Development of a Competitive Compensation Plan

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Abstract

This study examines the existing compensation plan of the Polk County Sheriff's Office and circumstances which caused this plan to become noncompetitive in relation to the salary structures of competing agencies. It also looks at the development of a new compensation model and the political and economic factors involved in funding a new plan. Specific strategies and recommendations are presented to address implementation. It is shown that there is no significant difference in annual funding requirements between the existing plan and a new plan recently proposed by an external consultant. However, due to the significant costs involved in correcting problems as a result of funding shortages, it will be necessary to adopt a multi-year strategy to bring equity back to the sheriff's office pay structure.

Introduction

Development of a compensation plan that will keep the Polk County Sheriff's Office competitive in the market place is a difficult task. Identified in this study are various factors which contribute to the success or failure of any compensation plan. The study explores political and economic feasibility which include the dynamics between various constitutional officers and Polk County government. The study will answer the following questions:

1. What factors should be considered in determining pay equity?
2. What impediments do each of these factors represent?
3. How does the Polk County Sheriff's Office pay plan compare to the plans of other agencies?

Prior to 1987, the Polk County Sheriff's Office pay plan consisted of a starting salary for each position. Employees received pay increases in the form of infrequent cost-of-living adjustments. In some cases certain employees started at higher salaries than others in the same position. This practice created inequities in every pay grade.

In 1989, Sheriff Lawrence W. Crow, Jr. revised the compensation plan to one similar to that used by the Lakeland Police Department (LPD). Sheriff Crow previously served as police chief at LPD. The new plan was based on merit and longevity. The plan provided for a ten-step progression through each job classification. Each step included an increase equal to 5% of the previous step. Cost-of-living adjustments (COLA) served to shift the entire pay matrix upward by whatever percent increase that was approved within the new year's budget. At the time the new plan was instituted, the Board of County Commission (BoCC) members committed to fund the plan in future years.

Since 1987, Polk County has suffered some major financial difficulties. The most serious problem involved renovation of a new ($37 million) courthouse because of "sick building syndrome." This renovation will eventually cost in excess of $30 million. The second problem was the loss in revenues due to the lengthy national economic recession. During this difficult period, the commission was unable to fund the sheriff's pay plan. On several occasions, the BoCC acknowledged that the sheriff was losing key people due to low pay, but refused to approve any increases for the sheriff 's employees beyond that provided to other BoCC employees.

Given that the sheriff 's merit pay plan was not funded for a period of 3 years, average sheriff 's office salaries for sworn officers and several civilian positions fell behind by 5-26% percent in relation to salaries of competing jurisdictions. However, the overall problem cannot be credited solely to the county's refusal to fund the existing pay plan. Some of the responsibility for loss in competitive salaries rests with the way the sheriff's compensation plan was administered. The plan provided for a 15% increase between each rank. The agency adopted a 5% increase between ranks. Over the last 5 years this practice compressed salaries, especially those employees in the ranks of sergeant, lieutenant, captain, and major.

The development of a classification and compensation plan originated in the 1920's and 1930's. The basic principles involved in developing pay plans have not changed significantly since that time. Griffinhagen (1926) indicated that during 1909 and 1910, Chicago made great strides in job analysis and salary standardization. This was accomplished by testing employees and classifying them based on their respective duties. Once this was accomplished, pay ranges were established based on the worth of each employee's activities to the city.

Kelly (1930) also determined that compensation rates should be relative to the various classifications in any compensation plan. Similar jobs in the civil service ranks and the business world should be compensated at competitive rates. Kelly states that each pay grade should have a minimum and maximum amount of compensation. He further adds there should be some means for employees to move through the pay structure. This movement should be directly related to the employee's proficiency and the value of their service to the employer.

When developing a classification and compensation plan, employers today must still consider the same factors identified by these past studies. Florida sheriffs have other considerations in developing compensation plans. Local politics often impact the amount of pay increases included in the sheriff's budget. For example, it is often difficult for the sheriff to successfully justify a higher pay increase than the other constitutional officers. This is a fact of political life and the realities of a competitive job market often have little bearing on the situation.

In addition to the political factors, the success of the sheriff implementing a new pay plan still rests with the BoCC, and their willingness and ability to fund the necessary increases. It is both an objective and judgmental assessment of the local economic situation by the county commission that determines budget allotments.

Because of a stagnant economy, the cost of renovating the new courthouse, and the increasing demands for county services brought about by a growing population, the Polk County Commission was forced to raise taxes during a long period of slow revenue growth. Although unable to fund the sheriff's merit pay plan, they did fund several new positions during the 93-94 and 94-95 fiscal years. For example, 8 telecommunicators, 1 lieutenant, 1 captain, and 3 sheriff's service officers were funded during the 94-95 fiscal year. These new positions cost in excess of $800,000.

Findings

In the initial development of a modern compensation plan, the usual practice is to establish salary ranges for each position. This is accomplished by determining the value of the employee's activities within the range set for the position. Compensation limits, both minimum and maximum, are established by fair market value, or "benchmarking" competing organization's salary ranges.

