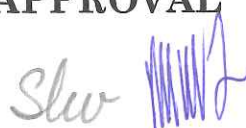


CITY OF FRANKLIN
COMMITTEE OF THE WHOLE MEETING
MONDAY, APRIL 6, 2015, 6:30 P.M.
COMMON COUNCIL CHAMBERS, FRANKLIN CITY HALL
9229 W. LOOMIS ROAD, FRANKLIN, WISCONSIN
AGENDA*

- I. Call to Order and Roll Call
- II. Presentation on Remote Application and Data Collection for the Geographic Information System (GIS) in the Field.
- III. Discussion Concerning and Consideration of Replacement of the Unified Development Ordinance's Use of the Standard Industrial Classification System and Potentially Including a Comprehensive Update or Replacement of the City of Franklin Unified Development Ordinance.
- IV. Discussion to Provide Guidance to the Classification and Compensation Study Consultant on Pay Philosophy and Pay Plan Structure.
- V. Adjournment.

*Notice is given that a majority of the Personnel Committee and Plan Commission may attend this meeting to gather information about an agenda item over which the Personnel Committee and Plan Commission has decision-making responsibility. This may constitute a meeting of the Personnel Committee and Plan Commission per State ex rel. Badke v. Greendale Village Board, even though the Personnel Committee and Plan Commission will not take formal action at this meeting.

[Note: Upon reasonable notice, efforts will be made to accommodate the needs of disabled individuals through appropriate aids and services. For additional information, contact the City Clerk's office at (414) 425-7500.]

APPROVAL 	REQUEST FOR COUNCIL ACTION	MEETING DATE 4/6/2015
REPORTS & RECOMMENDATIONS	Presentation on Remote Applications and Data Collection in the Field	ITEM NUMBER II.

The Director of Administration and Brian Fausel, one of the City's GIS contractors with Geographic Marketing Advantage, LLC, will present a brief demonstration of a proto-type of an application for data collection in the field.

The application tool was recently presented to the Technology Commission who acknowledged the value in productivity and efficiency that such applications can generate. In summary, the GIS tool allows an individual with a smart phone, pad, or laptop to easily collect data in the field on a specified asset, with the data organized and stored electronically in a database that has geo-coded (mappable) attachments. Attaching pictures, creating maintenance records, and maintaining detailed asset management data becomes very efficient because field notes on paper do not need to be manually entered back at the office and the collection device can be programmed to enable easy touch-and-click data selection.

The proto-type addresses fire hydrants and fire hydrant maintenance and runs on a 7" LG G Pad and uses an out-of-the-box GIS tool, called Collector, that is part of the ESRI software (ESRI is the backbone of our GIS system and is the world's largest GIS software provider). Nearly a dozen other potential applications and uses are proposed for development as the functionality is fine-tuned and the I.S. network systems and security issues are addressed. Ultimately, each potential application is set up in Collector to match the data needs for that particular process or asset. Setting up something in Collector is sort of analogous to creating an Excel template. Excel, like Collector, is a software tool that each person customizes for their particular need using the functionality of the tool. As such, each application is internally customizable to meet our data and process needs, but the tool itself is considered off-the-shelf and out-of-the-box, which is consistent with the recommended strategies of the Technology Commission.

COUNCIL ACTION REQUESTED

No action is required.

APPROVAL <i>Slw</i>	REQUEST FOR COMMITTEE OF THE WHOLE	MEETING DATE 04/06/15
REPORTS & RECOMMENDATIONS	DISCUSSION CONCERNING AND CONSIDERATION OF REPLACEMENT OF THE UNIFIED DEVELOPMENT ORDINANCE'S USE OF THE STANDARD INDUSTRIAL CLASSIFICATION SYSTEM AND POTENTIALLY INCLUDING A COMPREHENSIVE UPDATE OR REPLACEMENT OF THE CITY OF FRANKLIN UNIFIED DEVELOPMENT ORDINANCE	ITEM NUMBER <i>III.</i>

INTRODUCTION

At its December 2, 2014 meeting, after discussion about a possible update of the City of Franklin's Unified Development Ordinance (UDO), the Common Council moved to "direct legal counsel to continue with Unified Development Ordinance updates, and to include Planning Department's top 20 suggestions, and to return to the Common Council by February 3, 2015."

At its December 4, 2014 meeting, the Plan Commission also discussed this topic, and in general indicated support for a comprehensive update of the UDO.

On December 30, 2014, Mayor Olson forwarded an electronic copy of the UDO to the Common Council that was updated by the City Attorney's Office to include all Text Amendments approved by the Council.

RECENT ACTIONS

At the February 2, 2015 Committee of the Whole meeting, the Council discussed the Planning Department's top 20 suggested changes to the UDO. The Council then requested that additional information be provided about the suggestion to replace the UDO's current Standard Industrial Classification (SIC) system, for discussion at its April Committee of the Whole meeting.

The Planning Department's report on this matter is presented in the attached memorandum. A brief summary of staff's recommendations on this matter is presented below.

SUMMARY

As noted in the attached memorandum, Planning Department staff believes that each of the zoning use classification systems studied, including the current Standard Industrial Classification (SIC) system, has its strengths and weaknesses. However, staff believes that use of the North American Industry Classification System (NAICS) provides the most benefits to the City. Staff also recommends review and consideration of other associated updates of the UDO (such as the amount of latitude to be provided in administrative use interpretations and the proper number and type of zoning districts), and further, that any such changes occur as part of a comprehensive review of the entire Unified Development Ordinance.

COUNCIL ACTION REQUESTED

Provide direction to staff regarding a possible comprehensive update or replacement of the City of Franklin Unified Development Ordinance.

And/Or

Provide direction to staff regarding replacement of the Unified Development Ordinance's Standard Industrial Classification System.



