**Classification and Compensation Plan Framework for Smaller Cities, LMC Model**

*League staff thoughtfully develops models for a city’s consideration. Models should be customized as appropriate for an individual city’s circumstances in consultation with the city’s attorney. Helpful background information on this model may be found in the* [Compensation Chapter](https://www.lmc.org/resources/hr-reference-manual-chapter-4-compensation/) of the HR Reference Manual.

*This compensation plan model was developed in cooperation with Saado Abboud, Keystone Compensation Group LLC*

**INTRODUCTION**

The State of Minnesota Local Government Pay Equity Act requires cities with one or more employees to maintain a classification and compensation system that enables them to achieve and maintain internal pay equity compliance. This means every political subdivision of the State must establish equitable compensation relationships between female-dominated, male dominated, and balanced classes of employees in order to eliminate gender-based wage disparities in public employment in Minnesota. For more information on Pay Equity, including links to the State’s Local Government Pay Equity website, please refer to the League’s Information Memo, [*Local Government Pay Equity Act: An Overview*](https://www.lmc.org/resources/local-government-pay-equity-act/).

Cities considering implementing a new compensation program or revising an existing one, are encouraged to read the [*Compensation Chapter*](https://www.lmc.org/resources/hr-reference-manual-chapter-4-compensation/) of the HR Reference Manual for a more in-depth discussion of classification and compensation plans.

**COMPENSATION STRATEGY**

While pay equity compliance is an important aspect of designing and revising a compensation program, city leadership should begin the process with a road map for developing the new pay program. This road map is called compensation strategy and includes four pillars:

1. Defining the market which the city draws talent from. Most organizations use population size and geographic locations as the main attributes to selecting market peer group cities.
2. Defining where the city would like to position its compensation program relative to the market peer group. Most cities use market median as the market reference for comparing the city’s pay program with the market. Some cities may decide to position their program at a level different than the market median based on their ability to fund the new program.
3. Clearly articulate what the city would like to pay for and the behavior it would like to reward. While seniority-based pay programs have been used for many years, some cities are implementing performance-based programs.
4. Describing how pay increases are delivered; step pay progression and general increases reward employees for their seniority while merit increases emphasize the importance of employee performance and meeting individual goals.

Developing a clear understanding of compensation strategy pillars is important to ensure the city’s pay program is implementing meets the objectives expected from the program. An example of step compensation programs is found on page seven.

**CLASSIFICATION & COMPENSATION PROGRAM BUILDING BLOCKS**

For a city to develop a new compensation system, it requires the following elements:

1. **Clearly articulated compensation strategy to guide the program design and to help communicate the program to employees.**

A compensation strategy serves as the compass for directing the design, administration, and communication of the compensation program. As described earlier, taking time during the earlier stages of developing the compensation program to articulate the city’s compensation strategy, significantly reduces the potential for misconceptions about what the compensation program is meant to achieve.

1. **Current, complete, and accurate job descriptions.**

Once the compensation strategy is defined, the next step in creating a new compensation program is to prepare job description documents based on how the work is currently performed. This contributes to reducing the amount of work redundancies among jobs and clearly assigns job duties and accountability for doing them. Well written job descriptions are essential for classifying jobs internally in an equitable manner using the city’s chosen job evaluation system. They are also important for preparing useful comparisons for the city’s compensation program with the competitive market. Additionally, well-written job descriptions are valuable tools for hiring the right employees with the right qualifications to do the work.

It is important to stick to the job as it exists now, avoid using complicated terminology, and limit the number of priorities to eight to-10 job functions. Job descriptions should include:

1. *A meaningful job title reflecting the duties assigned to the job*. For example: “Directors” are generally accountable for an entire department – strategic planning, budgeting, directing staff, supervision, and work scheduling; “Coordinators” generally don’t supervise staff but do make sure workflows from different areas are well-coordinated to ensure the delivery of the final products or services; “Supervisors” generally have first level supervisory responsibility with accountability over specific groups of employees and the work assigned to those employees; “Program Managers” are generally responsible for a specific program which includes planning, communicating, ensuring resources are available, and monitoring the outcomes.
2. *Reporting relationship of the position* (e.g., what position supervises this position and what other position(s), if any, does this position supervise?)
3. *Date of latest revision of the job description document.*
4. *A concise and clear job summary explaining why the job exists and the level of work performed* (example: administrative level, professional level, top management level). This helps with placement of the job within the city’s classification hierarchy. For example, a Street Maintenance Supervisor position exists to ensure the appropriate work is completed to maintain the city streets. Because it is the supervisor’s job to ensure this work is done, the job would be at a higher level than a Maintenance Worker job responsible for carrying out the work assigned by the Maintenance Supervisor.
5. *Eight to ten important job functions assigned to the job.* These statements will describe the outcomes of the work instead of providing a long list of the individual tasks performed. For example, if the tasks include sending invoices, following up, recording funds received, and reconciling accounts, then the job function would be “responsible for accounts receivables” and may add a couple of bullet points to expand on the main job function, if needed. The objective is not to list every task performed but provide representative bundles of tasks/outcomes.
6. *The minimum requirements a job candidate needs to qualify for the job.* This includes formal education necessary to learn the field (e.g., college degree in accounting, engineering, or social work), on the job minimum years of experience needed to learn how to perform the job functions delegated to the position, and, any required licenses or certificates needed to perform the work (e.g., CDL holder performing safety-sensitive functions on certain commercial motor vehicles). While some positions require college degrees because the degree is job related and consistent with business necessity, other positions may not. Many employers are finding success in dropping degree requirements in light of near-historic levels of job openings. It is vital for job responsibilities and minimum requirements to match. For example, it is unusual to require an engineering college level degree for Engineering Technician job duties.
7. *Other desirable, but not required qualifications that a job candidate might have which would set them apart from other candidates for the job* (e.g., additional years or specialized experience, educational requirements above and beyond the minimum required, fluency in a second language, or previous experience running a specialized software or specific equipment which may help them achieve their work faster and more efficiently, etc.).
8. *Work environment and physical requirements to perform the job.* This refers to where the work is performed, level of exposure to hazards and unpleasant elements, physical abilities required to do the work.
9. It is important job descriptions be written in a way so as *not to discriminate against potential candidates. In other words, cities will want to ensure they are not including requirements that can be met through providing reasonable accommodations.* For example, a requirement such as a worker “must be able to constantly lift, move, and push objects weighing at least 100 pounds” could be problematic; such heavy weight could be lifted or moved by using specialized equipment and requiring lifting of 100 pounds could discriminate against applicants who are not able to do that.

A sample job description can be found [here](https://www.lmc.org/wp-content/uploads/documents/Job-Description.docx).

1. **A job classification and leveling system, also known as job evaluation system.**

The purpose of using a job evaluation system is to have an equitable and repeatable process for objectively placing jobs in the organizational hierarchy. Such a system helps with building internally equitable and externally competitive pay grades and ranges. The evaluation system is job-based and therefore, evaluates the job, not the incumbent in that job. Such a system is also required to prove compliance with the Minnesota Local Government Pay Equity Act.

In this model compensation plan, job evaluation points, as well as job titles and grades, are provided in the Sample Classification Hierarchy for Small Cities Table below. The factors used to establish the points for each job class include:

* 1. Knowledge, skills, and competence: This refers to the formal knowledge gained through formal education, training, and skills gained through work experience required to qualify for the job and achieve the overall purpose of that job.
  2. Responsibility/Accountability: This factor evaluates the impact by the job holder on achievement of team, department, or division objectives. It assumes that with each delegation of authority, there is a corresponding responsibility to achieve specific output or business results.
  3. Complexity/Mental Effort: This factor refers to the diversity of the work carried out and the complexity of the decisions to be made. It accounts for the different level of demand for the use of intellectual faculties, concentration of knowledge, and creative thinking.
  4. Contacts and Interpersonal Skills: Evaluates the extent of which the work involves making contacts and communicating with people inside and outside the organization, and the nature of interpersonal communications required (example: giving and receiving information vs. negotiations and persuasion).
  5. Work Environment: This factor is concerned with the level of exposure to unpleasant conditions, extreme temperatures, probability of exposure to injury, and health hazards while performing regular job duties.

A city can develop its own job evaluation methodology, hire an outside consultant, or use the job evaluation system provided by the State of Minnesota ([the State Job Match](https://mn.gov/mmb-stat/pay-equity/2009-state-job-match-final.pdf)).

**NOTE:** If the State Job Match job evaluation methodology is chosen, read the instructions very carefully on how to apply this methodology.

Below is a sample grade classification hierarchy containing eleven positions often found in smaller cities. The open grades have been supplied to leave room for future positions or promotions; any given city may or may not ever use the open grades depending on its size or population growth.

**NOTE:** Job evaluation points for any of these positions will vary based on job responsibility, organization structure, and the actual population size of the city. While the grades and points provided below are tied to the ranges maximums to ensure internal equity, pay equity testing should always be done to establish the city’s compliance status based on current pay practices.

