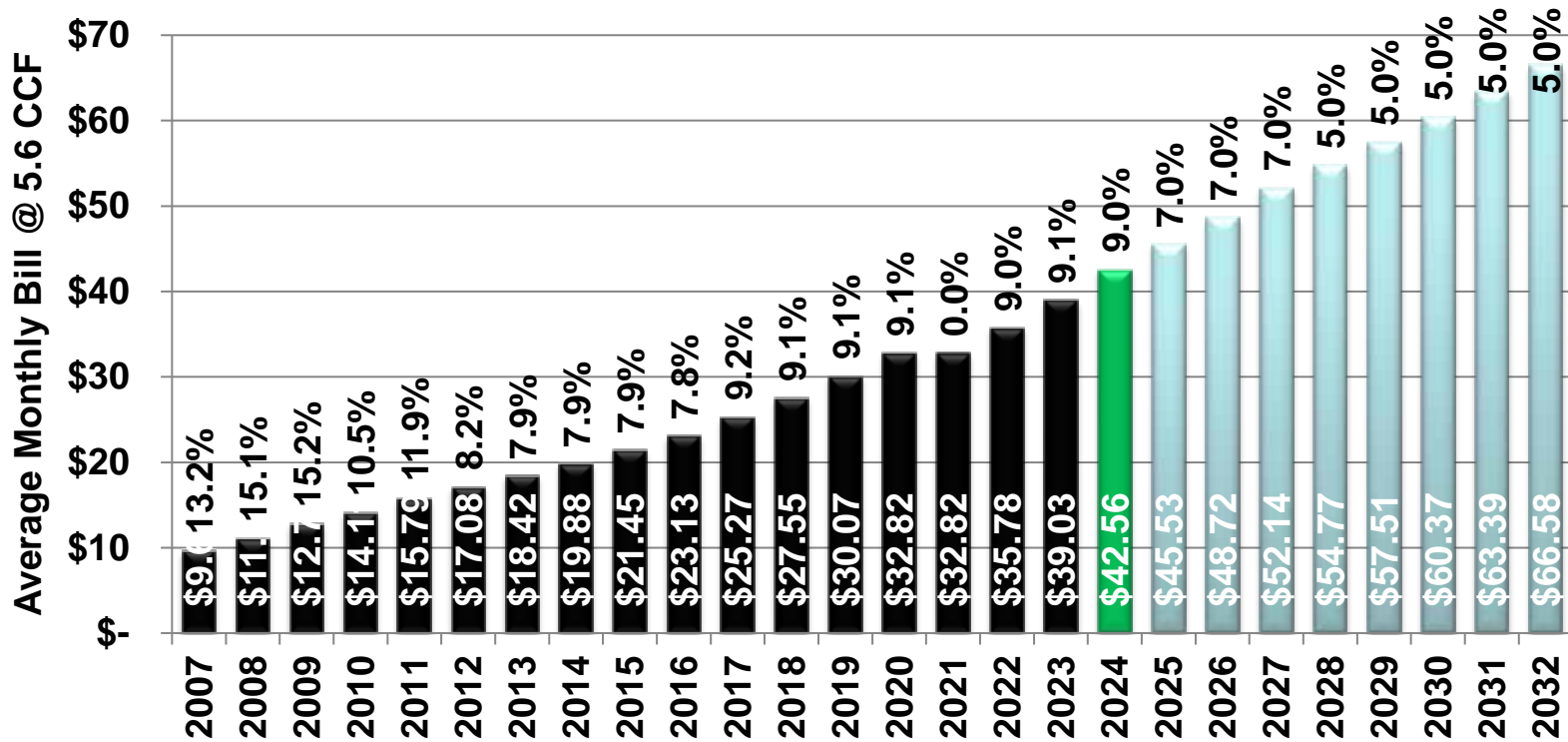
Planned Operating Budget increase in FY 23 financial forecast for FY 24 was ~\$2.0M



Fitch Ratings - US Water Sewer Outlook - 2023

- Sector Outlook – deteriorating
- Strong headwinds related to chemicals, labor and power costs and weaker economic growth
- Weakening credit quality
- 2022 – inflationary pressures alone pushed operating costs 7%
- 2023 – expected to continue 4%
- Borrowing costs face upward pressure
- Capital requirements and sustained higher operating costs exacerbating problem

Historical and Projected Rate Increases



- Significant inflationary pressures

	Estimated Usage	Projected Costs		Difference	
		FY 23	FY 24	\$	%
Ferric Chloride	273,000	\$335,790	\$458,640	\$122,850	37%
Sodium Hydroxide	4,378,500	\$1,707,615	\$2,381,904	\$674,289	39%
Sodium Hypochlorite	2,869,000	\$2,983,760	\$8,084,842	\$5,101,082	171%

- 71% of FY23 CIP is regulatory driven
- Good news (unplanned)
 - \$31.5M ARPA funding for Nutrient removal projects
 - \$5M WQIF preliminary approval for ES
 - \$100M optimistic for FY24 award for CE closure
 - \$1M LIWHOP (2023 to date)

Questions?
