

**ISSUE BRIEF: Monitoring Report for
Policy 2.3 Compensation and Benefits
(January 2019-December 2019)**

Finance Committee Review Date: July 14th, 2020

Board Meeting Review Date: July 24th, 2020

INFORMATION TYPE:
Decision
RECOMMENDED ACTION(S):
Accept Monitoring Report as level B – Compliant except for items noted. Complete the survey before EOB Monday, July 6 th , 2020
ISSUE SUMMARY:
<p>TheRide’s Board of Directors establish policies that define what methods are unacceptable to use to achieve expected results, called Executive Limitations. This monitoring report provides the CEO’s interpretations of those policies, evidence of achievement, and an assertion on compliance with the Board’s written goals. As with other monitoring reports, the Board decides whether the interpretations are reasonable, and the evidence is convincing.</p> <p>I certify that the information is true and complete, and I request that the Board accept this as indicating an acceptable level of compliance. <u>I should note that the period of time covered by this report (January 2019-December 2019) precedes the onset of the COVID-19 pandemic, and does not include any information on actions taken after December 2019.</u> This report was originally scheduled for release in March, 2020.</p> <p><u>(NOTE: THIS REPORT WAS NOT REVIEWED BY THE BOARD AS SCHEDULED DUE TO THE 2020 PANDEMIC.)</u></p>
BACKGROUND:
Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0).
IMPACTS OF RECOMMENDED ACTION(S):
<ul style="list-style-type: none"> • Budgetary/Fiscal: Fiduciary Oversight • Social: NA • Environmental: NA • Governance: Fiduciary Oversight
ATTACHMENTS:
1. Monitoring Report for Policy 2.3: Compensation and Benefits

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 Fully Compliant
  Partially Compliant
  Non-Compliant
  TBD

CEO Interpretations and Evidence

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. Further, without limiting the scope of the foregoing by this enumeration, the CEO shall not:

Degree of compliance: Partially Compliant

EXECUTIVE LIMITATIONS POLICY 2.3: Interpretation

Compliance with this policy will be demonstrated when we prevent or resolve circumstances involving employee compensation that could: 1) risk the agency's ability to deliver Ends outcomes or comply with Executive Limitations policies, 2) allow unaffordable staffing costs, or 3) expose the agency to legitimate criticism that could damage the public's confidence in the agency.

This is reasonable because staff compensation must balance producing effective outcomes at a reasonable cost. It is reasonable to be unconcerned with illegitimate criticisms, often made for political reasons, because trying to satisfy such demands would surrender the organizations autonomy and ability to set pay relative to market forces. Other intangible elements of staff motivation are covered in policy, 2.2 Treatment of Staff.

Other policies directly monitor outcomes regarding the agency's overall effectiveness (Policy 1.0), fiscal integrity (2.4 and 2.5), and public image (2.8.5).

EXECUTIVE LIMITATIONS POLICY 2.3: Evidence

I believe that compliance with this section's other policies demonstrates compliance with this higher policy.

EXECUTIVE LIMITATIONS POLICY 2.3.1:

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

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.3.1: Interpretation

Compliance with this policy will be demonstrated when, within the limits of affordability (policy 2.4) and in the judgment of the CEO and Manger of Human Resources, the AAATA’s pay and benefits should be sufficiently competitive to be appealing to current and potential staff 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.

While pay is only one factor in attracting highly qualified employees, I interpret this policy to mean that the pay 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).

I define a “**compensation and benefits program**” to mean a purposeful and comprehensive arrangement of pay and benefits that has been intentionally designed to meet organizational objectives, such as attracting and retaining high-quality employees. A haphazard accumulation of uncoordinated decisions is not sufficient.

EXECUTIVE LIMITATIONS POLICY 2.3.1: Evidence

- AAATA has a compensation and benefits program which, though outdated, is used to attract and retain highly qualified employees.
 - **Recruitment Success:** During the calendar year, the AAATA recruited for 27 positions. Of those, all but 2 were filled. It is the general opinion of the CEO and HR Manager that the recruited staff were qualified, able, and are making constructive contributions. However, the CEO and Manager of HR have recognized other elements of the compensation and benefits program that are likely obsolete and may be hampering recruitment (see policy 2.3.4 below).
 - **Retention Success:** For FY 2019, voluntary non-retirement turnover was 9.22% overall. The Bureau of Labor Statistics reports that the corresponding national rate for state/local government (excluding education) employees was 9.9% for the same time period.

