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HUMAN RESOURCES

To: Gregg Mandsager, City Administrator
From: Stephanie Romagnoli, Human Resources Manager
Date: August 16, 2010
Re: Request to Approve Compensation Consultant

The Human Resources Department budgeted \$5,000 to hire a compensation specialist to assist with the non-union pay plan review. A search for a consultant has been conducted.

A request for proposal was sent to select compensation firms specializing in compensation issues. The City received four responses; three of the four respondents were interviewed. The response from Keller Consulting was most responsive and within the budgeted amount.

At this time I am requesting the City Council approve the services of Keller Consulting. Please let me know if any additional information is required.



Mr. Gregg Mandsager, City Administrator
City of Muscatine
215 Sycamore
Muscatine IA 52761-3840

June 14, 2010

Subject: Compensation Structure

Mr. Mandsager,

Thank you for giving me the opportunity to provide a proposal to help the City of Muscatine create improvements in its compensation system. The objective of this letter is to confirm my understanding and scope of the work to be accomplished, and provide you with the fees for the services we could provide on your behalf.

Confirmation of the Work

The City of Muscatine (the "City") has approximately 60 roles, each with its own separate assigned salary range. There is an interest and desire to consolidate the number of ranges into something more manageable which would make sense for the City. In addition, salary levels for City employees top out in their ranges at Step 5 (the range midpoint) and are unable to progress beyond that, other than annual cost-of-living increases (a 1% supplemental increase had been provided years ago but was removed with the intention to replace it with something else, which did not occur). City leadership would like to consider a pay-for-performance model for determining employee salary increases.

Scope of Services

Keller Consulting would be pleased to help the City of Muscatine with this project, which generally would encompass the following work steps as indicated below ("Services"):

Work Step	Compensation System Project
Fact-Finding	<ul style="list-style-type: none"> • Obtain job descriptions, individual salary and market data, and other related information. • Obtain compensation policies or communications, employee handbook and other materials provided to City employees, managers, and those used in human resources. • Gain understanding of any critical areas in which the City must absolutely excel in order to accomplish its goals, i.e., determine whether some roles should have greater value placed on them relative to the market due to their importance to the City. • Gain understanding of what practices should be maintained in the new system and those that should be avoided, if any. • Possibly interview some department managers and Council members to obtain their views and understanding of the key challenges and current compensation strategy



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Work Step	Compensation System Project
<p>Develop Pay Structure and Salary Progression Plan</p>	<ul style="list-style-type: none"> • Review existing pay philosophy and objectives and make any necessary changes. Develop a statement of pay philosophy if one does not exist. • Complete a market comparison for approximately five City roles which are also commonly found in private industry as well. <ul style="list-style-type: none"> ⇒ Data will be gathered for the market 25th, 50th and 75th percentiles for both base salary and total cash compensation. • Create at least two pay structure alternatives using market data and internal job values. Model where jobs would fall under each structure. • Model costs and analyze employee pay levels relative to the new ranges <ul style="list-style-type: none"> ⇒ Conduct compa-ratio and range penetration analysis based on new ranges. ⇒ Model salary structure cost impacts in comparison to current costs. ⇒ Create a plan to address any salary adjustments that may be required as a result of the new salary range structure. • Develop recommendation to address the job evaluation process (the process of assigning jobs to an established salary range or salary grade) for (1) new jobs and (2) existing jobs which have had changes in responsibilities that may warrant a change in salary range • Create a salary progression plan for how employee salaries should move within the assigned salary range, i.e., whether it should be based on time, performance, etc. • Project Meetings <ul style="list-style-type: none"> ⇒ Meet with City Administrator and HR Director during the project to discuss progress and to present final recommendations (no less than two meetings). ⇒ Meet with City Council for presentation of final recommendations by City Administrator and/or Keller Consulting
<p>Implementation</p>	<ul style="list-style-type: none"> • Develop employee communication plan and materials to deliver a clear and consistent message about what is taking place <ul style="list-style-type: none"> ⇒ <i>(optional: see pricing #2 below).</i> • Develop communication and training for managers to help them to understand how to use the system, how they should communicate with employees, and administer pay <ul style="list-style-type: none"> ⇒ <i>(optional: see pricing #3 below).</i> • Lead actual training (or assist with training) for managers <ul style="list-style-type: none"> ⇒ <i>(optional: see pricing #4 below).</i>
<p>Policy Development</p>	<ul style="list-style-type: none"> • Develop compensation administration policies <i>(optional...see pricing #5 below)</i>, to include the Job Evaluation Process and Pay administration (setting starting salaries, performance increases, demotions, promotions, etc.)



