

Issue Brief: [Monitoring Report 2.3 Compensation and Benefits](#)

Meeting: Board

Date: March 21, 2019

Agenda Item #

Recommended Committee Action(s):

- That the Board receive the monitoring report for information and accept by formal motion.

Issue Summary:

The CEO feels the report is complete and is seeking Board feedback and formal acceptance.

Background:

Monitoring Reports are a key Policy Governance tool to assess organizational/CEO performance in achieving Ends (1.0) within Executive Limitations (2.0). A Policy-Governance-consistent Monitoring Process is:

1. CEO sends Monitoring Report and survey link to all board members
2. All board members complete survey on acceptability of Monitoring Report, looking particularly for two things in the Monitoring Report:
 - a. A reasonable interpretation of the policy
 - b. Evidence of compliance with the reasonable interpretation
3. Committee reviews survey results and develops recommendation to accept/not accept Monitoring Report
4. At Board meeting, board accepts Monitoring Report through majority vote (or if not acceptable, determines next steps)

Impacts of Recommended Action(s): Governance: perform key Policy Governance process

Attachments: Monitoring Report: 2.3 Compensation and Benefits

Author: MC/GN/JM

Reviewed by: MC

Approved by: MC

2.3 Compensation and Benefits

Monitoring Report

Period: December 2, 2018 – February 1, 2019

Date of Report: March 14, 2019

Board Survey due: NA

Finance Committee Review: March 12, 2019

Board Review: March 21, 2019

TheRide Board of Directors;

In accordance with the Board's Policy Manual; I present the Monitoring report on **Executive Limitation Policy 2.3: Compensation and Benefits**. This report consists of internal report information from staff.

I certify that the information is true and complete.

Matt Carpenter,
CEO
Ann Arbor Area Transportation Authority

Policy being monitored:

| | Report p. |
|--|---|
| 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: | 4 |
| 2.3.1 Operate without a compensation and benefits program that attracts and retains highly qualified employees. | 5 |
| 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. | 9 |
| 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. | 10 |
| 2.3.4 Operate without a robust, impartial, and transparent process for determining employee compensation. | 11 |
| 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. | 12 |
| 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. | Error! Bookmark not defined. |

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 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.

A motivated workforce is key to determining an organizations success. Employee pay and benefits are one element of a motivated workforce, although hopefully not the most important. It can also be a risk. This policy focuses only the issue of employee pay and benefits to ensure minimum standards. But we should remember that compensation is only one element of employee motivation. Other expectations 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).

Evidence

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

Conclusion on Compliance

In compliance, except as noted.

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 interpret this policy to mean that, within the limits of affordability (policy 2.4), 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.