EXECUTIVE LIMITATIONS POLICY 2.3.1.1

Offer a benefits program that does not include health insurance.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.3.1.1: Interpretation

Compliance with this policy will be demonstrated when all full and/or part-time employees (union and non-union) are offered benefits packages that include some level of health insurance coverage. This interpretation is reasonable because some employees decline health coverage since they are covered by other insurance (e.g. are covered by spouses insurance).

EXECUTIVE LIMITATIONS POLICY 2.3.1.1: Evidence

Presently, all eligible employees (union, non-union, full-time, part-time) have affirmatively enrolled in one of the group health plans, are in a waiting period before becoming eligible for benefits or have waived the medical coverage option. To ensure all employees are medically insured, one has to provide proof of other insurance to have AAATA’s medical insurance waived. The table below illustrates the enrollment/waver status of all employees as of December 1, 2019.

Total Employees	Enrolled in a Health Plan	Voluntarily Waived Health Plan	In Waiting Period	Part-Time <20 hours/week
277	229	46	0	2 (interns)

Detailed records are available for Board inspection upon request.

EXECUTIVE LIMITATIONS POLICY 2.3.2:

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

Degree of Compliance: TBD

EXECUTIVE LIMITATIONS POLICY 2.3.2: Interpretation

Compliance with this policy will be demonstrated when AAATA compensation and benefits are 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.

EXECUTIVE LIMITATIONS POLICY 2.3.2: Evidence

Evidence for this section is incomplete.

Non-union pay and benefits structures did not change during the monitoring period. However, the existing legacy structure has a methodology that makes it difficult to determine compliance. The new system anticipated in late 2020 will determine AAATA salary ranges in comparison with both public and private sectors in Southeast Michigan.

Unionized compensation and benefits were agreed to in 2017 as part of a 5-year labor contract (2017-2022). That contract included annual increases in pay rates that staff judged to be reasonably in-line with industry compensation.

EXECUTIVE LIMITATIONS POLICY 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.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.3.3: Interpretation

Compliance with this policy will be demonstrated when compensation available only to the CEO is adjusted only by act of the Board of Directors. This is reasonable because the CEO should not be able to adjust their own compensation.

However, changes to benefits that apply to all non-unionized staff (including the CEO) can be approved by the CEO. This is reasonable to allow the CEO the latitude to ensure the agency remains competitive in changing circumstances and staff are compensated fairly. For example, if a more advantageous company-wide dental plan were found, this change can be approved by the CEO. I further interpret this policy to mean that the CEO is not to adjust group benefits if they themselves would benefit in a disproportionately higher way than other senior staff.

EXECUTIVE LIMITATIONS POLICY 2.3.3: Evidence

During the monitoring period, there were no changes to the CEO's compensation or benefits. Nor were there any changes to group benefits for current employees. Records are available for the Board inspection upon request.

EXECUTIVE LIMITATIONS POLICY 2.3.4:

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

Degree of Compliance: TBD

EXECUTIVE LIMITATIONS POLICY 2.3.4: Interpretation

Compliance with this policy will be demonstrated when the AAATA uses an objective, transparent, and up-to-date process for determining staff wages. The system must be reliable and produce credible results (robust); be free from favoritism and treat all positions fairly based on as much objective criteria as possible (impartial); treat similar positions in a similar fashion (internal equity); and be 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.

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

EXECUTIVE LIMITATIONS POLICY 2.3.4: Evidence

The AAATA’s current compensation system was established in 1994. It is the professional opinion of the CEO and the Manager of HR that the current system was appropriate for a smaller organization but no longer meets the definition above. While pay and benefits appear compliant, outdated legacy systems make compliance difficult to determine.

Consultants from Korn Ferry are in the process of conducting a study to review and update the compensation and benefit programs for non-union positions. Compliance is anticipated by late 2020

EXECUTIVE LIMITATIONS POLICY 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.

Degree of Compliance: Compliant

EXECUTIVE LIMITATIONS POLICY 2.3.4.1: Interpretation

Compliance with this policy will be determined when all full and part-time employees of the AAATA, and employees of our suppliers and contractors are paid an hourly wage at or above the living wage as defined by the City of Ann Arbor.

This is reasonable because Ann Arbor’s current living wage is a minimum of \$13.61/hour with health care and \$15.18/hour without health care. Suppliers with contracts under \$10,000 annually, 5 employees (for-profit), or 20 employees (non-profit) are exempt (Source: Living Wage Declaration Poster for 2019-2020, available at https://www.a2gov.org/departments/finance-admin-services/purchasing/Documents/LW_Poster_2019-20.pdf)

Finally, I interpret this policy does not apply to armored-car services for transporting cash. This is the one contracted service with which neither the AAATA nor the City of Ann Arbor can obtain living wage compliance due to our small size.

