

PIERCE COUNTY

REPORT OF FINDINGS

- FLSA ASSESSMENT
- 40-HOUR WORKWEEK ANALYSIS

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Kathi Myers
Zara Santos
Elliot Bernak
Candice Hamilton
Alex Arnett

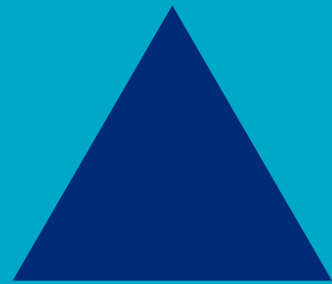
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INTRODUCTION

- Pierce County approached Mercer for assistance in conducting two primary assessments:
 - FLSA Assessment
 - A review of current non-exempt roles to identify if current status is accurate
 - Workweek Analysis
 - A review of employee impact and costs associated with taking reduced workweek schedules to 40-hour workweek schedules
- A core project team at Pierce County worked with Mercer to provide needed data, information, context, and to review draft findings and reports
- Mercer independently conducted all assessments included in this document

FLSA ASSESSMENT



FLSA PROJECT OBJECTIVES AND SCOPE

- Pierce County (“the County”) engaged Mercer to evaluate whether the overtime classifications of certain nonexempt jobs are appropriate under the Fair Labor Standards Act and Washington wage and hour laws
- First phase: High-level Assessment
 - Based on job descriptions
 - Preliminary study to narrow scope by eliminating jobs that are most likely exempt or nonexempt from detailed review
- Second phase: Detailed Review
 - Incumbent-based data collected through job content questionnaires
 - Follow-up interviews as needed
- Focus of both phases is “duties” test
 - To identify those jobs that do not meet the duties test and **must** be classified as nonexempt
 - To identify those jobs that meet the duties tests, for which salary-related factors can be evaluated so that the County can determine cost-benefit of changing classifications

HIGH-LEVEL ASSESSMENT

METHODOLOGY	<ul style="list-style-type: none">• Mercer reviewed HRIS data for approximately 131 jobs covering 600 incumbents by reviewing each employee’s job title, salary, grade, department, supervisor, number of direct reports, and other relevant HRIS data, including updated and validated job descriptions.• Mercer sorted the jobs into three categories as applicable, those that:<ul style="list-style-type: none">○ don’t require further analysis because they are most likely nonexempt;○ may qualify for the executive exemption (with confirmation of certain job duties);○ will require additional data collection and examination to assess exempt/nonexempt status properly (Detailed review in second phase).
FINDINGS	<ul style="list-style-type: none">• 49 jobs with 268 incumbents are likely to be nonexempt• 48 jobs with 119 incumbents appear to qualify for the executive exemption because the job descriptions suggest supervisory duties and the HRIS data indicate that incumbents supervise at least two full-time equivalents.• Remainder recommended for detailed review in second phase:<ul style="list-style-type: none">○ 15 supervisory jobs with 46 incumbents○ 33 non-supervisory jobs with 158 incumbents
NEXT STEPS	<ul style="list-style-type: none">• Reviewed findings with County team• Some inconsistency or variance within job title evident:<ul style="list-style-type: none">○ For example, Asset Management Specialist 4, Engineering Technician 4, and Environmental Biologist 3 all had incumbents who were in supervisory and non-supervisory roles○ Exempt/nonexempt line not consistently drawn across grade levels• County team selected 40 incumbents for detailed review

