



## **Compensation Philosophy and Policy**

### **Recommended expansion of the current Financial Policy to include a Compensation Philosophy and Policy**

A compensation philosophy is simply a formal statement documenting the City's position about employee compensation. It explains the "why" behind employee pay and creates a framework for consistency. Employers use their compensation philosophy to attract, retain and motivate employees.

Compensation philosophies are typically developed by the human resources department in collaboration with the executive team. The philosophy is based on many factors, including the City's financial position, the size of the organization, the industry, service objectives, market salary information, the level of difficulty in finding qualified talent, and the unique circumstances of the organization. The compensation philosophy should be reviewed periodically and updated based on current factors affecting the organization. For example, market conditions may make it difficult to find qualified talent in a particular specialization, and an employer may need to pay a premium for these candidates. If the City's current compensation philosophy does not support this value, then the organization may need to change its philosophy to meet its current needs.

A well-designed compensation philosophy supports the organization's strategic plan and initiatives, service goals, competitive outlook, operating objectives, and compensation and total reward strategies.

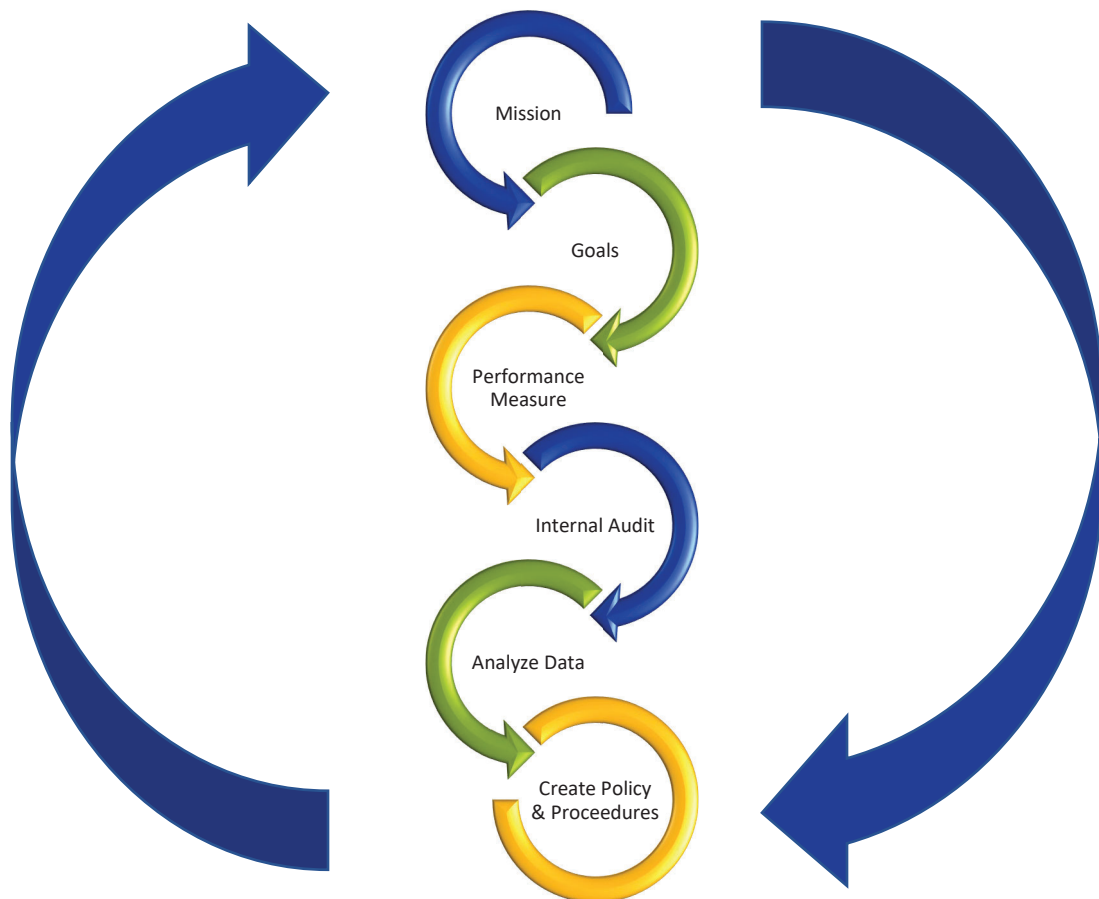
Most compensation philosophies seek to:

- Identify the City's pay programs and total reward strategies.
- Identify how the pay programs and strategies support the City's service strategy, competitive outlook, operating objectives, and human capital needs.
- Attract people to join the City's team.
- Motivate employees to perform at the best of their competencies, abilities, and skill sets.
- Retain key talent and reward high-performing employees.
- Define the competitive market position of the City in relation to base pay, variable compensation, and benefits opportunities.
- Define how the City plans to pay and reward competitively, based on market and organizational conditions, competition, and ability to pay.

- Ensure equal pay for equal work, with allowable pay differences based on factors not prohibited by law.

An effective compensation philosophy should pass the following quality test:

- Is the overall program equitable?
- Is the overall program defensible and perceived by employees as fair?
- Is the overall program fiscally sensitive?
- Are the programs included in the compensation philosophy and policy legally compliant?
- Can the organization effectively communicate the philosophy, policy, and overall programs to employees?
- Are the programs the organization offers fair, competitive, and in line with the compensation philosophy and policies?



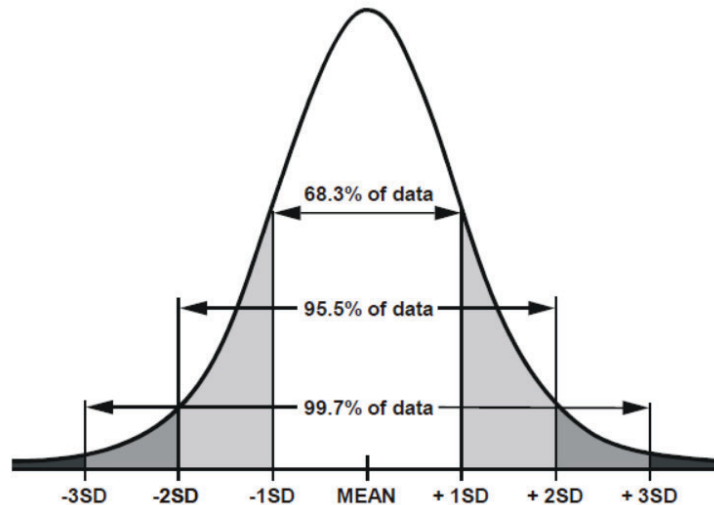
## **Step 1: Determine the Organization's Compensation Philosophy**

Before creating salary ranges, the organization must first determine what its approach or philosophy is to compensation. What is the mindset that drives pay decisions? Determining the compensation philosophy requires an in-depth look at the company's beliefs regarding compensation. The key is to create a philosophy and be consistent in its application regarding pay practices.

### **Match the Market**

An employer can choose to lead, lag, or match the market when compensating employees. Being a market leader means that the organization pays more for jobs than its competitors. Typically, an organization does this to gain an advantage or attract talent away from its competitors. If an employer decides to match the market, it pays roughly the same as its competitors, and if an employer lags the market, it is paying less than market rates. Generally, an employer rarely chooses to lag the market as a conscious pay strategy. It is often either discovered after market research reveals the practice, or it may be the result of a limited compensation budget. In rare circumstances an employer's brand may be so attractive (e.g., Disney, Google) that the employer can pay lower-than-market wages without a negative impact on recruitment and retention. When turnover is high, there are increased costs associated with recruiting, selecting and training replacements. Other, more-difficult-to-quantify effects also arise, such as declines in productivity, morale, customer satisfaction and innovation.

The City of Bondurant has a philosophy of matching the market using a weighted average of the Des Moines Metropolitan communities, excluding the population outliers (the highest and smallest). The market is defined as where the talent pool is and where the City's competitors are located. The weighted average is used with the understanding that Bondurant's population, taxable valuation, and growth rate are variables to consider when comparing to the other communities. The matrix is based on the deviation from the average of each category.