MEMORANDUM:

FROM PLANNING DEPARTMENT

DATE: April 3, 2015

TO: Mayor Steve Olson
City of Franklin Common Council

FROM: Joel Dietl, Planning Manager

SUBJECT: Consideration of Replacement of the Unified Development Ordinance's
Use of the Standard Industrial Classification (SIC) System

INTRODUCTION

As requested by the Common Council, I have prepared the following information about the benefits and issues related to four potential options¹ which could be used to replace the Standard Industrial Classification (SIC) system within the City of Franklin's Unified Development Ordinance (UDO). This subject was briefly discussed at the Committee of the Whole meeting on February 2, 2015. The attached table provides a brief description of the major elements of each of the four classification systems (in comparison with one another and to the current SIC system), while this memo provides a brief explanation of the purpose and use of such classification systems.

This information is intended to be used by the Common Council in its continued discussions about a possible comprehensive update or replacement of the Unified Development Ordinance, and/or in consideration of a UDO text amendment to replace the SIC codes.

I have also provided some background information about zoning in general, and how zoning relates to zoning use classification systems in particular, in order to help put the use of such classification systems into perspective.

BACKGROUND INFORMATION

While most of the following background information is provided in a generic format, whenever such information pertains directly to the City of Franklin, it has been *italicized*.

Zoning

Zoning is the basic means of land use control practiced by local units of government throughout the United States. It is a common, useful, and powerful tool, but it is exercised in the context of the social, economic, and political forces that shape each community. According to The Practice of Local Government Planning,² it is important for local officials to understand that zoning cannot be used to fashion ideal development patterns within a community. No matter how good or how effective the zoning in a particular community, the landowners, developers, and individual citizens still make decisions that heavily influence, if not determine, the final land use patterns in the community.

¹ The four options identified by staff include: the North American Industry Classification System (NAICS); the Standard Land Use Coding Manual (SLUCM); the Land Based Classification Standards (LBCS); and a traditional simple ad-hoc list of uses.

² The Practice of Local Government Planning, Second Edition, by the International City/County Management Association and the American Planning Association, dated 1988.

Furthermore, as stated in The Practice of Local Government Planning, it is commonly understood that zoning does not substantially change the way a community is built. Factors such as public investments in sewer and water lines, and amenities such as parks, often have more influence. However, what zoning does do is reinforce the basic patterns of community development that are the most consistent with public health, welfare, and safety and with the community's local goals and policies. For example, zoning can keep heavy industry out of a community's commercial core, large commercial centers out of single-family residential areas, and multi-family residential development out of areas with inadequate services.

Zoning Districts

Zoning divides the community into districts and imposes different land use controls on each district. In particular, Wisconsin State Statutes 62.23(7) states in part that Cities may regulate "...the height, number of stories and size of buildings and other structures, the percentage of the lot that may be occupied, the size of yards, courts and other open spaces, the density of population, and the location **and use of buildings, structures, and land for trade, industry, mining, residence or other purposes** [emphasis added for purposes of this discussion] if there is no discrimination against temporary structures."

Traditional zoning regulations have separated land uses into four basic districts: residential; commercial; industrial; and agricultural. Although small communities may have only these four districts, larger communities may have dozens of different districts. *For example, the City of Franklin has 74 different zoning districts, consisting of: 12 residential districts; nine commercial districts; three industrial districts; two agricultural districts; 37 Planned Development Districts; six overlay districts; and a number of other miscellaneous districts.*

Identification and Categorization of Uses

Zoning districts typically consist of numerous but related uses, and most zoning ordinances, *including the City of Franklin's*, attempt to categorize these uses and the zoning districts in order to help separate incompatible uses from one another. Often referred to as Euclidian zoning, this is the most common (but not only) type of zoning.

To identify and distinguish various uses from one another, utilization of a land use based classification system is widespread, has long been part of traditional zoning ordinances, and is particularly useful for planning purposes. Examples of such a system include the 1965 Standard Land Use Coding Manual (SLUCM), the Land Based Classification Standards (LBCS), and various local community created Ad-Hoc lists of uses.

Other systems used for the categorization of uses for zoning purposes include the North American Industry Classification System, and the Standard Industrial Classification system (which is the system utilized in the City of Franklin's Unified Development Ordinance). Furthermore, many local zoning ordinances are a hybrid or composite of more than one system. For example, some local ordinances, *such as Franklin's Unified Development Ordinance*, use one system for residential uses and another system for non-residential uses.

In addition to simply identifying a list of uses, identifying a list of zoning districts, and using some type of system to categorize them, most zoning ordinances, *including the City of Franklin's*, also identify three types of allowed uses:

- *permitted uses which are generally allowed by right;*
- *accessory uses which are generally incidental to the permitted principal use; and*
- *special uses that are allowed only by some form of special review.*

Many classification systems, *including the City of Franklin's (see UDO Table 15-3.0603 Permitted and Special Uses in the Nonresidential Zoning Districts)*, create a matrix comprised of all of its use categories, all of its zoning

districts, and the three categories of allowed uses. This information, often in the form of a table or chart, is then included within the zoning ordinance. The table or chart identifies, for each zoning district, those uses which are allowed (permitted, accessory, and special). Typically, those uses not listed as a permitted, accessory, or special within a particular zoning district would not be allowed within that district. Those uses not listed in any zoning district would not be allowed within the community.

Issues Often Associated with Use Classification Systems

All systems used for identifying and classifying uses for zoning purposes, to some extent, have issues associated with their use. And how such issues are addressed tends to vary greatly among planners and among local zoning ordinances. These issues include:

- the number and type of uses to be identified within each zoning district;
- the number and type of zoning districts to be identified;
- which uses should be allowed within each zoning district;
- the level of detail to be provided in the description/definition of each use and each zoning district;
- the amount of administrative flexibility to be allowed in the interpretation of unclear or unclassified uses;
- whether there should be a clear and distinct hierarchy of uses from the most desirable to the least desirable within and between the various zoning districts;
- to what extent should the list of uses be patterned upon a land use based classification system; and
- whether all potential land uses should be allowed somewhere within the community.

