

## 2.3 Compensation and Benefits

### Monitoring Report

Period: December 1, 2016 - December 1, 2017

Date of Report: Friday, December 29, 2017

Board Survey due: Friday, January 5, 2018

Finance Committee Review: Tuesday, January 9, 2018

Board Review: Thursday, January 18, 2018

TheRide Board of Directors;

In accordance with the Board's Policy Manual; I present the January Monitoring report on **Executive Limitation Policy 2.3: Compensation and Benefits**. This report consists of internal report information from staff. Though these policies were not all in affect during the monitoring period, I have assembled this report as if they were.

I certify that the information is true and complete.

Matt Carpenter,  
CEO  
Ann Arbor Area Transportation Authority

## Policy being monitored:

### **POLICY TITLE: COMPENSATION AND BENEFITS**

2.3 With respect to employment compensation and benefits, the CEO will not cause, allow or fail to respond to any situation which jeopardizes to the agency's effectiveness, fiscal integrity, or public image. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

2.3.1 Operate without a compensation and benefits program that attracts and retains highly qualified employees.

2.3.1.1 Offer a benefits program that does not include health insurance.

2.3.2 Establish compensation and benefits that deviate materially from the geographic or professional market for the skills employed.

2.3.3 Change the CEO's own paid compensation and benefits, except to make his or her benefits consistent with a package for all other non-unionized employees, without Board approval.

2.3.4 Operate without a robust, impartial, and transparent process for determining employee compensation.

2.3.4.1 Allow compensation for agency employees (union and non-union), suppliers, or contracted employees to be less than a "living wage", as defined by ordinance of the City of Ann Arbor.

2.3.5 Establish or change retirement benefits so as to cause unpredictable or inequitable situations, including those that:

A. Incur unfunded liabilities.

B. Provide less than some basic level of benefits to all full time employees.

C. Treat the CEO differently from other senior employees.

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### **Executive Limitations Policy 2.3**

*With respect to employment compensation and benefits, the CEO will not cause, allow or fail to respond to any situation which jeopardizes to the agency's effectiveness, fiscal integrity, or public image.*

#### **Current Interpretation & Rationale**

I understand this policy to mean that I am obligated to proactively prevent or resolve situations involving employee compensation that could: risk the agency's ability to deliver Ends outcomes or comply with Executive Limitations policies, allow unaffordable staffing costs in the context of long-term forecasts of revenues and costs, or expose the agency to legitimate criticism of mismanagement that could damage the agency's public reputation and credibility.

Situations that jeopardize effectiveness or fiscal integrity can relate to allowing compensation that is too high or too low. For example, the agency's ability to deliver its Ends outcomes can be eroded if low compensation fails to attract and retain employees with the necessary skills. Conversely, paying too much for staff reduces the amount of funds available for other expenses.

While effectiveness and affordability are chief concerns, public image is also a policy consideration. I interpret jeopardy to public image in this case to mean allowing circumstances where *legitimate* criticisms of mismanagement could damage the AAATA's reputation or credibility. Furthermore, I understand this policy to mean that we are not to over-react to unreasonable or uninformed criticisms in a way that damages the agency's ability to attract and retain employees who possess the skills needed. An appropriate response could vary from constructive changes to operational policies, to letters clarifying why a criticism is seen as unreasonable.

#### **Evidence**

All necessary staff positions are filled in a timely manner and temporary lack of staff does not disrupt the long-term effectiveness of the organization.

During preparation of the 2018 Budget, it was recognized that re-prioritization would be needed to staffing expenses. Staff levels were reduced in areas where agency effectiveness would not be impacted. As a result, remaining staff compensation and benefits were not impacted while the overall costs for compensation and benefits were lowered to a more affordable and sustainable level.

#### **Conclusion on Compliance**

TBD

### Executive Limitations Policy 2.3.1

*...the CEO shall not... Operate without a compensation and benefits program that attracts and retains highly qualified employees.*

#### Current Interpretation & Rationale

I define a “**compensation and benefits program**” to mean a comprehensive and purposeful arrangement of all remuneration and benefits in order to ensure certain staffing objectives, such as attractiveness, affordability, fairness and/or ease of use. A haphazard accumulation of isolated decisions is not sufficient. The compensation and benefits program ensures that each position is competitive in the marketplace (see policy 2.3.2), contains no unnecessary deterrents, and is well calibrated and up-to-date for attracting and retaining highly qualified employees.

I define “**highly qualified employees**” to mean paid staff of the AAATA who 1) have credentials and skills appropriate to their duties, 2) are able to fulfill their duties with a high degree of effectiveness and efficiency, and 3) are capable of making constructive contributions to the effectiveness of the agency through individual and team contributions. Employees need not be fully capable upon hire, but must possess the potential to grow and develop.