DETAILED REVIEW

METHODOLOGY	<ul style="list-style-type: none">• County selected 40 incumbents to complete Mercer’s job content questionnaires (JCQs), which were then reviewed by incumbents’ supervisors<ul style="list-style-type: none">○ Initial representative sampling is one incumbent per job○ Depending on finding, expand to other incumbents in the job• Mercer reviewed and analyzed completed JCQs and conducted follow-up interviews as needed to clarify JCQ content• Mercer conducted research on FLSA and Washington law and provided recommendations
FINDINGS	<ul style="list-style-type: none">• Findings are incumbent-specific and detailed report already provided to HR• Inconsistencies in titling confirmed: for example, incumbents in supervisory roles do not always have a “supervisor” title and some “supervisors” do not have direct reports.• Inconsistencies with type of duties/level of responsibility associated with particular levels exist: for example, certain Level 2s and 3s appear to be performing exempt work while certain Level 4s appear to primarily perform nonexempt work• These inconsistencies reflect potentially significant variations within a job title or level, making it difficult and risky to extrapolate exemption status to other incumbents within a job title.• Support exists for reclassifying several supervisors to exempt status under the executive exemption
NEXT STEPS	<ul style="list-style-type: none">• Extrapolate findings for incumbents if possible• Consider evaluation of job architecture, including eliminating inconsistencies within job title and job levels

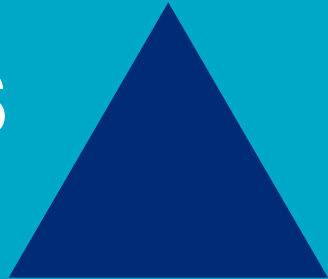
NEXT STEPS – ALTERNATIVE A JOB ARCHITECTURE STUDY

- Gather accurate job data, using JCQs if desired
- Using current and updated job data, evaluate and implement new job architecture
 - Address title inconsistencies
 - Address leveling issues
- Test FLSA classifications for certain jobs to ensure appropriate, consistent, and defensible “exempt/nonexempt line”
- Address in conjunction with salary survey
- Advantages of approach: more strategic and comprehensive approach
- Disadvantages: more resources (e.g., time and budget) required
- “Go slow to go fast”
- Targeted jobs have reduced misclassification risk due to current nonexempt status but potential overtime cost-savings from reclassification to exempt status may be delayed

NEXT STEPS – ALTERNATIVE B AD HOC APPROACH

- Identify and prioritize jobs that may qualify for executive exemption (i.e., supervises at least 2 full-time equivalents)
- Gather accurate job data, using JCQs if desired; use representative sampling as appropriate, depending on level of institutional knowledge about job duties in targeted jobs
- For these supervisory employees, confirm that primary duty is management and that job meets requirements of executive exemption
- Adopt specific designation for this group and only use that designation for those that qualify for executive exemption
- Conduct training to ensure supervisors not performing too many nonexempt tasks and give them appropriate managerial authority (which may mean training the incumbents' supervisors)
- Address remaining jobs and build architecture around what has been started
- Advantages: May be able to realize more immediate cost savings in terms of overtime; less upfront resources needed
- Disadvantages: Not as systematic or strategic of an approach

40-HOUR WORKWEEK ANALYSIS



WORKWEEK PROJECT OVERVIEW

- Pierce County (“the County”) engaged Mercer to evaluate the impact of transitioning employees currently on a 35 or 37.5 hour workweek to a standard 40-hour workweek
- Several years ago the County established a 35-hour work week schedule with a reduction in pay ranges for those transitioned to, or hired into, these roles and schedules
 - Includes both exempt salaried and non-exempt hourly roles
- For exempt staff, there has been a perceived effort to bring actual pay to within competitive range regardless of work schedule
 - Especially for salaried workers where number of hours worked is not tracked
- Mercer has collected Pierce County employee data and pay program information to test how the program is being currently administered, alternative ways in which to view what is “necessary” from a pay adjustment standpoint, and to determine the financial impact and potential cost implications of moving all employees to a 40-hour workweek