CLASSIFICATION SYSTEMS

The five classification systems noted below (the City's current SIC system is also included here for comparison purposes), are examples of some of the most commonly used classification systems in the country and have been noted by Planning Department staff as possible replacements for the City's current system. A side-by-side comparison of each system's major elements is provided in the attached table.

Standard Industrial Classification (SIC) System

This system was originally created by the federal government in 1937 to classify types of industries, and was more recently used by federal agencies for a variety of economic-related purposes. It is based upon a four digit numbering system that groups industries into progressively more detailed categories, from the broadest two digit 'division', to the three digit 'major group', to the most specific four digit 'industry'. It was last updated in 1987 (*which is the version referenced in the City of Franklin UDO*). The federal government replaced this system with the North American Industry Classification System (NAICS) in 1997.

The SIC system was once used by many local communities throughout the country for zoning classification purposes, although fewer communities use this system today. Within southeastern Wisconsin, other than the City of Franklin, staff is aware of only the Village of Grafton that still utilizes this system.

North American Industry Classification System (NAICS)

This system was created by the federal government for similar purposes as the SIC system, and replaced that system in 1997. It has been updated a number of times since 1997 to keep up-to-date with new and changing industries. It is also maintained so comparisons between the SIC system and the NAICS system can be made. It is based upon a six digit numbering system that groups industries into progressively more detailed categories.

Many communities throughout the country which had previously used the SIC system switched to this system when the SIC system was no longer updated by the federal government. Within southeastern Wisconsin, staff is aware of only the City of Greenfield that utilizes this system.

1965 Standard Land Use Coding Manual (SLUCM)

The 1965 Standard Land Use Coding Manual was prepared by the Federal Highway Administration and the Department of Housing in 1965. It created a detailed listing of land-use categories with numeric codes assigned to them, based upon a modification of the four digit SIC system. It also contained an additional numbering system to identify ownership, type of structure, auxiliary/secondary land uses, etc. It was last updated in 1972.

This system was once commonly used by large urban communities throughout the country. It is used less frequently now due in part to its age, and because the system worked best for long-term planning purposes and less well for relatively short-term zoning purposes. Within southeastern Wisconsin, staff is aware of only the Southeastern Wisconsin Regional Planning Commission that utilizes a modified version of this system.

Land-Based Classification Standards (LBCS)

This system was created in 2000 by the American Planning Association on behalf of the Federal Highway Administration, to create an update/replacement of the 1965 SLUCM. The new LBCS system was designed: primarily for various federal agencies, but also for local communities; to be a land use based system compatible with GIS mapping systems; and to be easily updated. The system identifies land use, land cover, economic function, building type, and ownership, categorizes each into a four digit numbering system, and also utilizes a 20 color coding standard for mapping purposes.

Although this system has been used for comprehensive planning purposes by a few communities within Wisconsin, staff is not aware of any community in Wisconsin using this system for zoning purposes.

Ad-Hoc List of Uses

It appears that the most commonly used land use classification system in the country is a primarily ad-hoc list of uses: prepared by each local community individually; revised whenever the local community determines it is appropriate; incorporating those land uses present within the community, anticipated or desired within the community, and found within neighboring communities; and sometimes incorporating portions of other use classification systems (such as the NAICS or LBCS). For a large urban community, such lists can become long. For example, up to 50 different types of residential uses in a large city is not uncommon. The total number of uses identified varies greatly from community to community, typically ranging from a few dozen different uses for small communities to hundreds of different uses for large communities.

This system is used in most communities within southeastern Wisconsin. Some communities, such as Wauwatosa and New Berlin, have created very detailed and/or highly categorized lists.

SUMMARY

As shown in the attached table, and as noted above, each of the classification systems has its strengths and weaknesses. Even the current SIC system has some strengths and advantages, and is one of the more commonly used systems in communities outside of Wisconsin. However, the NAICS system and the Ad-Hoc List method appear to have more benefits or advantages for the City of Franklin than the others.

In regard to the NAICS system:

- Conversion from the current SIC system to the NAICS system would likely be the easiest of the four. This is due to the similarities between the SIC and NAICS systems, as well as the conversion tables that have already been created by the federal government to facilitate comparisons between the two systems.
- This system is also the one which is updated the most frequently. The federal government has updated this system as recently as 2012, to include over 350 new types of businesses (since 1997) such as internet service providers, fiber optic cable manufactures, warehouse/superstores, fast food restaurants, etc. As well as adding new uses that cross industries, such as office and parking.
- Although this system has approximately 1,800 business types identified, providing more detail than needed for typical zoning purposes, this system is categorized in such a fashion that broader, less detailed categories have also been identified. For instance, use of only those categories signified by a four digit number results in approximately 400 business types.

In regard to the Ad-Hoc List system:

- This system is the most common method of classifying zoning uses, not only in southeast Wisconsin, but in the state and country as well. It was also the system used by the City of Franklin prior to the UDO in 1998. It can be noted that some of these Ad-Hoc Lists incorporate elements from other systems such as the NAICS or LBCS.
- As this system is created by each local community, it can typically be crafted to most closely fit local conditions in terms of the desired number and types of land uses to be identified for zoning purposes.
- With the large number of adjacent communities utilizing this system, creating and implementing this system could be relatively easy. Issues and concerns experienced by other communities could be identified and addressed by the City of Franklin.

In conclusion, Planning Department staff recommends:

- that the current SIC system be replaced with the NAICS system, for non-residential uses;
- that the current Ad-Hoc List for residential uses be updated through review of such similar lists of adjacent communities;
- that the UDO's current standards in regard to administrative interpretations, and permitted, special, and accessory uses, be reviewed in light of the change to the NAICS system and to ensure they still reflect the community's needs;
- that the UDO's current number and types of zoning districts be reviewed in light of the change to the NAICS system and to ensure they still reflect the community's needs; and
- that all appropriate changes be reflected within the City's Comprehensive Master Plan.