**Sample Classification Hierarchy for Small Cities**

| **Grade Level** | **Evaluation Points** | **Job Title** |
| --- | --- | --- |
| 250 | 977 | City Administrator |
| 240 |  | Open Grade |
| 230 | 848 | Public Works Director |
| 230 | 798 | Police Chief |
| 230 | 798 | Finance Director |
| 220 |  | Open Grade |
| 210 |  | Open Grade |
| 200 |  | Open Grade |
| 190 |  | Open Grade |
| 180 | 493 | Building Official |
| 170 | 455 | City Clerk |
| 160 | 436 | Public Works Maintenance Supervisor |
| 160 | 401 | Police Officer |
| 150 |  | Open Grade |
| 140 | 330 | Streets Maintenance Worker |
| 130 |  | Open Grade |
| 120 | 295 | Utility Billing Clerk |
| 110 | 247 | Office Support Technician |
| 100 |  | Open Grade |

1. **A list of comparable peer group cities supporting the contents of the compensation strategy.**

These comparable cities are generally researched and recommended by the city administration and approved by the City Council. The list of comparable cities should be used on a consistent basis when comparing compensation practices of your city with those of other cities. Generally, the criteria to choose comparable cities should be based on:

a) proximity of location and

b) similarity in the type of services being provided, and

c) population size.

Ideally, a city should select eight to 12 comparable cities when constructing its peer group. As mentioned earlier, selecting peer group cities is closely tied to developing the city’s compensation strategy and is determined based on the market where the city attracts new employees.

1. **Market survey data from peer group cities.**

This includes information on actual pay and pay ranges as well as the type of pay program each city uses to administer its compensation program. One resource to consider is the [Local Government Salary & Benefits Survey](https://www.lmc.org/resources/salary-benefits-survey-information-and-login/).

1. **To develop a competitive new pay program, a city will need to collect market data from its peer group.**

This includes compensation practices on base pay administration, actual pay, range minimum, range maximum, and type of pay program used (step pay plan or merit-based program).

*Salary ranges:* Step progression or open ranges based on compensation strategy for the city and what it desires to reward or pay for (seniority or performance).

*Developing salary ranges*. Salary ranges are developed while taking into account the compensation strategy. A step pay progression

model rewards employees for length of service, while a merit-based, open-range model rewards employees for individual performance. It is important for grade progression to be based on the internal job evaluation points for the job as well as market pay for comparable jobs. While a compensation consultant can be a great partner throughout the entire compensation plan design or revision process, this step in particular showcases how a consultant can add exceptional value to the design of the pay plan for a city. In particular, a consultant can help the city with various statistical analysis on the pay plans. For example, a regression line analysis is used to demonstrate a “line of best fit” and typically combines market data with internal job evaluation points/grades and a “comparison-ratio” the percentage obtained by dividing an actual salary by the midpoint of the salary range for that position. Some pay plans use ratio progression to build the grade structure incrementally starting with the lowest grade range and increasing the ranges as the grades go up. This manual method requires multiple iterations to calibrate the jobs based on their internal grade and market pay.

Below is a sample step progression base-pay schedule designed to match the sample job classification table shown below.

For the model base pay schedule shown below, the start rate is 85% of Step 5 (maximum). Step 1 is 3.3% above the start rate, and step-2 is 3.3% above step-1. In this model, Step 5 represents the approximate market reference rate based on the market survey results for one or more positions in the same classification level. Setting up the step increases is a very important decision and requires careful analysis to evaluate the budget impact of implementing the new ranges. It is important to keep in mind employees generally receive the combination of step increases and the overall salary range adjustment each year until their pay reaches the maximum step. For example, in the schedule below, an employee would receive a 3.3% step increase in addition to 2% schedule adjustment (typically negotiated based on cost of living or cost of labor increase) for a total of 5.3% of current pay. Once employee’s pay is at maximum, compensation increases would be equal to the percentage used to adjust the salary schedule.

Given taxpayers resistance to paying higher taxes while demanding more services, the impact on a city budget could be significant and requires additional funding. When a city is establishing the pay steps, particularly the top step (market reference rate) it should consider its compensation strategy as discussed earlier. Some cities have a high level of constraints on their budget and the City Council resists tax increases; thus, as a result, the city may set the maximum at more conservative levels and implement pay plans that lag their market peer groups. Other cities may choose an approach that is comparable or above their market peer groups. Whichever approach is chosen, the most important outcome is to administer the approach consistently for all positions.