METHODOLOGY

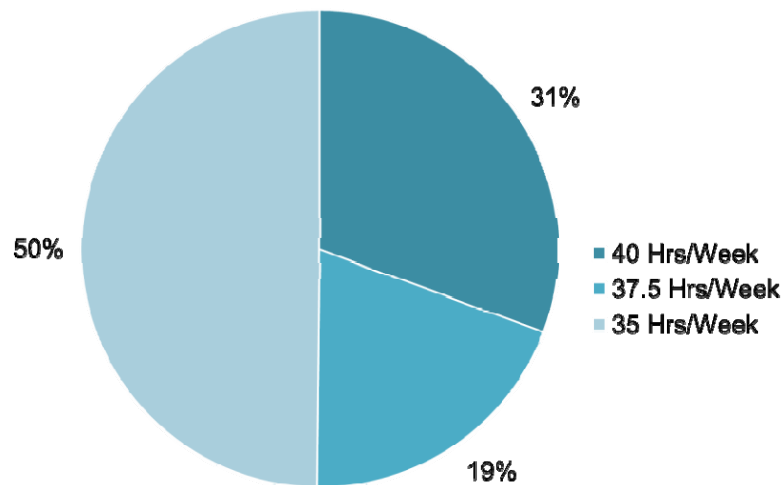
SCOPE	<p>Mercer collected data for 626 regular permanent reduced-workweek employees in 163 positions for this analysis</p> <ul style="list-style-type: none">• 450 employees currently on 35-hour workweek• 176 employees currently on 37.5-hour workweek <p>Mercer also collected data for 264 regular permanent employees on 40-hour workweek in the same roles as 35/37.5 employees in order to make direct pay comparisons</p>
COMPENSATION ELEMENTS	<p>Data provided by Pierce County as of July 26, 2017</p> <ul style="list-style-type: none">• Salary• Hourly rate• 2016 OT hours and payments (1.5x and 2x)• Pay Grades/Classifications• Standard work week hours
BASE PAY ADJUSTMENTS / COSTING <i>ALTERNATIVES PROVIDED FOR EXEMPT EMPLOYEES ONLY</i>	<p>Non-exempt: Employee hourly rates were unchanged, but for costing purposes were annualized with the assumption of 2080 hours worked per year (40 hours a week, 52 weeks in a year) to determine costs of transition</p> <p>Exempt: Alternative A:</p> <p>Mercer converted all exempt employee salaries to a 40-hour workweek by a factor of:</p> <ul style="list-style-type: none">– 14.3% for 35 hour workweek employees– 6.7% for 37.5 hour workweek employees <p>Exempt: Alternative B:</p> <p>Mercer conducted predictive analytics (via regression) to determine alternative placements and increases to current employee pay based on tenure and current actual pay</p>

CURRENT STATE ASSESSMENT

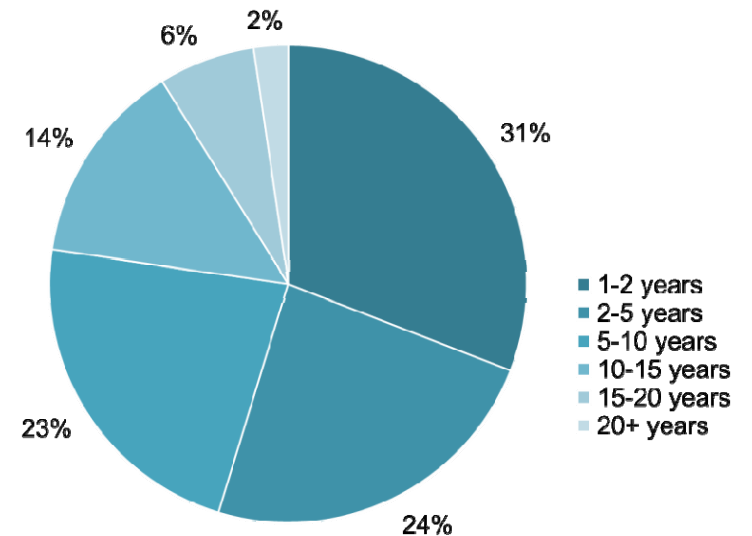
STUDY POPULATION

- Mercer analyzed the current distribution of the employees included in this study by tenure and work week, as shown in the charts below