Lastly, Planning Department staff would recommend that due to the nature and scope of these potential changes, that a comprehensive revision (or potential replacement) of the Unified Development Ordinance be undertaken simultaneously with the conversion to any other zoning use classification system.

Table 1

Comparison of Use Based Classification Systems for Zoning Purposes

	Comprehensive List of Uses Provided	Regularly Updated	Intended for Local Planning and/or Zoning Purposes	List of Uses Designed to be Categorized, Consolidated, or Expanded	Description of Uses Provided	Commonly Used in Wisconsin	Ease of Conversion to this System	Ease of Use of this System
SIC	No. Approximately 1,000 business uses, but no residential uses, few recreational, general office, etc. type uses.	No. Will no longer be updated, last time was 1987.	No.	Yes.	Broad categories only.	No.	No conversion necessary, it is already in the UPO.	Not complex, but is subject to numerous amendments because it has not been regularly updated.
NAICS	No. Approximately 1,800 business uses, but no residential uses, few recreational, general office, etc. type uses. Yes. Approximately 800 residential and non residential uses identified.	Yes, last time was 2012.	No.	Yes.	Broad categories only.	No.	Relatively easy. This system was created so comparisons between the SIC and NAICS can be made.	Not complex, it is very similar to the SIC system, but has been regularly updated.
SLUCM	Yes. Approximately 800 residential and non residential uses identified.	No. Will no longer be updated, last time was 1972.	Yes.	To a limited degree, yes.	No.	No.	Will likely be difficult, as it is an entirely new classification system.	Moderately complex.
LBCS	Yes. Approximately 1,000 residential and non residential uses identified.	Unknown, last time was 2000.	Yes.	To a limited degree, yes.	Yes.	No.	Will likely be difficult, as it is an entirely new classification system.	Highly complex.
Ad-Hoc List	Typically yes, dependent upon the local community.	Varies, dependent upon the local community.	Yes.	Varies, but typically no.	Varies, but typically no.	Yes.	Relatively easy. This system was utilized by the City prior to 1998. However, it is now extremely out of date.	Varies, typically not complex.

Note: Shaded information represents those aspects of a particular classification system that pose a significant advantage over the other systems.

APPROVAL 	REQUEST FOR COUNCIL ACTION	MEETING DATE 4/6/2015
REPORTS & RECOMMENDATIONS	Discussion to Provide Guidance to the Classification & Compensation Study Consultant on Pay Philosophy & Pay Plan Structure	ITEM NUMBER IV.

At the March Committee of the Whole meeting the Common Council received a presentation from Joellen Earl and Lee Szymborski of GovHR USA relative to pay philosophy and pay plan structure. The intent is for the Common Council to provide them with guidance so that they may incorporate those positions into the initial recommendations that are to be provided by the consultant. At that meeting, the Common Council requested input from Department Heads on these topics. Council members were to submit additional questions to the Director of Administration for the consultant to address in writing. The issue was scheduled to return to the April Committee of the Whole and the first Common Council meeting in April for a final, initial determination.

Attached are the following documents:

- "Pay Philosophy and Pay Plan Structure Summary Points Prepared by the Director of Administration" – this packet was discussed at and distributed to the Personnel Committee at their meeting of March 30, 2015. It includes the recommendation of the Department Heads, the Director of Administration, and discussion on cautions – or pros and cons – associated with merit pay.
- The additional questions provided to GovHR USA, along with GovHR USA's responses.
- The relevant pages from the March Committee of the Whole meeting, for your convenience.

Personnel Committee: The Personnel Committee, who was present at the March Committee of the Whole meeting, met to discuss the issue and has made the following motions. The first has a slight deviation from the motion as recommended by the Director of Administration. The added words are shown as underlined. The second motion is exactly as recommended.

Recommended Motion: Motion that the Personnel Committee recommends that the Common Council directs the consultant to establish recommended an initial, starting pay philosophy at the 70th percentile, consistent with the recommendation of the Department Heads, but that calculations for the 60th and 55th percentile also be provided for a matter of context and consideration, that the consultant be directed to recommend policy or implementation strategies to ensure flexibility in initial hiring wages, and that consideration for an initial salary adjustment should be given to long-term employees who are placed near the bottom of a newly established range.

Recommended Motion: Motion that the Personnel Committee recommends that the Common Council direct the Director of Administration to work with the consultant to devise a plan for initial implementation of an incremental-based system with a planned transition to a merit-based system for FLSA-exempt employees and a hybrid system for FLSA non-exempt Employees.

Additional Information: Based upon the discussion at the Personnel Committee, three additional items are worth addressing.

First, it is worth noting that any determination at this time is not a final determination that adopts a final pay plan philosophy or policy. The consultant is looking for guidance as to what the Common Council believes they would want to implement. After the initial report is provided to the Common Council, the Common Council will be provided an ample opportunity to review the detail, evaluate the results, and finalize a policy. If, for example, the initial recommendation yields results that fall within scheduled and

available resources, the Common Council could take the final actions to implement the pay plan and philosophy as presented. If, on the other hand, the initial recommendation yields results that exceed the available resources, the Common Council will be able to consider modifying the policy or philosophy recommendation, delaying the implementation date, altering the implementation plan, or finding additional resources in order to retain the initial recommended philosophy. As such, the recommendation at this time should be what the Common Council would conceptually like to implement. After the Council receives the detailed results and impacts, the Common Council will get to finalize or revisit the initial direction given to the consultant.

Second, the second motion from Personnel for devising a general plan for a transitional implementation strategy does not specify a timeline. This was done intentionally with the understanding that until the recommended plan and steps are identified, specifying a timeframe was premature. Nonetheless, the Director of Administration noted that he presumes that the plan will provide steps and each step will have general timeframes for execution based upon need and resources allocated. Together, one could then see the full timeline that would result, provided all of the resources and commitments are met. This staged process is recommended because of the level of detail that would need to be developed following establishing the general, transitional strategy, as is suggested in the motion.