While compensation is only one factor in attracting highly qualified employees, I interpret this policy to mean that the compensation and benefits offered must be an effective element of recruiting and retaining the desired workforce, and helping the AAATA become a “workplace of choice (policy 2.2.1)”

#### Evidence

- Competitive positioning of the compensation and benefits in the correct market place as demonstrated by... TBD
- **Retention:** Highly qualified employees rarely opt to leave AAATA because of the compensation/benefits program. In the monitoring period, except for retirements, one non-unionized employee has opted to leave. The rate of annual voluntary turn-over (besides planned retirements) of unionized employees was 2.3% over the monitoring period, which is less than the State and Local Government Sector (~10%), per US Dept of Labor Statistics.
- **Attraction:** Highly qualified job applicants rarely decline an employment offer because of the compensation/benefits program. During 2016-2017 period, the AAATA faced a number of senior level retirements and position vacancies. Although all key positions were filled, on multiple occasions the CEO needed to resort to offering hiring bonuses to offset deficiencies in the AAATA’s benefit program. Specifically, pension contributions do not begin until year 2 of employment. Also, like many organizations, the AAATA is experiencing challenges in recruiting qualified fleet mechanics. In addition, the CEO and Manager of HR have recognized other elements of the compensation and benefits program that are unusual or appear out of date. Due to these concerns, the CEO believes that the current compensation and benefits program is likely out of date and may hamper recruitment in the future.

#### Conclusion on Compliance

The CEO reports non-compliance in this instance. The Manager of HR will be leading a review of the compensation and a benefits program in 2018 and compliance is anticipated by January of 2019.

### **Executive Limitations Policy 2.3.1.1**

*...the CEO shall not... Offer a benefits program that does not include health insurance.*

### **Current Interpretation & Rationale**

When a benefits program is offered to full and/or part-time employees (union and non-union), it must include some level of health insurance coverage. However, due to personal circumstances, it is not mandatory that every employee accept health insurance coverage.

### **Evidence**

Presently , all eligible employees (union, non-union, full-time, part-time) have affirmatively enrolled in either one of the group health plans offered by the AAATA or the waiver of medical coverage option Eligibility occurs after a brief waiting period, as described in the labor contract (91 days) or personnel manual (1st day of month after day of hire)

### **Conclusion on Compliance**

In compliance.

## **Executive Limitations Policy 2.3.2**

*...CEO shall not... Establish compensation and benefits that deviate materially from the geographic or professional market for the skills employed.*

### **Current Interpretation & Rationale**

AAATA compensation and benefits must be reasonably comparable with other public sector employers in Southeastern Michigan (e.g. municipal governments and authorities, schools, universities, etc.), other comparable transit employers in Michigan and nearby states, and/or the national transit industry for specific positions.

### **Evidence**

Unionized Wages: Recent (2017) labor negotiations considered comparable at both state and national levels, and resulting agreed-to wages that staff judged to be reasonably in line with industry wages, the Ann Arbor Area's cost of living into account. It should be noted that transit industry unionized agreements offer compensation utilizing a number of facets. A direct comparison of hourly wage rates may not be a sufficient analysis.

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Non-Unionized Wages: The AAATA's current "factor analysis" process and salary range systems need to be recalibrated before they will comply with the CEO's interpretation. Presently, the system attempts to determine AAATA salary ranges in comparison with both public and private sectors in Southeast Michigan.

Benefits: TBD

### **Conclusion on Compliance**

The CEO reports non-compliance in this instance. The Manager of HR will be leading a review of the compensation and a benefits program in 2018 and compliance is anticipated by January of 2019.

### **Executive Limitations Policy 2.3.3**

*The CEO shall not... Change the CEO's own paid compensation and benefits, except to make his or her benefits consistent with a package for all other non-unionized employees, without Board approval.*

### **Current Interpretation & Rationale**

I understand this policy to mean that the CEO's direct financial compensation, specifically salary/wage and any unique contractual benefits, can only be changed by an act of the Board.

However, changes to benefits that apply to all non-unionized staff can be approved by the CEO. This is necessary to ensure that the CEO can make adjustments to the broader benefits programs in order to remain competitive or reduce costs. For example, if the number of statutory holidays or cell phone reimbursement needed to change, or if a more advantageous dental plan were found, these changes can be approved by the CEO without board approval even if there is an incidental benefit to the CEO, as long as they apply to all non-unionized staff as well as the CEO.

I further interpret this policy to mean that the CEO is not to adjust group benefits for the purpose of providing himself/herself with additional benefits.

### **Evidence**

CEO compensation was first established in his 2015 contract. The only change made to the CEO's compensation occurred in November 2017, when the Board adjusted the CEO's salary via resolution. No other changes have been made.

The CEO continues to receive the same incidental benefits as all other non-unionized employees except, per the original contract, it includes an additional deferred compensation contribution.

### **Conclusion on Compliance**

In compliance.