Work Step	Performance Management Project
<p style="text-align: center;">Develop Performance Management Process</p>	<p>Research supports the idea that performance management through goal alignment and a pay-for-performance model can significantly impact the achievement of organizational goals. In transferring this concept to the City of Muscatine, if City employees can see how their work is connected to or supports the City’s goals, and if they believe their efforts are compensated fairly, then they will be committed to them, and put forth the effort and work to be successful.</p> <p>If salary increases are to be based in whole or in part on an employee’s performance, then a consistent performance management process should be developed. Keller Consulting can either (1) help build on what is already in progress or (2) start from the beginning. A more detailed proposal with pricing can be provided at that time depending upon the specific requirements. With that said, here are the highlights of the work that could be completed in conjunction with the Compensation project:</p> <ul style="list-style-type: none"> • Keller Consulting can work with the City to provide a performance management process which would generally include: <ul style="list-style-type: none"> ⇒ Goal Setting and Performance Review process ⇒ Salary Increase matrix based on performance and salary position within the range ⇒ Development of communication plan and materials

Keller is committed to providing objective advice and consulting services to you. Ensuring the objectivity and integrity of the work we provide is critical to our success as your trusted advisor.

Fees for Professional Services

Compensation for Services will be professional fees as indicated below. In addition to the professional fees, Muscatine Foods Corporation will also pay for miscellaneous expenses and disbursements incurred in connection with the provision of Services, for example, any mileage and travel expenses as approved in advance.

1. Development of Pay Structure & Salary Progression:	\$5,000
2. Develop employee communication materials:	\$2,000
3. Develop training materials for managers:	\$2,500
4. Conduct or assist with training for managers:	\$ 500
5. Policy Development:	<u>\$1,000</u>
Total Investment with all 5 options	\$11,000

If the scope of services should change, the fees will be adjusted in advance by mutual agreement. Fees for services will be billed upon project completion and the City of Muscatine shall pay the invoice upon receipt.



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Keller can begin work for you upon acceptance of this proposal. We should have a target date for completion of no later than September 15, 2010. This assumes that we receive the necessary data and information to commence work, and that we timely receive additional data and other information that we may request from time to time.

I look very forward to serving you and the City of Muscatine on this highly important project. If you have any questions, please call or e-mail me. Otherwise, please indicate your agreement to the terms of this letter by signing the attached Project Services Contract and returning it to me. Don't forget to keep a copy for yourself.

Thank you for your consideration and the opportunity to work with you!

cc: Stephanie Romagnoli
Human Resources Director
City of Muscatine



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PROJECT SERVICES CONTRACT

If you agree to the terms above, please sign and date:

Please check all that apply

- | | | |
|--------------------------|--|-----------------|
| <input type="checkbox"/> | Development of Pay Structure & Salary Progression: | \$5,000 |
| <input type="checkbox"/> | Development of employee communication materials: | \$2,000 |
| <input type="checkbox"/> | Development of training materials for managers: | \$2,500 |
| <input type="checkbox"/> | Conduct or assist with training for managers: | \$ 500 |
| <input type="checkbox"/> | Policy Development: | <u>\$1,000</u> |
| | Total Investment with all 5 options | \$11,000 |

Gregg Mandsager
City Administrator
City of Muscatine

Dated this ____ day of _____, 2010

Peter J. Keller
Keller Compensation Consulting, LLC

Dated this 14th day of June 2010

Keller Compensation Consulting, LLC markets itself as Keller Consulting

Background

Keller Consulting is owned by Peter J. Keller, CCP. A seasoned human resources leader, Peter's experience includes eleven years overseeing compensation and benefits for Bandag, Incorporated, and over eight years with Wausau Insurance Companies in compensation and human resources. Peter is a Certified Compensation Professional and Certified Internal Leadership Coach, and holds a Master of Science Degree in Industrial-Organizational Psychology and a Bachelor's Degree in Psychology from the University of Wisconsin.

Peter's expertise allows him to serve a variety of industries including manufacturing, insurance, and retail. His experience includes significant work in both international and domestic compensation and benefits plan design, a record of contribution in implementing cost controls and benefits analysis, creating and implementing programs to support revenue and profitability, and performing organizational assessments. Peter has strong financial and business acumen and the ability to promote new thinking and provide innovative solutions to your critical human resources challenges. Here are some highlights:

- Restructured organizational design, compensation, and incentive plans for a \$120M retail subsidiary, contributing to an increase in store productivity and sales by 36% and reduction in employee turnover from 87% to 37%.
- Guided Management Continuity and Compensation Committee through design, implementation, and communication of new annual and long-term performance-based compensation plans for directors, executives, and middle management domestically and internationally using various equity award vehicles, including stock options, performance units, and restricted stock.
- Responsible for SEC executive and director compensation disclosures, including authorship for committee reports on executive compensation and Compensation Discussion & Analysis.
- Led comprehensive 401(k) education and communication campaign and implemented automatic enrollment, increasing plan participation from 90% to 99% for salaried employees and 80% to 97% for hourly employees.
- Led complete overhaul of organizational pay structure, affecting 6,500 employees across corporate and regional offices, increasing overall organizational effectiveness.
- Provided new compensation solutions for high-performing work groups, including gain-sharing and skill-based pay.

TESTIMONIALS

"Peter continues to be a great resource and consultant for Cabela's. We get the personal and individual attention we need for our projects and a wealth of knowledge and experience from Peter's past. Our experiences with Peter have been great and we fully expect to continue to use his services in the future."
Tim Tanis, Compensation Manager, Cabela's

"Peter has provided substantial support to the Management Continuity & Compensation Committee in further evolving our executive compensation plans. His insights have been very valuable in assisting the Committee in their decision making process." Warren Heidbreder, CFO (retired), Bandag