Benchmarking requires that the specific duties of like positions be compared to organizations of similar size and mission. The consulting firm of David M. Griffith and Associates (DMG) was contracted in 1994 by the BoCC to conduct a salary and benefit study of all county employees. According to the DMG methodologies, benchmark agencies should be those that regularly compete for Polk County employees or recruits, and local agencies from which Polk County might attract existing employees.

Once the benchmarking process is completed, the classification/compensation ranges are established based on fair market analysis. The next step, and often the most difficult one, is to obtain funding to implement the new plan. It is important at this stage not to limit the search for new funding. As a practical matter, and for political reasons, it may be necessary for the sheriff to find a portion of the first year's cost of the new plan from within the organization. This may require deferring major capital investments, increasing allowable attrition levels, or reducing existing operating budgets.

The DMG study indicated that to move sheriff's office employees to the mid-point of the benchmark agencies salary ranges would cost $3.2 million. A 1993 study performed by PCSO Human Resources Section showed similar discrepancies in salaries and cost projection to correct the system.

A preliminary report from the consultants and the significant cost of fixing the plan brought about an internal review of the sheriff's pay plan. Funding the plan would have required an annual increase of 5% of total salaries for merit, and some increase to offset inflation.

The most frequent criticism of such plans is they are not true merit-based plans because they are "indexed" by a set percentage and inflationary by nature. This probably explains why the old plan was never fully funded in any year of its existence, by both a 5% merit increase and a cost-of-living adjustment.

One objective of this study was to compare the cost to upgrade the existing pay plan in 1994 (as determined by the consultant) with the cost of funding the plan over the prior 3 years. The following table shows the cost at $5.2 million to fund the 5% merit plan for fiscal years 1992-93, 1993-94, and 1994-95. By comparison, after subtracting the cost-of-living adjustments that <u>were funded</u> by the county over this period, there is only a net cost of $2.9 million for pay parity with the benchmark agencies. In other words, if the original plan had been funded, along with a normal COLA to offset inflation, there would be no salary parity problem for the Polk County Sheriff's Office.

Cost to Fund Existing Pay Plan

Fiscal Year	Projected Step Plan Cost	COLA Cost	Additional Cost to Fund Plan
92-93	1,673,831	-0-	1,673,831
93-94	1,704,797	974,169	730,627
94-95	1,790,036	1,337,859	452,178
	5,168,664	2,312,028	2,856,636

From another perspective, had the county funded only the 5% merit increase included in the old pay plan, it would cost an average of $340.00 per employee (a total of $349,626) to correct the pay inequity today. Since the plan was not continually funded, the estimated cost to correct the deficiencies is $3,122 per employee (a total of $3.2 million).

The $3,122 is an average over all employees, the most severe inequities are within the ranks of sergeant through major and other specialized job classifications. Again, the compression of salaries brought about by increases in starting salaries over the past few years is dramatically evident among these positions. Most individuals currently employed in these positions are 10-25% below the salary mid-point of the ranges suggested by DMG.

Conclusions

For political reasons, and due to the staggering amount of funds needed to correct deficiencies identified by DMG, the Polk County Sheriff's Office will need to request additional funding from the BoCC, and examine the current budget and personnel allocation for possible areas of savings. Through attrition and belt tightening in other areas of the budget like operating and capital expenses, the agency can begin corrective action within the current fiscal year to address these deficiencies and implement a new pay plan. It may be necessary to adopt a period of 2-3 years over which to fund the complete correction.

Recommendations

The Polk County Sheriff's Office should adopt a new pay system, one that is founded on true merit and proficiency. This system should be based on a complete job task analysis for each position. Pay rates should be market-driven and benchmarked against competing agencies. Top priority should be given to correcting the deficiencies of those employees whose salaries are the highest percentage out of their respective ranges, as determined by the DMG salary study.

It is also recommended that specific pay ranges be established for non-exempt employees (i.e., those subject to overtime compensation). Movement within these ranges should be subject only to merit increases determined by annual individual performance evaluations. Merit increases should be limited to increments of 2-7% of the existing salary, to be set by a point system within the individual performance evaluation process. Increase amounts shall be directly related to the total number of points received during the annual evaluation process. Promotions for non-exempt employees should entail a salary increase of 15%. It is recommended this increase be provided in two steps: (1) 10% immediately upon promotion, and (2) 5% after successful performance over a period of one year. This procedure will stop the compression of salaries between ranks.

For exempt employees (i.e., managers), it is recommended that a different salary structure be established. For practical, as well as political purposes, these positions should be indexed to the sheriff's salary which is set annually by the Florida Legislature. This study found that two competing jurisdictions currently use this structure and find it very workable and easy to administer. As the sheriff's salary is adjusted due to population growth of the county, this structure will provide a sensible means of maintaining equitable salaries for those employees with management responsibilities.

It is essential that salary levels and the structure of the compensation plan itself be assessed on a regular basis. No system or pay plan will ensure that salaries remain competitive over time. This can only be done through decisive action on the part of the agency and the appropriating body. In the final analysis, salary and benefits are basic economic factors which have significant influence over employee welfare, morale, the attainment of excellence in performance, and the overall success of the group.

Rick Sloan is a Captain with the Polk County Sheriff's Office. He has spent most of his 21 year law enforcement career as a detective and in various other investigative functions. His professional interests include community policing, juvenile justice, and the relation between social problems and family values.

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