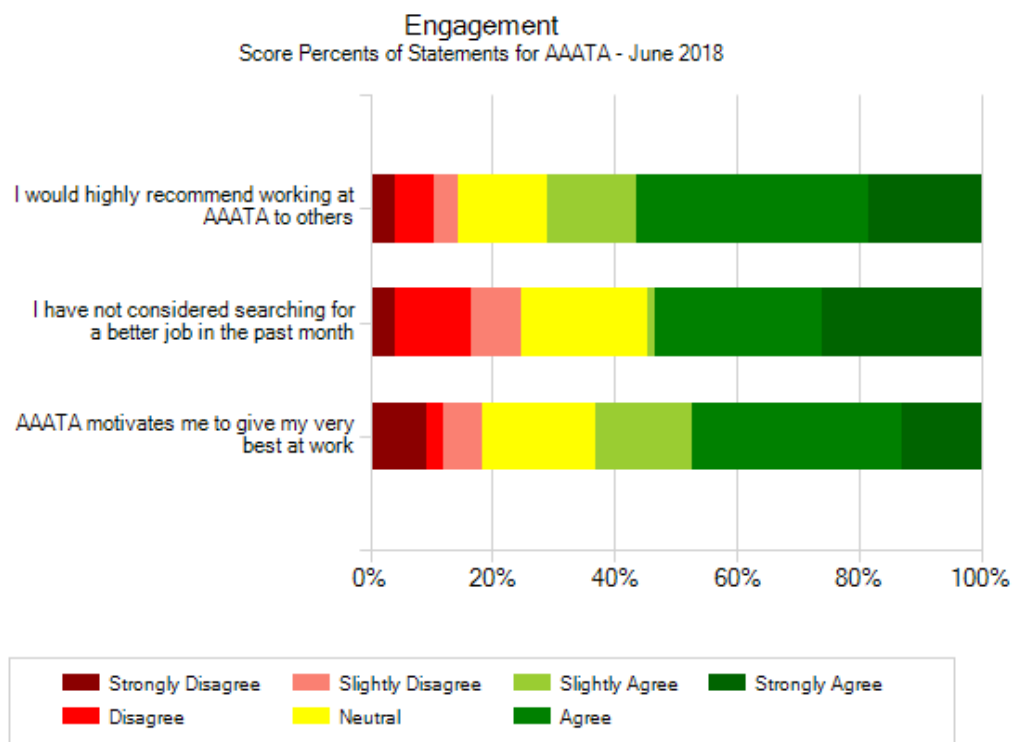
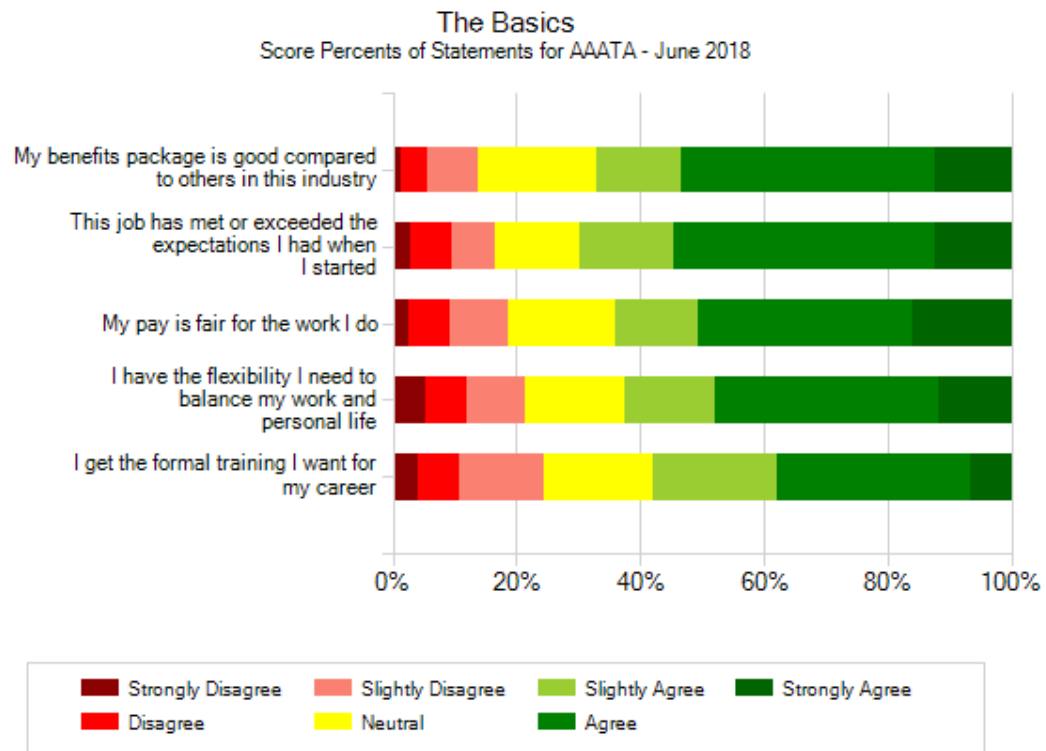
While pay is only one factor in attracting highly qualified employees, I interpret this policy to mean that the pay and benefits offered must be an effective element of recruiting and retaining the desired workforce and helping the AAATA become a "workplace of choice" (policy 2.2.1).

I define a "**compensation and benefits program**" to mean a up-to-date, 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.

Evidence

- **Recruitment Success:** During the monitoring period, the AAATA recruited for 25 positions. Of those, all 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 2.3.2 below). Due to these concerns, the CEO believes that the current compensation and benefits program is likely out of date and does not fully meet the definition in the interpretation.
- **Retention Success:** Voluntary non-retirement turnover was 4.9% overall during the monitoring period. Of that, unionized turnover was 4.4%. Out of 286 staff, there were 14 voluntary departures, including three non-unionized employees (excluding retirements). The Bureau of Labor Statistics reports that the corresponding national rate for state/local government employees was 0.8% in December 2018.

- Staff Survey Results:** During the monitoring period, staff participated in an engagement survey (mid 2018). Several of the questions reveal the staff's perception of their pay and compensation. Well over half of staff reported feeling satisfied with their pay and benefits.



Conclusion on Compliance

Partially compliant.

While pay and benefits appear compliant, outdated legacy systems for non-unionized personnel make compliance difficult to determine. The Manager of Human Resources has initiated a review of the compensation and a benefits program and compliance is anticipated by January of 2020.

