	AGENDA ITEM EXECUTIVE SUMMARY	Agenda Item number: 5a
	Title: Presentation of Sikich Report on Non-union Compensation	
	Presenter: Jennifer McMahon, Director of Human Resources	

ST. CHARLES SINCE 1834

Meeting: Government Operations Committee	Date: June 19, 2017

Proposed Cost: $ 0	Budgeted Amount: N/A	Not Budgeted: ☐

Executive Summary (*if not budgeted please explain*)**:**

Included in the FY 2017 and FY 2018 budgets is a total of $30,000 to conduct a compensation analysis and study. The goals of this study include 1) evaluating the City's current compensation philosophy, 2) evaluating the City's comparable community criteria, 3) evaluating new comparable communities derived from new criteria, and 4) providing City Council with a final report of findings and recommendations.

In the fall, the City Council established a workgroup to work with Sikich as part of Phase II of the Study, which is to develop new comparable community criteria and, therefore, a new list of comparable communities. The workgroup reaffirmed the compensation philosophy of leading the market and made a recommendation to the City Council on a new set of comparable community criteria. Sikich prepared a report summarizing the Group's work, specifically highlighting how the new criteria were developed and what the results of applying that criteria were. Maintaining the 75th percentile was discussed by the City Council and supported, subject to a review of Sikich's final report of the data collected from the proposed new comparable communities. Sikich's report is included in the backup material.

The next step in this process is for Sikich to collect compensation plan data from the new list of comparable communities. That information will be analyzed and summarized in a final report to the City Council.

Attachments (*please list*)**:**
Sikich report: Empirical Development of Comparable Communities for Compensation Purposes

Recommendation/Suggested Action (*briefly explain*)**:**
Recommendation to accept the Sikich report, which includes approving new comparable community criteria; direct staff to review the compensation philosophy and comparable community criteria once every three years; and maintain the compensation philosophy at the 75th percentile, subject to a review of the final Sikich report.

City of St. Charles, Illinois

Empirical Development of Comparable Communities For Compensation Purposes
Presentation to City Council
June 3, 2017

≥ Sikich.

1415 W. Diehl Rd., Suite 400
Naperville, IL 60563
(630) 566-8400
www.sikich.com

COMPARABLE MARKET ANALYSIS STUDY

Personnel management is a matter of ongoing concern at all levels of government, especially as essential public services continue to increase in cost and complexity. In order to achieve maximum efficiency and effectiveness, the scope of activities involved in governing and providing services in the City of St. Charles continues to present challenging policy and administrative choices. A well designed and competitive compensation plan helps form the foundation for attracting and retaining a quality work force to deliver those public services.

The first step to assuring a competitive compensation environment is the development of comparable communities. This type of approach brings together best practices coupled with data driven results. To that end, Sikich was engaged to determine which cities or villages were sufficiently similar to St. Charles to be considered as comparable communities for follow up research and studies. To carry this out, Sikich collaborated with a group of elected and appointed officials to establish (Study Group) the parameters that would be employed to determine the statistical methodology that focused on key community profile information. Members of the Study Group included:

<div align="center">

Study Group

Mayor Ray Rogina

Alderman Bill Turner

Alderman Todd Bancroft

City Administrator Mark Koenen

Finance Director Chris Minick

HR Director Jenn McMahon

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The Study Group began by reviewing the potential geographic parameters for the analysis. After reviewing several options, the group agreed that by expanding the current parameter of 20 miles to 25 miles, the analysis would have a greater potential cohort to study. Likewise, those communities outside the 25 mile radius were found to include many communities that were too divergent from St. Charles in terms of location (how far potential employees would travel to work in St. Charles) as well as the demographic criteria. After reviewing the scope of communities within several geographic parameters, it was determined by the Study Group that the 144 communities that fell within a 25 mile radius from City Hall would provide a solid basis for analysis.
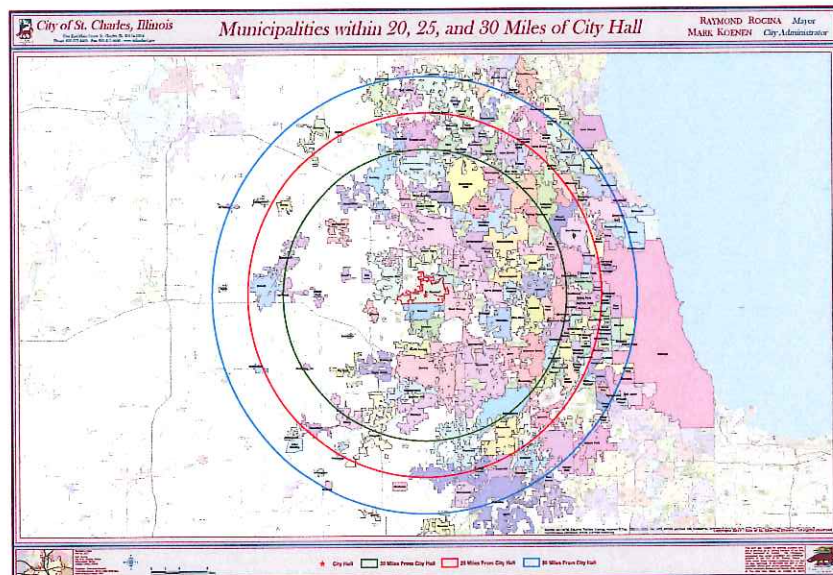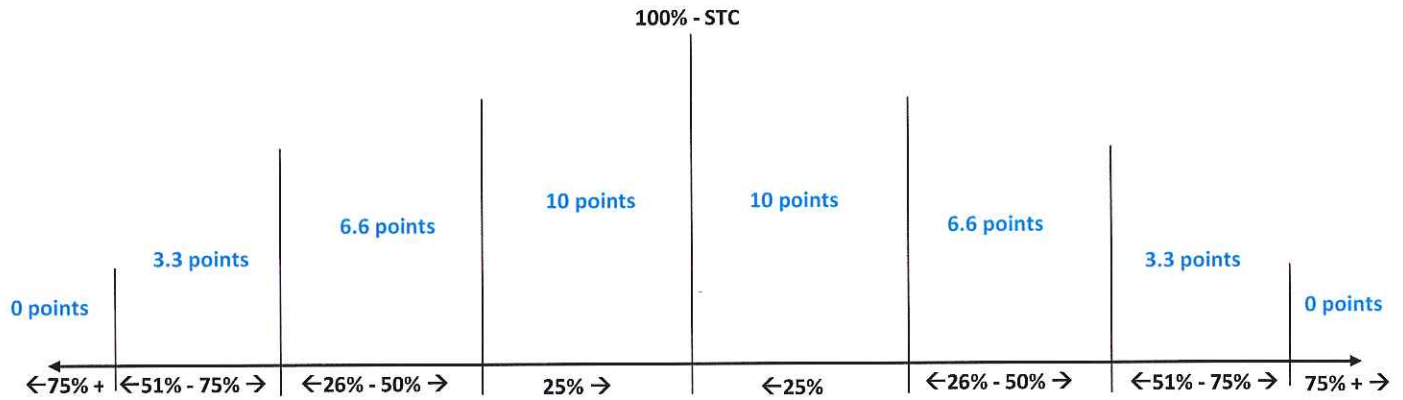
From that initial group of 144 potential cohort communities, the Study Group discussed and evaluated potential criteria to use for comparative purposes. The final list of criteria was developed based on best practices with this type of methodology as well as the types of criteria that St. Charles would be able to most closely gauge similarities with other communities. Sikich applied the standardized methodology using the criteria and weights listed below, and expressed as points, to develop an overall comparability score. The table presents the criteria and weights as established by the Study Group:

City of St. Charles
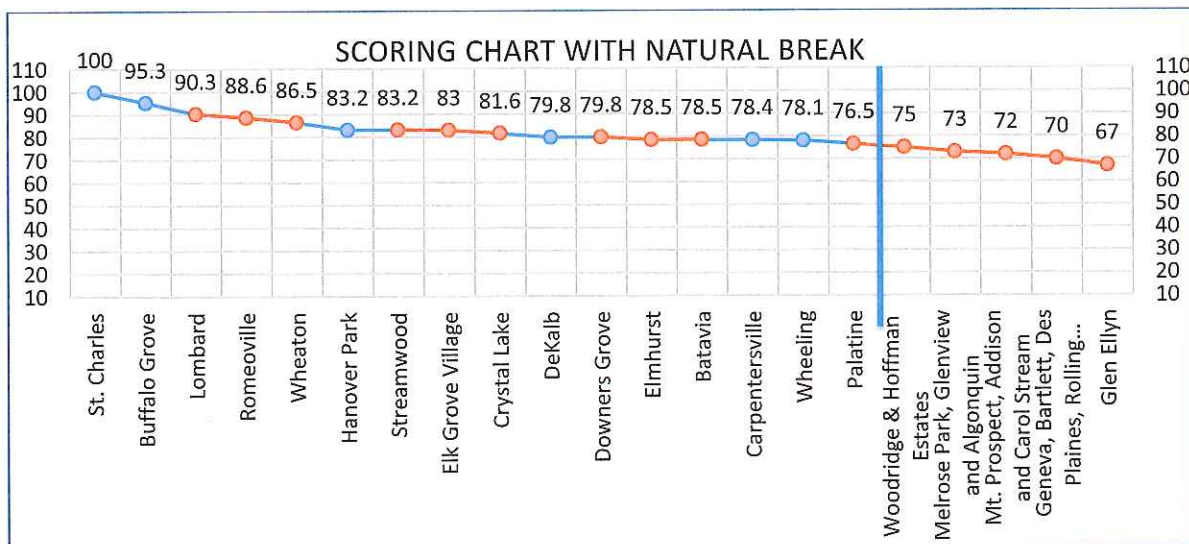## Scoring Rubric for Empirical Development of Comparable Communities

Criteria	Weighting
1. Municipal Fire Department	10 pts.
2. Home Rule Status	5 pts.
3. Population	10 pts.
4. Distance from St. Charles (Central City)	10 pts.
5. Number of Full-Time Employees	10 pts.
6. Number of Part-Time Employees	10 pts.
7. General Fund Expenditures	10 pts.
8. Equalized Assessed Value	10 pts.
9. Square Miles	5 pts.
10. Sales Tax Revenue	10 pts.
11. Median Household Income	10 pts.
12. Electric Utility	Information Only
13. Water Utility	Information Only
14. Wastewater Utility	Information Only

The next step was to obtain all of the data for the criteria listed above for all 144 potential cohort communities and apply the weighting to each score. Please refer to the attached spreadsheet for all of the scoring applied to each potential cohort community. In order to assist the reader in better understanding this point system, the following example is offered:

100% - STC

0 points | 3.3 points | 6.6 points | 10 points | 10 points | 6.6 points | 3.3 points | 0 points

←75% + | ←51% - 75% → | ←26% - 50% → | 25% → | ←25% | ←26% - 50% → | ←51% - 75% → | 75% + →

If the population of a community was within a factor of 25% when divided into the City's population, then that community received ten points (10) for that criterion. If they fell between 26% and 50% of St. Charles' population, they received 6.6 points; between 51% and 75%, 3.3 points; and finally, if their population fell outside of 75%, the community received no points for that criterion.

Ultimately, a list of comparable communities was formed when Sikich identified "natural breaks" in the correlation scores. The Study Group agreed to recommend inclusion of the fifteen communities that had correlation scores of 76.5 or higher on a scale of 0 to 100. Based on the results of the empirical analysis, the Study Group categorized any community with a correlation score below 76.5 as divergent from their market. In addition, although not used in developing the cohort list, the City asked Sikich to include information about whether the cohort offered electric, water, and wastewater services. A column with that data was added to the table on the following page. Following is a line graph which depicts the top 15 scores and where the natural break became apparent:

SCORING CHART WITH NATURAL BREAK

100 95.3 90.3 88.6 86.5 83.2 83.2 83 81.6 79.8 79.8 78.5 78.5 78.4 78.1 76.5 75 73 72 70 67

St. Charles, Buffalo Grove, Lombard, Romeoville, Wheaton, Hanover Park, Streamwood, Elk Grove Village, Crystal Lake, DeKalb, Downers Grove, Elmhurst, Batavia, Carpentersville, Wheeling, Palatine, Woodridge & Hoffman Estates, Melrose Park, Glenview and Algonquin, Mt. Prospect, Addison and Carol Stream, Geneva, Bartlett, Des Plaines, Rolling..., Glen Ellyn