Workweek Distribution of Total Study Population (n=890)



Tenure Distribution of Total Study Population (n=890)



WORKWEEK COSTING ANALYSIS

ALTERNATIVE A: DIRECT CONVERSION METHODOLOGY



COSTING ANALYSIS – DIRECT CONVERSION

TOTAL EMPLOYEE IMPACT

- A direct conversion assumes salaried employees working a 35/37.5 hour work week are currently paid at a reduced rate to accommodate the reduced hours
- Under this alternative, a change to the 40-hour workweek results in an **estimated increase of \$6.8M or 12.7%** of the reduced workweek population’s payroll
 - 35-hour employees were given a 14.3% increase to bring to 40-hour equivalent
 - 37.5-hour employees were given a 6.7% increase to bring to 40-hour equivalent

By Workweek	Number of Employees	Current Base Program	40 hr/wk Transition Total	Total Additional Cost (Base only)	Total Additional Base as % of Current
Transition to 40 hours per week	626	\$53,869,130	\$60,715,390	\$6,846,260	12.7%
35 hrs/week	450	\$42,721,679	\$48,824,776	\$6,103,097	14.3%
37.5 hrs/week	176	\$11,147,451	\$11,890,614	\$743,163	6.7%

COSTING ANALYSIS – DIRECT CONVERSION NON-EXEMPT IMPACT

- Isolating for just the **non-exempt employees**, the total additional base pay cost would be approximately **2.1M or 10.3%** of that population’s payroll, assuming average current hours worked are equal to the schedule (i.e, a 35-hour workweek employee never works more than 35 hours)
- Projected OT costs** could be upward of **additional \$110K** assuming all 40-hour workweek non-exempt employees will work an average of 7 hours of OT at 1.5x per year (as did the average 40-hour scheduled worker in the roles included in this analysis)

Additional Annual Cost - NONEXEMPT ONLY

By Workweek	Number of Non-Exempt Employees	Current Base Program	40 hr/wk Transition Total	Total Additional Cost (Base only)	Total Additional Base as % of Current
Transition to 40hr/wk NonExempt	327	\$ 20,015,687	\$ 22,070,734	\$ 2,055,048	10.3%
35 hrs/week	158	\$9,458,777	\$10,810,030	\$1,351,254	14.3%
37.5 hrs/week	169	\$10,556,910	\$11,260,704	\$703,794	6.7%

Additional Annual Cost - NONEXEMPT ONLY

OVERTIME PROJECTIONS

By Workweek	Average Hourly Rate	2016 Average OT (1.5x) Hours	2016 OT Paid	Projected Annual OT on 40 hr/wk*
Transition to 40hr/wk NonExempt			\$ 25,544	\$ 110,988
40 hrs/week (REFERENCE ONLY)	\$31.17	7.0	\$100,111	\$ 100,111
37.5 hrs/week	\$32.03	0.5	\$4,118	\$ 56,627
35 hrs/week	\$32.89	0.8	\$21,426	\$ 54,361

COSTING ANALYSIS – DIRECT CONVERSION NON-EXEMPT IMPACT: NET COST ANALYSIS

- Mercer reviewed the average **actual** time worked by non-exempt employees on reduced workweeks to develop a more accurate assessment of estimated **net** costs to changing to 40-hour workweek
 - Resulting net difference from the prior page analysis is nominal
- When taking into consideration actual straight time worked by the non-exempt population in this study, the additional cost to a 40-hour workweek drops by 0.3% to **\$2M**
 - 37.5 hour workweek employees on average work .02 hour more a week
 - 35 hour workweek employees on average work .25 hours more each week

