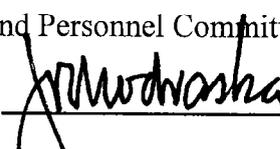


**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 26, 1998

To: Board of Directors (Special Committee on Department Head Compensation--
Information)
(Organization and Personnel Committee--Action)

From: General Manager 

Subject: Unrepresented Managers' Compensation

RECOMMENDATION(S)

It is recommended that five modifications be implemented for the unrepresented managers' compensation package:

1. An increase in the Incentive Payment Plan;
2. implementation of an Excellence Award;
3. an increase of 1.5 percent in the maximum employer contribution to the 401(k) Savings Plan;
4. a modification to the Long-Term Disability Program; and
5. a conversion from Metropolitan-issued vehicles to vehicle allowances.

It is also recommended that the applicable Administrative Code sections be amended accordingly.

DETAILED REPORT

In February 1994, the Board approved the establishment of a pay for performance Incentive Payment Plan (Plan) for unrepresented managers and authorized funding of up to \$155,200 per fiscal year. In February 1995, the Plan was modified to include up to an additional \$155,200 based on the Board of Directors' evaluation of the overall accomplishment of the management team. The increase goes into effect only if the Board rates the management team as "exceeds expectations" or "outstanding". Each rating factor is then worth an additional \$77,600.

For the last three years, the Board has rated the management team as "exceeds expectations"; therefore, the Plan has been funded at \$232,800 for each of the three fiscal years. While experience in administering this Plan during these years indicates that it can be an effective management tool to reward managers for performance, a key to the successful use of such a plan is the amount of the incentive payment.

The unrepresented managers have not received a cost of living adjustment to their base salaries since June 1992. In 1994, a tenth step of approximately 2.75 percent was added to their salary

structure, and in February 1997, 2.75 percent was added to the range. Movement within the salary range is solely based on merit with unrepresented managers receiving no automatic adjustments. Even with the modifications to the pay ranges described above, compression is an issue; for example, the current pay range maximum for the Laboratory Manager in the management unit is only 6.2 percent below the unrepresented classification of Associate Director of Water Quality. The commonly utilized human resource differential between the highest paid subordinate and supervisor is 10 - 15 percent.

Metropolitan's compensation package for its executives must remain competitive and flexible so as to attract and retain the most highly qualified executives who can support our organization's business plans and strategic goals. Since my tenure with the organization, I have recommended adjustments for the unrepresented managers which emphasize performance within a competitive benefit package.

The unrepresented managers group is comprised of 36 budgeted positions and includes the Assistant Division Managers and above, with the exception of the General Manager, General Counsel and Auditor. The recommended modifications are detailed below.

Proposed Changes

Pay for Performance Program—I am requesting that for the 1997-98 fiscal year, the program funding as described above be increased as follows:

<u>Rating</u>	<u>Current</u>	<u>Recommended Increase</u>
Meets	\$155,200	no change
Exceeds	\$232,800	\$116,400
Outstanding	\$310,400	\$232,800

The increase would only go into effect based on the Board's evaluation of the management team's performance. The supplemental amount will expand on the concept of "just noticeable difference" by providing the ability to reward a manager who performs at an "outstanding" level. The incentive payment would continue to be made at the end of the fiscal year based on the individual manager's achievements of pre-established performance objectives.

Cost: The cost for the incremental increase in the program is \$116,400 if the Board rates the management team's performance as "exceeds expectations" and \$232,800 for "outstanding".

Award of Excellence Program—To supplement the Pay for Performance Program, I am also requesting the establishment of an award of excellence program. The purpose of this program is to provide an incentive payment for exemplary or once in a lifetime accomplishments. I would submit the recommended recipient or recipients for review by the Special Committee on Department Head Compensation. The amount of an individual incentive could not exceed \$20,000. No more than three recipients could receive the payment in one fiscal year.

Cost: The cost could be up to \$60,000 per year.

Employer Contribution to the 401(k) Savings Plan—Metropolitan currently matches employees' contributions to the 401(k) Savings Plans in the amount of 50 cents for each dollar contributed by the employee, with a maximum contribution by Metropolitan of 3 percent of the employee's compensation. I recommend that the maximum matching contribution for unrepresented managers be increased by 1.5 percent for a total of 4.5 percent of salary. The changes to the program would be effective with the first full pay period in July of 1998.

Cost: The cost of this modification, if all of the unrepresented managers participate in the program, would be up to \$65,700 per year.

Long-Term Disability—The current long-term disability policy provides for 60 percent of salary up to \$1,000 per month after a 180-day waiting period. The proposed long-term disability policy would provide up to 66 percent of salary to a maximum of \$8,000 per month after a 90-day waiting period. A market comparison of long-term disability plans in 1995 indicated that Metropolitan's benefit for this group is below the median; in fact, the maximum benefit (\$1,000) was lower than any other employer surveyed and is not adequate replacement for a salary of a disabled unrepresented manager. This program would go into effect as soon as administratively feasible.

Cost: The cost of the increased plan is \$32,049.

Conversion of a Metropolitan-issued Vehicle to a Car Allowance—Metropolitan provides a vehicle for unrepresented managers. In 1994 the unrepresented managers were provided an option for a vehicle allowance in lieu of a Metropolitan issued vehicle. The vehicle allowance ranges from \$400 - \$600 per month based on the classification level. To date, very few managers have opted to convert to a car allowance. The changes to the program would be available with the full pay period in July of 1998.

The industry trend is to move away from the maintenance of large fleets in favor of car allowances. The American Automobile Association recently indicated that Southern Californians can expect to pay about \$610 per month to own and operate a new vehicle. I will be requesting that all unrepresented managers convert to car allowances concurrent with the move to the new headquarters facility.

To ensure that the unrepresented managers are not negatively impacted by the conversion to allowance, I am recommending two changes to the existing program: (1) increasing the allowance by \$100 per month; and (2) reimbursing the manager for job-related mileage over 250 miles in a calendar month or 3,000 miles in one fiscal year at the published IRS rate. This modification will be beneficial to both Metropolitan and the employees, as the fleet will be reduced by approximately 30 vehicles.

In summary, the proposed compensation package for unrepresented managers focuses on benefits or compensation tied to performance and at the discretion of the Board and does not increase base salary rates. The modifications are designed to provide a competitive compensation package, as well as incorporates options which benefit Metropolitan.