Third, the attached document entitled "Pay Philosophy and Pay Plan Structure Summary Points Prepared by the Director of Administration," in the first paragraph about "Input from Department Heads," talks about some percentages relative to where the City would be if, for example, 10 communities are positioned below us. The purpose of that example was to give some context as to where different percentages fit into the group from a holistic perspective. The bottom line, however, is that the consultant actually calculates a percentage placement applying a mathematical formula that is allowable for interpolation based upon the standards used by the National Institute of Standards and Technology, a Division of the U.S. Department of Commerce. Effectively a mathematical interpolation is made from the complete data set based on minimum and maximums of the comparable ranges. For your purposes, the result is that the Common Council can pick any percentage points they want and each will yield slightly different results: 66% will yield different results than 68%. The consultant notes that small deviations in percentages tend to have limited impacts in the ranges.

Recommendation: The recommended motions below reflect those as forwarded by the Personnel Committee, with one minor grammatical correction.

COUNCIL ACTION REQUESTED

Recommended Motion: Move that the Common Council directs the consultant to establish an initial, starting pay philosophy at the 70th percentile, consistent with the recommendation of the Department Heads, but that calculations for the 60th and 55th percentile also be provided for a matter of context and consideration, that the consultant be directed to recommend policy or implementation strategies to ensure flexibility in initial hiring wages, and that consideration for an initial salary adjustment should be given to long-term employees who are placed near the bottom of a newly established range.

Recommended Motion: Motion that the Personnel Committee recommends that the Common Council direct the Director of Administration to work with the consultant to devise a plan for initial implementation of an incremental-based system with a planned transition to a merit-based system for FLSA-exempt employees and a hybrid system for FLSA non-exempt Employees.

Pay Philosophy and Pay Plan Structure

Summary Points Prepared by the Director of Administration, City of Franklin Support Documentation for the Personnel Committee, March 30, 2015

Pay Philosophy

Input from Department Heads: In summary, the department heads generally believe that competitive pay is essential in attracting and retaining the most qualified and capable employees. As such, they believe that the City should pay as competitively as it can within its ability to pay. This is particularly important given the loss of competitiveness due to the City's absence from participation in WRS for non-public safety employees. Therefore, the City should clearly strive to exceed the 50th percentile in the market place and should target more in the range of the 70th percentile. Given 14 comparable communities, targeting Franklin as the 5th most competitive would place Franklin just inside the top third, with 10 communities – or two-thirds of the pool of comparables – below Franklin. Depending upon how you look at the numbers, that would place us just above the 67th percentile (11th out of 15) or the 71st percentile (ahead of 10 of 14 comparables).

Recommendation of the Director of Administration: The Director of Administration concurs with the Department Head's recommendation. The organization is very labor intensive. Vacancies and difficulties in hiring quality employees have significant direct operational costs and severe productivity costs. Numerous examples of these impacts could be cited.

Additionally, the Director of Administration recommends considering greater variability in the philosophy and/or administration of the pay plan at the entry level, particularly if the higher recommended overall standard is not approved. Generally, the consultant has recommended one, single percentage as the link to competitiveness in the market place. At the 70th percentile, the City would be competitive for new hires; however, if the 70th percentile is not in place for the full plan, discussions should be held with the consultant to retain such a higher level for starting wages. The point of hiring is, obviously, the most critical point for attracting the best, most experienced employees. Therefore, stronger starting wages and the ability to hire experienced applicants above the minimum is operationally beneficial and cost effective in the long run.

Furthermore, please be advised that the Director of Administration recommends the following consideration in implementing any pay plan: a long-term employee who is found to be in the market range, but just barely, should be given some consideration for an initial, nominal adjustment. For example, in implementing the plan, individuals who are not in the top half (or some other established standard) of their current range, have not made any progress against the range in the last 8-10 years, and are below the market-rate should be given some consideration for an additional small bump at implementation, not just slotted in their range as is. The costing could be prepared prior to award or implementation.

Note that the consultant indicated an ability to calculate multiple market linkage points. In order to put the impact of the Department Head's recommendation in context, the consultant should be given multiple linkage points to calculate as a base.

Recommended Motion: Motion that the Personnel Committee recommends that the Common Council directs the consultant to establish recommended pay philosophy at the 70th percentile, consistent with the recommendation of the Department Heads, but that calculations for the 60th and 55th percentile also be provided for a matter of context and consideration, that the consultant be directed to recommend policy or implementation strategies to ensure flexibility in initial hiring wages, and that consideration for an initial salary adjustment should be given to long-term employees who are placed near the bottom of a newly established range.

Pay Plan Structure

The following discussions provide a summary of traditional concerns or cautions with implementing merit pay in an organization, along with the traditional Human Resource's rebuttal to such concerns. For the purposes of the following discussion, the term "merit-based" is used to reflect a pay plan structure that incorporates performance-based wage and salary adjustments. (Note: The "Cautions" are in no particular order but are numbered for the sake of convenience.)

Caution #1 -- Motivation versus Morale: Generally it is considered a positive motivational factor that an individual that is a strong performer can be rewarded. As such, one is motivated to perform. For others, perceived differences between rewards and performance can create morale problems.

Rebuttal: A well devised, implemented, and communicated performance management system can align perception with actual results and expectations. In doing so, motivation is maintained, and the morale problems are only with those who are not able to perform or meet expectations.