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 the *offer* of some level of health insurance coverage. However, 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 one of the group health plans, are in a waiting period before becoming eligible for benefits, or have waived the medical coverage option. One part-time employee with very low hours was not eligible. The table below illustrates the enrollment/waver status of all employees as of December 1, 2018.

| Total Employees | Enrolled in a Health Plan | Voluntarily Waived Health Plan | In Waiting Period | Part-Time <20 hours/week |
|------------------------|----------------------------------|---------------------------------------|--------------------------|------------------------------------|
| 286 | 225 | 52 | 8 | 1 |

Detailed records are available for Board inspection upon request.

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

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 existing system attempts to determine AAATA salary ranges in comparison with both public and private sectors in Southeast Michigan. This legacy system is not compliant with the CEO's interpretation and no longer meets the agency's business needs.

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.

Conclusion on Compliance

Indeterminant.

While pay and benefits appear compliant with this policy, outdated legacy systems for non-unionized personnel make compliance difficult to determine. The Manager of Human Resources has initiative a review of the compensation and a benefits and compliance is anticipated by January of 2020.

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 pay, bonuses and any unique contractual benefits, can only be changed by an act of the Board. The CEO cannot grant themselves additional direct compensation only available to themselves.

However, changes to benefits that apply to all non-unionized staff (including the CEO) can be approved by the CEO. This is necessary to ensure that the agency remains competitive. For example, if a more advantageous company-wide dental plan were found, this change could 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 at a rate greater than their existing compensation/benefits would suggest.

Evidence

During the monitoring period the Board adjusted the CEO's compensation and benefits in September 2018. Aside from that, there has been no other change to the CEO's compensation or benefits. Records are available for the Board inspection upon request.

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

In interpret this policy to mean that the AAATA is required to have an objective and fair system of 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.

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 and no longer meets the definition above.

Conclusion on Compliance

Not in compliance.

While pay and benefits appear compliant with this policy, outdated legacy systems for non-unionized personnel make compliance difficult to determine. The Manager of Human Resources has initiative a review of the compensation and a benefits and compliance is anticipated by January of 2020.

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

I interpret this policy to mean that all full and part-time employees of the AAATA, and employees of our suppliers and contractors, 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 a minimum of \$13.22/hour with health care and \$14.75/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 2018-2019, available at <https://www.a2gov.org/departments/finance-admin-services/purchasing/pages/forms.aspx>).

Evidence

- No AAATA staff were paid less than the living wage threshold. All 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 in December 2018. Two contractors were found to be non-compliant:
 - A contract operator discovered that one employee was underpaid and has since provided documentation that the pay rate has been corrected. Purchasing staff believe this was an unintended error.
 - The contract provider of armored car services continues to be non-compliant. 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 In compliance, except as noted.

After several years on non-compliance, management does not believe that it will be possible to retain armored car service that comply with this policy. Non-compliance in this one instance may continue for some time.

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 altered, they must

- 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.

Evidence

Affordability

- No post-employment benefits have been created or modified within the monitoring period. This can be seen on page seven of the FY2018 audit which shows the liability for the Other Post Employment Benefits (OPEB) as \$1.5 million. Notes on page 24 indicate that this liability has decreased from previous years and the number of employees covered cannot increase.
- Further, at the February 21, 2019 Board meeting of the AAATA, lead Auditor Pam Hill from Plante Moran stated publicly described outstanding liability of \$1.6 million as “minimal” and “nominal”. (CTN board meeting video recording, [Time 9:05-11:41](#). <https://a2ctn.viebit.com/player.php?hash=7xpXeDPLwCQd>)
- Furthermore, the adopted FY 2019 Budget illustrates a five-year projection of operating costs, including fringe benefits (p. 20). These projections suggest that relevant benefits are affordable for the foreseeable future.

Pension & Healthcare

- All employees are required to participate in the defined-contribution pension program, after a one-year waiting period. As of December 2018, 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 |
|------------------------|----------------------------|--------------------------------|--------------------------|
| 286 | 252 | 8 | 26 |

- With only a few exceptions, all full-time 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 defined-contribution plan administered by the MERS during the employee’s employment. Eleven retirees who opted not to switch remain on earlier 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 | Active, Enrolled in Legacy retiree Health Plan instead of MERS |
|------------------------|------------------------------|--------------------------------|--------------------------|---|
| 286 | 269 | 8 | 8 | 1 |

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 Board-approved 457 retirement plan.

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

Conclusion on Compliance

In compliance

Record of Board Decision Regarding Monitoring Report
(To be filled in based on Board action after submission)

Policy: EL 2.3 Compensation and Benefits

Date Submitted: 3/14/19

Date of Board Response: 3/21/19

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.~~

Finance Committee notes:

- Clarifications about methodology concerns with legacy compensation system.
- Suggestion that the Board accept the monitoring report at "B" (above).

Board Notes:

- Accepted as B, above.