Additional Annual Cost - NONEXEMPT ONLY					
ACTUAL STRAIGHT TIME ASSESSMENT					
By Workweek	Average hours worked over schedule thru 40 hours	Average Total Hours (Annual)	Actual Straight-Time Paid	Total Actual Additional Cost	Total Additional Base as % of Current
Transition to 40hr/wk NonExempt			\$ 20,073,641	\$ 1,997,094	10.0%
37.5 hrs/week	0.02	1951	\$10,559,732	\$700,972	6.6%
35 hrs/week	0.25	1833	\$9,513,908	\$1,296,122	13.7%

COSTING ANALYSIS – DIRECT CONVERSION BREAKOUT POPULATIONS

- Mercer has further broken down the cost analysis into three groups at Pierce County’s request:
 - Executives: 74 employees who all have a 35 hour schedule
 - Exempt: salaried employees in the study, excluding Executives
 - Non-Exempt: hourly-based employees

By Workweek	Number of Employees	Current Base Salaries	Projected Base Salaries using Direct Conversion	Total Additional Cost (Base only)	Total Additional Base as % of Current
TOTAL COSTS	626	\$ 53,869,130	\$ 60,715,390	\$ 6,846,260	12.7%
Executives	74	\$9,502,410	\$10,859,897	\$1,357,487	14.3%
35 hrs/week	74	\$9,502,410	\$10,859,897	\$1,357,487	14.3%
37.5 hrs/week	0	\$0	\$0	\$0	--
Exempt	225	\$24,351,033	\$27,784,758	\$3,433,725	14.1%
35 hrs/week	218	\$23,760,492	\$27,154,848	\$3,394,356	14.3%
37.5 hrs/week	7	\$590,541	\$629,910	\$39,369	6.7%
Non-Exempt	327	\$20,015,687	\$22,070,734	\$2,055,048	10.3%
35 hrs/week	158	\$9,458,777	\$10,810,030	\$1,351,254	14.3%
37.5 hrs/week	169	\$10,556,910	\$11,260,704	\$703,794	6.7%

WORKWEEK COSTING ANALYSIS

ALTERNATIVE B: PREDICTIVE PAY METHODOLOGY FOR EXEMPT EMPLOYEES



COSTING ANALYSIS – PREDICTIVE PAY MODEL

POTENTIAL IMPACT USING PREDICTED PAY METHODOLOGY (EXEMPT EMPLOYEES ONLY)

- At Pierce County exempt employees on reduced workweek schedules are placed on discounted pay ranges
- In a separate analysis, we found the majority of employees in these ranges are paid toward the top of the range regardless of time in position which may support the theory that employees generally receive salaries that are closer to their 40-hour workweek colleagues than the direct conversion methodology would dictate
- In this “predictive pay methodology”, Mercer used the regression formula from the total 40-hour workweek population submitted for this analysis to test the correlation between pay step placement and time-in-position (years)
- If an employee’s pay is currently positioned in a lower/higher step than regression table suggests, the difference is considered in the employee’s 40-hour transition calculation
 - *Only those employees positioned lower than the regression table would receive an increase*
 - Those employees positioned higher than the regression table would not receive an increase (pay is not reduced)

REGRESSED TIME-IN-POSITION TO STEP RANKING

<u>Step</u>	<u>Years</u>
1	0.0
2	0.8
3	1.5
4	2.2
5	2.8
6	3.5
7	4.2
8	4.9
9	5.5
10	6.2

Equation:
 $y=0.6751x-0.526$

COSTING ANALYSIS – PREDICTIVE PAY MODEL

TOTAL EMPLOYEE IMPACT

- Using the **predictive model**, costs for exempt employees are **materially reduced**
- Cost to bring Executives to their predicted pay decreases by more than 60% and exempt population decreases by roughly a third of direct pay conversion
- **Communications** regarding the calculation will be key to employees understanding pay decisions
- This alternative would be applied to exempt employees only