Caution #2 -- Competition versus Collaboration and Teamwork: Friendly competition is healthy in most work environments, but fierce competition can disrupt working relationships and cause tension among colleagues. As such, some organizations express concern that a merit-based pay compensation program may encourage competition rather than collaboration and teamwork. This may be more prevalent when pay is disclosed, as is common in the public sector. Although many employers favor teamwork as a means to accomplish organizational goals, one can argue that it's difficult for a team-centered work force to co-exist with an individual-performance-based work environment. The Police Chief and Fire Chief note that this may be even more of an issue in a paramilitary-type organization such as a Police or Fire Department. (Note: portions of the wording excerpted from <http://smallbusiness.chron.com/pros-cons-variable-pay-plan-57089.html>)

Rebuttal: Collaboration among employees is critical and, by design, any performance-based criteria should expect/include a component on collaboration. Therefore, if an employee is not collaborating and showing teamwork, their evaluation will suffer. As such, managing for collaboration is viable.

Caution #3 -- Defining Exemplary Behavior versus Fear of Subjectivity and Favoritism -- OR -- The Relationship of a Performance Evaluation to Performance and Goals. A study prepared for Beloit noted that "The majority [of employees] believed that since there were no specific criteria needed to be awarded merit; it was a system where supervisor's utilized merit to either reward favorite employees, or to give individuals more money regardless of performance." As such, the ability or inability to define and explain performance standards (exemplary behavior) can be the difference between success and failure. To achieve the positive results requires an emphasis on such efforts; an emphasis that is sometimes thwarted by new, upcoming projects.

Rebuttal: There is a presumption in Human Resources that these negative aspects can be trained and programmed away with the proper dedication of effort and resources, including time. The consultant will confirm that good forms, good process, and good training will enable managers to implement merit-based pay if allowed sufficient resources.

Example: Department and individual goals must be clearly defined and at the center of the process, so that merit is not just the extra work people will do to be a bosses favorite.

Example: If supervisor opinions are the sole basis of the merit-based evaluation, favoritism and bias can come into play. The consultant will confirm that good forms, good process, and good training will reduce this; however, they believe strongly that central oversight and regulation of exemplary determinations is essential.

Caution #4 -- Supervisors Are Not Prepared for a Merit-Based System. The Beloit study noted that there was a strong perception among formerly union employees that this system would be riddled with favoritism

as most believed that their supervisor was incapable of "managing." Not that these were "bad" individuals, but when managing under a union contract environment, and now thrust into a supervisory role, they did not have the skill necessary to make a merit-based program work. An example of a poor practice is called a "recency error," a tendency for an evaluator to focus on the near term and not the full evaluation period. Similarly, Beloit reported that a vast majority of Department Supervisors felt that the supervisory staff within the City did not want to provide employees with negative feedback; thus, questioning the legitimacy of the program.

Rebuttal: Managers can be trained. Again, there is a presumption in Human Resources that these negative aspects can be trained and programmed away with the proper dedication of effort and resources, including time. The consultant will confirm that good forms, good process, and good training will enable managers to implement performance-based pay if allowed sufficient resources.

Caution #5 -- Planning Versus Implementation: No matter how well the City plans, if the City does not truly fund excellence, the effort will be wasted, and the entire process becomes a morale detriment. Similarly, if the City does not allow for supervisory time to train on and implement a complete performance management system, the entire process can be compromised.

Rebuttal: Success is primarily a matter of organizational effort and support, including sufficient time, resources, and training.

Additionally, it is fair to admit to a change in philosophy from initially implemented.

Input from Department Heads: In summary, the department heads generally believe that the City is not in a position to implement a merit-based system at this time. In general, they recommended developing and providing the documents, policies, methods, and implementation strategy to be used prior to adopting a merit-based plan. With this information in hand, department heads would then be able to provide a more specific recommendation as to whether such a plan could work. In short, without plan specifics, details, and training, supervisors did not believe that the City was in a place to implement a merit-based plan in the near term. There was, however, a predominant sense that it should be possible with proper design, training, time, and central policy support.

It should be noted that the Police Chief and Fire Chief felt more strongly that a merit-based system is not appropriate for a paramilitary organization. Although they believe they can distinguish the stronger employees from the weaker, the nature of their operations and the critical dependence on teamwork and collaboration warranted a pay structure with equality between individuals in the same position.

Input from Employees: I held two meetings where employees could meet with me to discuss the general topics of pay plan philosophy and structure. I provided them a run-through of the consultant's original presentation and answered questions. My goal was to inform and to get input from employees relative to the pay philosophy and structure. A total of 17 employees participated. Uniformly the employees believed a merit-based system could work if properly supported and sufficient training was provided. Positive comments were provided about the hybrid system for FLSA non-exempt employees, but most employees seemed to think it was more of an issue for new employees and was less likely to impact them directly. Although the general reaction supported a merit-based system, the mood and tenor of the meeting was more informative and the positions taken were not, I would say, firm and were a little dispassionate. The small size of the group also suggests it may not be representative of all employees.

Recommendation of the Director of Administration: On its face, the ability to reward the best employees with higher wage increases is logical and should be a positive motivator. Each of the cautionary statements discussed above has a legitimate rebuttal to the stated concern. The bottom line is that many organizations, public and private, have adopted a merit-based pay structure. If Franklin wishes to do so, it can.

However, the key to success is clearly in the design, implementation, and, importantly, in the organizational support for the system and its success. For a merit-based system to work, the following items must be in place:

- the documentations and policies of a performance management system need to be created;
- supervisors must be well trained in its implementation and in the ability to specify and identify clear performance measures and standards;
- employees must be trained on how the performance measurement system works and their role in the process, as well as what, specifically, are their individual and departmental performance expectations; and
- organizational policies must be in place to ensure top-level support for a merit-based system, including expectations for annual funding of merit awards and sufficient time for supervisors to implement the merit-based system, as it is a time-intensive process.

The recommendation of the department heads indicates a reticence to proceed with a merit-based system until the details are in place. Furthermore, the discussion on “cautions” above notes that unless the organizational requirements are addressed, the system can fail. Failure can lead to significant morale issues and organizational tension, which impacts turnover.