#### **Executive Limitations Policy 2.3.4**

*The CEO shall not... Operate without a robust, impartial, and transparent process for determining employee compensation.*

#### **Current Interpretation & Rationale**

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I interpret “compensation” to mean wages and salary, not benefits which are addressed elsewhere.

I interpret “process” to mean a comprehensive, professional system of determining wages that is broadly recognized and credible in the Human Resources industry. The system must be reliable and produce credible results (robust); be free from favoritism, fair, and treat all positions equally (impartial); and comprehensible to a reasonable person (transparent). Such a process is necessary to ensure confidence in salary determinations that seek to balance competitive compensation with the budgetary interests of the AAATA.

#### **Evidence**

TBD

#### **Conclusion on Compliance**

TBD



### **Executive Limitations Policy 2.3.4.1**

*The CEO shall not... Allow compensation for agency employees (union and non-union), suppliers, or contracted employees to be less than a “living wage”, as defined by ordinance of the City of Ann Arbor.*

### **Current Interpretation & Rationale**

AAATA employees and contracted employees, and employees of suppliers, will be paid an hourly wage at or above the living wage as defined by the City of Ann Arbor. Ann Arbor’s current living wage is at least \$14.65/hour without health care and \$13.13/hour with health care. Suppliers with contracts under \$10,000 annually, 5 employees (for-profit), or 10 employees (non-profit) are exempt.

AAATA will include a requirement in its procurements for suppliers’ employees working on AAATA contracts (over \$10,000 annually) to be paid at least a living wage, and to judge compliance will collect a sample of data from at least 25% of suppliers with the lowest-average paid employees, completing a scan of all low-wage suppliers within 4 years.

### **Evidence**

- No AAATA union or non-union employee wage or salary is below \$14.65.
- No AAATA contracted employee wage or salary is below \$14.65, including interns.
- All suppliers have signed contracts promising that their employees are paid above the living wage minimum. Out of XXX suppliers, only one is known to not be in compliance. Staff continue to look for opportunities to resolve this, however, we have been unable to find any qualified supplier willing to pay their employees the necessary rate.

### **Conclusion on Compliance**

Not in full compliance.

### **Executive Limitations Policy 2.3.5**

*The CEO shall not... Establish or change retirement benefits so as to cause unpredictable or inequitable situations, including those that:*

- A. *Incur unfunded liabilities.*
- B. *Provide less than some basic level of benefits to all full time employees.*
- C. *Treat the CEO differently from other senior employees.*

### **Current Interpretation & Rationale**

I understand this policy to mean that if retirement benefits are created or modified, the AAATA must be able to anticipate the costs associated with those benefits within a reasonable level of accuracy, and that the benefits must be reasonably predictable for employees, and that benefits should accrue to staff in a manner that is consistent (i.e. the same) within categories of employees (e.g. full time and part time).

Furthermore, I understand this policy to mean that:

- A. Any liabilities (costs) associated with retirement benefits must be demonstrably fundable in a long-term budgetary context, and not create a future cost for the AAATA that cannot be covered by reasonably anticipated revenues.
- B. All employees occupying positions classified as full time must have at least a minimum level of benefits. I define minimum level to mean...TBD.
- C. Retirement benefits for the CEO should be the same as those for the Deputy CEOs, unless the Board has agreed to different arrangements in the CEO's employment contract.

### **Evidence**

No retirement benefits have been created or modified within the last year.

**Fully Funded:** AAATA, from its inception has had a defined-contribution retirement program which is budgeted and fully funded each year. There are no on-going liabilities from year to year.

Many years ago AAATA switched retirement health benefits from the AAATA health benefits to a defined-contribution plan administered by the Michigan Municipal Employee's Retirement System, again resulting in a program that is budgeted and fully funded each year. Eleven retirees who opted not to switch remain on AAATA health care and the on-going cost of \$~90,000 annually is systematically tracked and accounted for in the budget.

**Predictable for employees:** Employees have full control over their investments within the plan and additional contributions. Retirees can opt to manage their funds outside the plan. Each investment offered in the plan must comply with established parameters. AAATA's financial advisor is currently reviewing the plan's investment options and may make recommendations for improvements in available selections. He is available to all employees for consultation and advice.

**Retirement Benefits:** All full-time employees are able to be enrolled in a defined-contribution retirement plan after meeting eligibility (1-year waiting period). AAATA contributes a set wage percentage contribution and mandates a contribution of 5% of wages/salary from the employee, with the option of additional employee contribution. All full- and part-time employees are able to participate in a 457 deferred compensation plan.

All employees are eligible to enroll in the retirement health care savings plan (MERS) as described in the labor contract (91 days) or personnel manual (1st day of month after day of hire).

Equitable for Employees: All eligible employees have access to the same AAATA contribution percentages and investment options.

**CEO:** The CEO has the same defined-contribution and retirement health benefits plans as all other non-unionized AAATA employees, including the Deputy CEOs.

**Conclusion on Compliance**

In compliance

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