EXECUTIVE LIMITATIONS POLICY 2.3.4.1: Evidence

- No AAATA staff were paid less than the living wage threshold. All permanent staff are paid at least \$16.90 per hour. Detailed listing can be made available for the Board upon request
- All AAATA contracts with suppliers require that they pay a rate at or above the threshold. A compliance audit of contractor payrolls was completed by the Purchasing Department and only the contract provider of armored car services was found to be non-compliant.

EXECUTIVE LIMITATIONS POLICY 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.

Degree of Compliance: In Compliance

EXECUTIVE LIMITATIONS POLICY 2.3.5: Interpretation

Compliance with this policy will be demonstrated when, if retirement benefits are created or altered, they must meet the following criteria:

- Be affordable for the agency in the short and long term.
- Include a defined-contribution pension program and a post-employment medical savings program.
- Be applied in a fair and consistent manner, consistent with clearly stated initial expectations.

Further, I interpret this policy to mean that benefits for the CEO should be the same as those for the Deputy CEOs, unless the Board has agreed to different arrangements specific to the CEO.

EXECUTIVE LIMITATIONS POLICY 2.3.5: Evidence

Affordability

- A post-employment benefit modification was made in July 2018 whereby all retirees with medical insurance were moved to a medical advantage plan thus saving the organization over \$40,000 through 12/31/19.
- The adopted FY 2020 Budget illustrates a five-year projection of operating costs, including fringe benefits. While these projections suggest that overall costs have been rising faster than revenues, benefits are not the driving factor and are therefore affordable.

Pension & Healthcare

- All full-time permanent employees are required to participate in the defined-contribution pension program, after a one-year waiting period. As of December 2019, all employees were enrolled, in a required waiting period pending enrollment, or not eligible due to part-time status. The table below illustrates the breakdown.

Total Employees	Enrolled in Pension	Part-Time, non-eligible	In Waiting Period
277	250	3	24

- All full-time permanent employees are enrolled in the Michigan Employees Retirement System (MERS) Healthcare Savings Plan (HCSP). Many years ago, AAATA switched from providing retiree health benefits to funding a health care savings plan administered by the MERS during the employee’s employment. Eleven retirees who opted not to switch remain on a retiree Medicare Advantage health care plan. This is accounted for in the budget and is affordable. The table below illustrates the breakdown.

Total Employees	Enrolled in MERS/HCSP	Part-Time, Non-eligible	In Waiting Period
277	273	4	0

CEO Benefits

- Other than a provision approved by the Board in the CEO’s original contract, the CEO has the same defined-contribution and retirement health benefits plans as all other non-unionized AAATA employees, including the Deputy CEOs. This has not changed in the monitoring period. No changes to the CEO’s contract have been made, although the Board did grant a raise and bonus. Some of the bonus was directed to a pre-existing Board-approved 457 retirement plan.

Detailed records supporting all of the above evidence are available for Board inspection upon request.

UNREVIEWED

Monitoring Policy 2.3 Compensation and Benefits

Guidance on Determining “Reasonableness” of CEO Interpretations

The International Policy Governance Association has developed the following guidance for Board members to use in deciding whether a CEO’s interpretation is “reasonable”:

An interpretation is deemed to be reasonable when it provides an operational definition which includes defensible measures and standards against which policy achievement can be assessed...

Defensible measures and standards are those that:

- *Are objectively verifiable (e.g., through research, testing, and/or credible confirmation of observable phenomena.)*
- *Are relevant and conceptually aligned with the policy criteria and the board’s policy set.*
- *Represent an appropriate level of fulfillment within the scope of the policy.*

- *“What makes an Interpretation Reasonable and What are the Expectations for the Operational Definition: Policy Governance Consistency Framework Report Number 2”.* International Policy Governance Association. June 11, 2016. Available on the IPGA website.

Board’s conclusion on monitoring report

The Board has received and reviewed the CEO’s Monitoring Report references above. Following the Board’s review and discussion with the CEO, the Board makes the following conclusions:

Executive Limitations Report (select one)

The Board finds that the CEO:

- A. Is in compliance
- B. Is in compliance, except for item(s) noted.
- C. Is making reasonable progress toward compliance.
- D. Is *not* in compliance or is *not* making reasonable progress toward compliance
- E. Cannot be determined.

Board notes: (If applicable)