The Director of Administration recommends that a merit-based system is, generally, the best pay system if well implemented and organizationally supported. Furthermore, a merit-based system that is not well implemented and organizationally supported is worse than an incremental system. [An incremental system, effectively, is simply a merit-based system with only two gradients – 1) an employee is good enough to be retained and gets a raise or 2) an employee is not good enough to be retained, doesn’t get a raise, and is placed in an improve-or-get-fired path.]

As such, the Director of Administration concurs with the predominant department head position, that the details of a merit-based system be developed for policy approval and then training of both supervisors and employees can occur. After that point, the City should be able to implement a merit-based system. As part of that process, more specific information and/or strategies can be considered for how such a system could be made to work within a paramilitary organization. **Therefore, the Director of Administration should be directed to work with the consultant to devise a plan for initial implementation of an incremental-based system with a planned transition to a merit-based system.** The transition plan, for example, could set forth that the Common Council would annually determine if the City’s performance management system is sufficiently robust such that increases for those above the market point are merit-based or across-the-board.

Additionally, the eventual merit-based system for FLSA non-exempt Employees should consider a hybrid system, where an increment plan remains in place at the introductory steps and an open, merit-based plan is in place for the remainder of the range. For example, fixed steps could be used up to the market-point or for an initial 2-4 year period. This will enable new, hourly-based employees to have some commitment to initial wage increases. Steps and policies should be set so that individuals achieve the market point in 4-5 years if starting at the entry level.

Additionally, the Director of Administration recommends that the transition plan and the eventual merit-based plan shall annually restate the market position, to the point possible. This means that the Common Council should annually determine 1) the percentage adjustment of the pay ranges to establish/confirm the competitiveness with the market place and 2) the across-the-board market-adjustment to wages. Generally

these should be the same number, in which case the plan and employee actual wages maintain pace with the market place thereby re-confirming established pay philosophy. If #2 exceeds #1, then market competitiveness is increasing. If #1 exceeds #2, then market competitiveness is decreasing. To ensure long-term consistency, annual adjustments should be reconciled over time or estimates will be made within the annual budget process for 1/1 implementation with actual comparable adjustments verified later, for example 7/1, with reconciliation determination to be made based upon the results. This component can be addressed with the initial plan adoption and, without objection, will be considered with the implementation strategy to be provided.

Recommended Motion: Motion that the Personnel Committee recommends that the Common Council direct the Director of Administration to work with the consultant to devise a plan for initial implementation of an incremental-based system with a planned transition to a merit-based system for FLSA-exempt employees and a hybrid system for FLSA non-exempt Employees.

The following questions were provided to GovHR USA. Their answers are provided. Although the answers themselves may evoke additional questions, debate, or discussion, the answers do provide additional understanding of the issues of pay philosophy and pay plan structure.

1. Are the width of the ranges (from minimum to maximum) part of the policy decision or is it generally based upon or reflective of the market practices across the comparable communities?

ANSWER: *The ranges are generally based on what we find in the market.*

2. Are the widths of the ranges consistent across the entire plan or can they vary for different grades?

ANSWER: *It depends on the data we receive and the plan design we construct for Franklin. Ranges for defined increment plans tend to be narrower than those for open range plans. We won't know for sure until we receive the data and understand the plan design we are establishing for Franklin.*

3. When there is an adjustment to the salary ranges so that the plan keeps pace with the market place, do the individuals usually have their salary move at the same time so that they stay in the same place relative to the market place?

ANSWER: *This is a local decision. In most cases we find that communities do provide an across-the-board increase; however, in some cases we have found that increases are only based on merit and thus the employee pay levels are not changed with the market adjustment to the ranges.*

4. Is it possible in systems you typically recommend for a new supervisor to make less – for some period of time – than a long-term subordinate?

ANSWER: *No, that is a local decision. We are only recommending compensation levels for classifications, the City would have to ultimately decide how to implement the new system taking in consideration the impact it would have on incumbent employees.*

5. What is the typical gap in wages where in you typically say compression isn't occurring?

ANSWER: *We have not seen a typical gap. We will not know how to address the compression issue that has been highlighted in Franklin until we see the salary data from the survey and conduct the job evaluation and analysis. We will then make a recommendation looking at all of those factors combined.*

6. Is an annual cost-of-living increase (the change to keep pace with the market place) generally tied to merit as well?

ANSWER: *No, it is usually separate.*

7. Overtime can vary dramatically between years for some positions and between people within a position, how does an organization account for this in a plan structure design?

ANSWER: *Overtime is not tied to plan design it is related to staffing levels, that analysis is not part of this study.*

8. Should consideration be given or have you seen consideration given as to tenure when considering an individual's starting position in the new pay plan? In other words, if an individual is at the 60% mark in their current range but your study says they just squeeze into the bottom of your range based on market. Do they stay at the bottom or do some communities give some consideration and move the person to some point further along the new pay range, presumably somewhere closer to the same 60% point?

ANSWER: *Again, this is a local option and decision. However, we do not recommend tying placement in a new range to where someone was in the old range. That said, we have recommended an additional bump at implementation based on length of service – for example, 0 – 3 years – no additional pay; 4 – 8 years – 1% additional; 9 – 15 years – 2% additional; 16+ years – 3% additional.*

9. Did we understand correctly from your presentation that it would not be unreasonable to have a hybrid system for FLSA-covered employees and a fully merit based system for FLSA-exempt employees?

ANSWER: *Yes, Exempt employees are usually paid based on merit through an open range system. We have seen either plan design (open range or defined increment) or a hybrid plan for non-exempt employees.*

10. When considering philosophy does the Common Council need to provide you with market linkage points for the min, median, and max? In other words, are you looking for a statement to the effect of the following: Franklin wants to have starting salaries at 65% of the market, median salaries at 60% of the market, and maximum salaries at 50% of the market?