## Salary Ranges

Salary ranges help employers control their pay expenses and ensure pay equity among employees. It is critical that the City have rational explanations for why it pays employees a certain rate. Defined salary ranges help accomplish that. Additionally, defined salary ranges communicate a path for future compensation potential and set the expectations for entry level.

### Step 2: Conduct a Job Analysis

A job analysis is a process for gathering, documenting, and analyzing information about a job to determine the activities and responsibilities it includes, its relative importance to other jobs, the qualifications necessary for performing the job and the conditions under which the work is performed. The City of Bondurant conducts job analysis at least every three years and anytime the organizational structure requires.

### Step 3: Conduct Market Research

Conducting market research ensures that wages paid to employees are comparable to similar positions in the marketplace.

When conducting salary market research, staff should consider the following:

- Job titles vary between Cities. Staff should read the descriptions of the jobs surveyed to make sure that the related tasks, functions, and levels of responsibility match the positions at Bondurant.
- To obtain current, accurate salary information, Bondurant will typically need to purchase or solicit salary data.
- Whenever possible, employers should try to obtain information from more than one market survey resource, at least for benchmark positions.
- It should be realized from the outset that each City has jobs that are unique and that it will be impossible to find exact matches for all jobs. Staff may need to

consider jobs that closely fit the principal aspects of a particular job and consider salary data for more than one type of job.

#### Step 4: Create Job Grades

Job grades are groupings of positions with similar worth. Bondurant uses their job evaluation data to group positions into job grades by department and function, as is standard Statewide.

Job Family	Job Category	Job Title
Central Administration	Director	Finance & Employee Services City Clerk Planning & Community Development
	Coordinator	Economic Development
	Specialist	Operations & Training Utility Bill Front Desk Communications & Events

#### Step 6: Create a Salary Range Based on Research

Bondurant should note the range of pay in the salary surveys and other information that may be relevant when establishing a weighted average salary. As conditions change, the index used to calculate the weighted average will change. Three factors determine the weighted average: population, taxable valuation, and growth rate. For each position, the City of Bondurant will establish minimum (up to 3 years in their role), midpoint (3 to 6 years in their roles), and maximum (beyond 6 years in their role), pay ranges. The maximum is the weighted average salary using data from a salary survey with a sample of cities in the Des Moines Metropolitan area (not considering the outliers based on

population) for that position plus a cost-of-living increase over the previous year. The midpoint is 90% of the maximum and the minimum is 75% the maximum.

Maximum = Weighted Average, Midpoint = Maximum x .90, Minimum = Maximum x 0.75

After the salaries for current employees have been placed into the range, several employees may not be in line with the guidelines and ranges the City has established.

"Red circle rates" are salaries/wages that are above the maximum rate the City has established for the position's salary range.

"Green circle rates" are salaries below the minimum rate the City has established for the position's salary range.

Staff will develop strategies to rectify anomalies by considering factors such as budget, employee performance, and years in the role.

### **Step 7: Updating and Aging**

Compensation rarely remains static. The rate of pay is constantly changing with external market and economic activity.

Aging is the activity of increasing salary grades with the market without the cost of purchasing or soliciting new salary survey data each year. To do this, the City of Bondurant will use the Midwest CPI as published in the Iowa League of Cities Annual Special Budget Report. It measures changes in the cost of total compensation, which includes wages, salaries, and the employer's cost of employee benefits.

Salary survey data should be gathered and reviewed every three years so that appropriate adjustments can be made to the organization's salary ranges.

Job Family	Job Category	Job Title
Central Administration	Director	Finance & Employee Services City Clerk Planning & Community Development
	Coordinator	Economic Development Planning Administrative Services Coordinator
	Specialist	Operations & Training Utility Bill Front Desk Communications & Events

Job Family	Job Category	Job Title
Public Works	Director	Public Works
	Coordinator	Water/Wastewater
	Specialist	Operations
	Technician	Crossing Guard

Job Family	Job Category	Job Title
Emergency Services	Director	Emergency Services
	Coordinator	Assistant Fire Chief - EMS Assistant Fire Chief - Inspections
	Specialist	Fire/Paramedic
	Technician	Emergency Medical