By Workweek	Number of Employees	Current Base Salaries	Projected Base Salaries using Predicted Pay	Total Additional Cost (Base only)	Total Additional Base as % of Current
TOTAL COSTS	626	\$ 53,869,130	\$ 58,841,227	\$ 4,972,097	9.2%
Executives	74	\$9,502,410	\$10,005,681	\$503,271	5.3%
35 hrs/week	74	\$9,502,410	\$10,005,681	\$503,271	5.3%
37.5 hrs/week	0	\$0	\$0	\$0	--
Exempt	225	\$24,351,033	\$26,764,811	\$2,413,778	9.9%
35 hrs/week	218	\$23,760,492	\$26,162,647	\$2,402,155	10.1%
37.5 hrs/week	7	\$590,541	\$602,165	\$11,624	2.0%
Non-Exempt	327	\$20,015,687	\$22,070,734	\$2,055,048	10.3%
35 hrs/week	158	\$9,458,777	\$10,810,030	\$1,351,254	14.3%
37.5 hrs/week	169	\$10,556,910	\$11,260,704	\$703,794	6.7%

PRODUCTIVITY ESTIMATES

- Increasing workweeks to 40 hours for the non-exempt population would be the equivalent of hiring 30 full-time employees
- From a cost perspective, the straight wages of these new hires (approx. \$2M) would be roughly equivalent to the cost associated with bringing current non-exempt workers to the full 40-hour workweek.
- However, with new full-time employees comes the cost of benefits, which we estimated to be an additional \$600,000 cost using a 30% benefits load assumption for employees working at least .75 FTE.

Department	# Employees <40 Hours	Sum of Additional Hours to 40	#FTE Equivalents	Avg Hourly Rate	Costs	
					Average Hourly Rate *# FTE Equivalents	Estimated Load w/Benefits >.75 FTE
Assigned Counsel	15	3,900	1.9	\$ 28.19	\$ 109,936	\$ 142,917
Budget and Finance	1	130	0.1	\$ 43.74	\$ 5,686	\$ 5,686
Clerk of the Superior Court	37	4,810	2.3	\$ 28.13	\$ 135,309	\$ 175,902
Community Connections	99	15,080	7.3	\$ 29.89	\$ 450,686	\$ 585,892
County Council	6	1,560	0.8	\$ 40.37	\$ 62,977	\$ 81,870
District Court	12	2,730	1.3	\$ 36.32	\$ 99,154	\$ 128,900
Economic Development	2	520	0.3	\$ 43.31	\$ 22,519	\$ 22,519
Family Justice Center	4	1,040	0.5	\$ 27.73	\$ 28,839	\$ 28,839
Local 120 General Merit 06 Inc 2	1	260	0.1	\$ 27.50	\$ 7,150	\$ 7,150
Prosecuting Attorney	85	21,450	10.3	\$ 31.62	\$ 678,315	\$ 881,809
Public Works	1	260	0.1	\$ 46.52	\$ 12,095	\$ 12,095
Superior Courts	63	11,050	5.3	\$ 39.41	\$ 435,475	\$ 566,118
Unrep Maintenance/Trade Merit 06 Inc 2	1	260	0.1	\$ 32.16	\$ 8,362	\$ 8,362
Grand Total	327	63,050	\$30.3125000	\$32.53	\$ 2,056,503	\$ 2,648,059

NEXT STEPS

CHOOSING A PATH

- Discuss employee pay expectations of moving toward a 40-hour workweek and balance with the realities of actual pay positioning
 - Will there need to be a blanket change or can there be customized resolutions per individuals or employee groups (e.g., exempt versus non-exempt)?
- Consider the appropriate communication to employees and to the constituency at-large regarding any prospective changes and budgetary increases
 - Will there be pushback and from whom/where?
 - Identify all potential roadblocks and address them before changes are made
 - Exempt employee actions and communications will be different than non-exempt employees
- Identify any other programs that may cause an increase to budget as a result of moving employees to a 40-hour workweek

MAKE



**TOMORROW,
TODAY**