Coupled with the development of an empirical set of comparable organizations is the premise that contiguous communities are and should be included as part of any organization's list of comparable communities. This is primarily due to the fact that these communities compete for talent in the external market. The only caveat to this would be those communities that are divergent from the source community in terms of population and staffing. In order to account for this, the Study Group concurred with the recommendation to include adjacent communities that have populations either +/-50% (50,207-16,735) of the population of St. Charles (33,471 -2016 est.) Given this added criteria, it is recommended that the following adjacent communities be added to the City's list of comparable organizations: South Elgin (an existing comparable) Geneva (new), and West Chicago (new). The following adjacent communities will not be added given the population criteria: Wayne and Campton Hills.

Once all of the data was obtained, scored, and analyzed, the following 18 communities have been identified and are being recommended as the City's new Cohort List of Comparable Communities. It is anticipated that this list will remain current and applicable for (at least) the next three (3) years barring any unforeseen and significant changes in the demographics and criteria of any of the communities.

2017 Recommended Comparable Organizations

City	Total Score	Population	Water*	Wastewater*	Electric*
St. Charles	100	33267	Yes	Yes	Yes
Buffalo Grove	95.3	41503	Yes	Yes	No
Lombard	90.3	43395	Yes	No	No
Romeoville	88.6	39680	Yes	Yes	No
Wheaton	86.5	52894	Yes	Yes	No
Hanover Park	83.2	38476	Yes	Yes	No
Streamwood	83.2	40435	Yes	No	No
Elk Grove Village	83	33000	Yes	Yes	No
Crystal Lake	81.6	40743	Yes	Yes	No
DeKalb	79.8	44054	Yes	No	No
Downers Grove	79.8	49670	Yes	No	No
Elmhurst	78.5	44454	Yes	Yes	No
Batavia	78.5	26045	Yes	Yes	Yes
Carpentersville	78.4	38196	Yes	No	No
Wheeling	78.1	37648	Yes	No	No
Palatine	76.5	69350	Yes	Yes	No
South Elgin	Contiguous				
Geneva	Contiguous				
West Chicago	Contiguous				

Highlighting represents **existing (2016)** Comparable Communities

*This information was gathered for informational purposes only.

The existing 2016 comparable communities that fell off the list once the new methodology was applied:

	Score
Addison	72
Algonquin	73
Arlington Heights	53
Bensenville	45
Carol Stream	72
Hoffman Estates	75
Mount Prospect	72
Naperville	32
Plainfield	56
Rolling Meadows	70
Schaumburg	39
South Elgin	42
Villa Park	65
Westmont	65

Based on Sikich's empirical analysis and review with the Study Group, the fifteen communities with the highest correlation scores provide a solid representation of the City of St Charles' cohort group for various comparative purposes. The next step is for the City Council to review these findings and make several policy decisions on the following:

1. Reaffirm that the City's compensation philosophy is to lead the market at the 75th percentile
2. Approve the new comparable community criteria
3. Review the compensation philosophy and comparable community criteria every three years

These policy decisions will then become part of the study record for reference going forward. The next and final step as part of this Study is to gain an understanding of the City's compensation environment by analyzing the City's competitive position in relation to the identified comparables (cohort group) by obtaining each comparable community's compensation philosophy. This step will also include obtaining information and feedback on the following compensation best practices and topics such as:

- Compensation Philosophies in each community (where do they want to be in marketplace?);
- Compensation pay plan architecture;
- Do pay plans include merit and market adjustments;
- Performance Appraisal process and whether it is tied to compensation;
- How employees progress through the pay plan;
- Any unique compensation structures (bonuses tied to project work etc.);
- What are the organization's turnover rates (based on specific criteria to be developed);
- How does the cohort group address compression issues within the organization (union and non-union);

It has been Sikich's pleasure to collaborate with the Study Group and provide this analysis and recommendations. We would be happy to answer your questions or to provide you with any additional assistance in meeting the City's workforce compensation philosophy goals.