(The city can convert the hourly pay grades below to a monthly rate by multiplying each hourly rate by 173.3. To convert to an annual rate, multiply each hourly rate by 2,080. This assumes the city uses a 40-hour work week as the standard for full-time employment).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Sample Step Progression for Base Pay Schedule** | | | | | | |
| **Grade** | **Start Rate** | **Step-1** | **Step-2** | **Step-3** | **Step-4** | **Step-5** |
| 250 | $40.16 | $41.49 | $42.87 | $44.29 | $45.75 | $47.25 |
| 240 | $38.84 | $40.12 | $41.45 | $42.82 | $44.24 | $45.69 |
| 230 | $37.51 | $38.75 | $40.03 | $41.36 | $42.72 | $44.13 |
| 230 | $37.51 | $38.75 | $40.03 | $41.36 | $42.72 | $44.13 |
| 230 | $37.51 | $38.75 | $40.03 | $41.36 | $42.72 | $44.13 |
| 220 | $36.18 | $37.38 | $38.61 | $39.89 | $41.21 | $42.56 |
| 210 | $34.85 | $36.00 | $37.19 | $38.43 | $39.70 | $41.00 |
| 200 | $33.52 | $34.63 | $35.78 | $36.96 | $38.18 | $39.44 |
| 190 | $32.19 | $33.26 | $34.36 | $35.49 | $36.67 | $37.87 |
| 180 | $30.86 | $31.88 | $32.94 | $34.03 | $35.16 | $36.31 |
| 170 | $29.53 | $30.51 | $31.52 | $32.56 | $33.64 | $34.74 |
| 160 | $28.20 | $29.14 | $30.10 | $31.10 | $32.13 | $33.18 |
| 160 | $28.20 | $29.14 | $30.10 | $31.10 | $32.13 | $33.18 |
| 150 | $26.88 | $27.76 | $28.68 | $29.63 | $30.61 | $31.62 |
| 140 | $25.55 | $26.39 | $27.27 | $28.17 | $29.10 | $30.05 |
| 130 | $24.22 | $25.02 | $25.85 | $26.70 | $27.59 | $28.49 |
| 120 | $22.89 | $23.65 | $24.43 | $25.24 | $26.07 | $26.93 |
| 110 | $21.56 | $22.27 | $23.01 | $23.77 | $24.56 | $25.36 |
| 100 | $20.23 | $20.90 | $21.59 | $22.31 | $23.04 | $23.80 |

Typically, cities should adjust their pay grades each year to keep pace with the labor market and/or with the general economic environment and inflation. This can be accomplished by applying the approved percentage to the top of the pay schedule (maximum) rate for each pay grade and then adjusting each the steps accordingly.

1. **Guidelines that show the steps taken to develop the program and explain the methodology followed.**

This is important to help city staff maintain the pay program going forward. The final step in establishing a new compensation plan is to create a written document describing the program strategy, methodology for arriving at the final grade structure, policies and pay practices to help communicate, administer, and maintain the city’s classification and compensation plan.

Below are the important sections and sample language that could be used as a guide.

**[City’s name’s] Total Compensation Strategy**

[City name] intends to establish, administer, maintain and regularly update an internal job evaluation hierarchy consistent with the Local Government Pay Equity Act. The city also intends to establish, administer, maintain and regularly update a compensation structure covering all the jobs within the city and in line with the stated compensation strategy. The pay structure is reviewed regularly to ensure financial funding is available to administer the plan and that any changes in the plan are approved by the City Council. In addition, the city intends to maintain supplemental benefits (insurances, holiday /vacation schedules, etc.) that meet state and federal laws and are competitive with the market and fit within the city’s financial budget.

**Key Objectives of the Classification and Compensation Plan**

* Attract and retain qualified employees to provide services to city residents.
* Maintain a plan consistent with the city’s compensation strategy; equitable and competitive.
* Maintain a plan that is clear and easy to communicate to city employees.
* Maintain compliance with the Minnesota Local Government Pay Equity Act.
* Maintain compliance with all applicable local, State and Federal laws and regulations affecting the plan.

**Accountability for Administration of the Plan**

* The City Council has the authority over the plan and must provide the final approval before the plan is implemented.
* The City Manager/Administrator oversees the implementation and administration of the plan as approved by the City Council.

**Actions Taken to Review, Update and Maintain the Plan**

All elements of the plan should be reviewed regularly to ensure the plan remains consistent with the city’s total compensation strategy. Actions may be taken:

1. Review and update job descriptions to ensure they are current, and representative of the work employees are performing on the job. This is especially important when jobs are restructured, or significant duties have changed.
2. Review job evaluations when jobs have changed significantly. Evaluation requests are typically initiated by the business area manager and are administered by an internal evaluation committee or an external resource as appropriate.
3. Confirm that cities in the peer group are still appropriate and meet the established criteria.
4. Review market survey data collected from peer group cities and look closely at the quality of job matches.
5. Review base pay structure based on current market survey data to ensure that structure comparison with the market is consistent with the stated compensation strategy. Wage structures are typically updated annually based on market trends for cost of labor while ensuring that they remain within the available city budget.
6. Conduct a compliance test well ahead of the required date to avoid last minute fire drills.
7. When necessary, review the city’s benefits offerings to ensure they remain competitive with the relevant market and meet the needs of employees’ changing demographics.