ANSWER: *No, we would like direction for the entire range. We would not recommend varying the level at any point in the range for a variety of reasons including recruitment and retention of employees and ability to maintain the system going forward. Nonetheless, you can structure it any way you want, but I think it is better to use a similar percentile for your whole system, especially when you start out.*

11. Assuming a hybrid plan, what do you consider the appropriate number of years for an FLSA employee (hourly) to reach the midpoint presuming every year has been satisfactory performance? Would this be different for an FLSA-exempt employee?

ANSWER: *We do not tie the midpoint of the range to work proficiency, meaning there is not threshold that determines an employee should be paid at midpoint. In the past, we have calculated a hybrid plan with a few steps at the lower end of the range for the purpose of providing wage certainty for the new employees as they are learning their positions. The open range portion would most likely commence at a point lower than the midpoint of the range. Thus, the point of the hybrid system is to guarantee some pay early on while a person is learning a new position. After that, movement is solely based on merit and the person may or may not progress through the range.*

For an exempt employee, the midpoint is generally used as a gauge in hiring. Some jurisdictions use the midpoint to set a starting salary intending to hire new staff somewhere in the bottom half of the range depending upon experience and qualifications. In some cases, employees are hired above the midpoint if they are exceptional. That would be a local decision.

Pay Plan Design

► Defined Merit vs. Open Range Merit

- *Defined merit increment plans* are pay plans that have salary ranges with a minimum and a maximum with defined percentage increments (e.g., 2%) in between. If an employee has a satisfactory performance evaluation, he/she systematically advances through the pay range. This performance evaluation, and resulting salary increment increase, usually occurs annually.
- *Open-range merit plans* also have salary ranges with minimums and maximums, but without defined percentage increments in between. Employees are advanced through the pay range based on annual satisfactory performance evaluation, with the “percentage” of their increase determined by their supervisor and/or the City Administrator.

► 3

Pay Plan Design

- **Defined Merit Increment Plan**
- **Advantages:**
 - City: Creates financial predictability.
 - Employees: Offers security and predictability for advancement through the range. Offers a high degree of internal equity and fairness.
- **Disadvantages:**
 - City: May feel that increment plans simply reward pay increases on a routine basis.
 - Employees: May feel unmotivated to perform at an above average or superior level, knowing their salary increase amount is pre-determined.

► 4

Pay Plan Design

- **Open Range Merit Plan:**
- **Advantages**
 - City: Tends to motivate employees to perform at a higher level. Also enables the City Administrator and Department Directors to reward high performing employees with a salary increase greater than a defined increment.
 - Employees: High performers like working under this plan as they can “earn” a higher percentage salary increase.
- **Disadvantages:**
 - City: Less financial predictability.
 - Employees: Can create a *perceived* inequity regarding how individuals are granted salary increases.

► 5

Pay Plan Design – Defined Merit

Grades 1 - 4 - Defined Merit - Clerical/Service

11 Defined Merit Increments; 5% between grades; 2.75% between increments; 30% range

Grade	Min	Prob.	a	b	c	d	e	f	g	h	Max
1	\$38,028	\$39,074	\$40,148	\$41,252	\$42,387	\$43,552	\$44,750	\$45,981	\$47,245	\$48,544	\$49,879
2	\$39,929	\$41,027	\$42,156	\$43,315	\$44,506	\$45,730	\$46,988	\$48,280	\$49,608	\$50,972	\$52,373
3	\$41,926	\$43,079	\$44,263	\$45,481	\$46,731	\$48,017	\$49,337	\$50,694	\$52,088	\$53,520	\$54,992
4	\$44,022	\$45,233	\$46,477	\$47,755	\$49,068	\$50,417	\$51,804	\$53,228	\$54,692	\$56,196	\$57,742

► 6

Pay Plan Design - Hybrid

Grades 1-6 - Defined Merit/Open Range Blend - General Staff - Non-Exempt

3 Defined Merit Increments to open range; 3% between increments

Open Range from the final increment to the max

5% between grades; 45% total range

Grade	Minimum	a	b	c	Open Range	Maximum
1	\$30,000	\$30,900	\$31,750	\$32,623		\$43,500
2	\$31,500	\$32,445	\$33,337	\$34,254		\$45,675
3	\$33,075	\$34,067	\$35,004	\$35,967		\$47,959
4	\$34,729	\$35,771	\$36,754	\$37,765		\$50,357
5	\$36,465	\$37,559	\$38,592	\$39,653		\$52,875
6	\$38,288	\$39,437	\$40,522	\$41,636		\$55,518

► 7

Pay Plan Design – Open Range

Grades 7 -8 - Open Range - Specialists/Technical Supervisors - Exempt

45% range

5% between grades

7	\$50,000	Open Range	\$72,500
8	\$52,500	Open Range	\$76,125

► 8

Pay Philosophy

- ▶ City's approach to employee compensation:
 - ▶ Equal pay for equal work – Pay Equity – determined through job evaluation and salary survey
 - ▶ Retention – institutional knowledge, productivity and savings
- ▶ Philosophy:
 - ▶ Total Compensation – base pay, benefits, recognition - scan
 - ▶ Percentile – 50th 65th, 75th percentile – competitiveness
 - ▶ Specific numbers – after achievements
 - ▶ Non-specific – open plan based on ideals

▶ 9

Pay Philosophy - Example

- ▶ Our Compensation Plan will:
 - ▶ Attract and retain the highest performers
 - ▶ Pay market rates competitively at the 50th percentile for behavior that meets expectations and at the 75th percentile for behavior that exceeds expectations
 - ▶ Provide pay levels that are externally competitive among peers within our comparable communities
 - ▶ Provide internal equity by considering differences in skill, effort, responsibility, and working conditions among jobs
 - ▶ Provide compensation and benefits levels within the City's financial ability to pay
 - ▶ Encourage competency building by better linking career development, performance management and rewards

▶ 10