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December 11, 2008

To: Amherst County Service Authority Board

Subject: Providing Director/Administrator Employee Compensation Flexibility Via BOS Positions On The County's 2009/2010 Budget.

Dear Board Members:

Not a day goes by where news stories and/or local events don't remind us of the current economic down-turn. Every business, private or public, must carefully monitor and control how their limited funds are invested. This is a responsibility to those individuals who fund the business, be they stockholders, tax payers, or rate payers.

The minutes of the December 2nd BOS meeting show that Mr. Wood expressed his economic concerns suggesting that things might be serious enough that the BOS might need to consider a budgetary guideline freezing next year's budget at current levels. After speaking with some of the members, I understand that the BOS will not have sufficient information to make such a determination until revenue and expense projections have been made. Since ACSA follows whatever budgetary guidelines the BOS establishes, Mr. Wood suggested I discuss this at the next authority meeting.

While hopefully county revenue and expense projections will indicate such a freeze will not be necessary, before establishing any budgetary guidelines please consider the following.

1. As with most governmental compensation plans, the County and ACSA programs are adjusted annually through a two component schedule. The first is a cost of living allowance (COLA) which the BOS typically sets annually at, or near, the CIP inflation rate. It is designed to preserve the purchasing power of all employees, even those who have reached the top merit step of their pay grade. The second is the annual consideration of employee performance for a small merit increase. Its objective is to encourage additional skill development and to reward good performance, for those who have not yet reached the top of their pay grade. (This is the only mechanism, short of promotion, by which an employee's purchasing power can increase.)

An employee's performance must be satisfactory, or better, to earn a merit increase. Unless positive progress is made on documented performance problems, merit increases are withheld until the problem is resolved. Merit steps are only 2%, which is typically lower then the CPI inflation rate. Any time either the COLA or merit increase is frozen junior employees, who are still expanding their skills (to the benefit of the Authority), are financially penalized. Whenever the COLA is frozen the most experienced senior employees who have reached the top of their pay grade, receive nothing. **During the last five years either COLA, or merit increases have been frozen three times.** These conditions are not good for attracting and retaining individuals with the abilities and skills the Authority must have to function.

2. The County has returned to a three year cycle of conducting comparative compensation studies. Such a study is under way and should be completed in the next 60-90 days.

3. ACSA payroll is less than 30% of the Authority's total budget (exclusive of bond construction projects). As a result, compensation adjustments do not have a profound impact on the total budget figures. (As an example, a 5% compensation increase would effect the budget total by less than 1.5%).

4. Surveys by the American Waterworks Association indicate that the average water utility will lose 50% of its current staff within the next 10 years. (See the attached "Looming Crisis" article, from Water Environment And Technology magazine).

5. "Public works salaries from cities and governments are often 25% to 40% lower than similar positions in industry, making recruitment more difficult." (see attachment)

I know the Board will be as generous as they feel they can be. But in view of the above factors, I must point out that there is a huge difference between a budget freeze and a compensation freeze. Whatever the BOS's budgetary guideline, I would ask that it be established in relation to the budget total only, and that the Director/Administrator be allowed to make appropriate adjustments within the budget to implement the recommendations of the consultant performing the compensation study.

Particularly as we approach a period of significant staff loses, due to senior employee retirements, it is critical that compensation be fair and that we maintain a reputation of being a good place to work. The best way to be sure our employees care about the utility, is that they know we care about them. Appropriate competitive employee compensation is every bit as much an investment, as it is an expense.

If the Board is willing to provide the Director/Administrator with the level of flexibility requested I pledge that I will find a way to implement the consultant's recommendations, within whatever total budget guideline the Board establishes.

Thank you for your consideration of this request.

Sincerely,

Dan E. French

Dan E. French
Director of Public Utilities

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P.S. While not a formal written document, ACSA has the type of succession plan for key positions over the next ten years, suggested in "Looming Crisis". It includes recruitment and classroom and on-the-job training for skill advancement and promotion potential.

Water Environment + Technology
September 2008

A Looming Crisis

J. Douglas Brookhart

Just 1 month from now, Bill Smith will retire from his job at the wastewater treatment plant after 35 years of service. For the last 10 years, Bill has been the facility's superintendent.

Bill was born in 1948 and is a baby boomer. He's not alone. Between 1946 and 1964, about 79 million Americans were born, and now the first wave of this group has reached the age of 60 and is looking toward retirement. Last year, the oldest of the baby boomers began drawing their Social Security retirement benefits.

Bill graduated from high school in 1965 and went on to fulfill his parents' dream of having their son graduate from college — the first in the family.

He served 2 years in the U.S. Navy — he spent time off the coast of Vietnam — and then returned home to find a career.

While Bill was in the service, the Nixon Administration established the U.S. Environmental Protection Agency, and the country celebrated its first Earth Day. In 1972, just as Bill returned home, the U.S. Congress passed the Clean Water Act.

Federal funds started flowing into communities to be used to build new sewer systems and treatment plants and fund major expansions of existing treatment works.

At his hometown wastewater treatment plant, Bill found a job that turned into a 35-year career. Now, Bill wonders how the time has passed so quickly.

During the last several years, Bill has tried to talk the city into succession planning and an assistant position to allow someone to learn his job, someone to take over when he retires. But due to budget cuts and the desire to do "more with less," no one has been trained to replace him, and Bill will retire in a month.

One more thing: Bill Smith is fictional, but this story is more reality than fiction.

Nationwide, thousands are reaching retirement age, will retire, and will need someone to take over. However, in many cases, no shadowing programs or succession plans exist. This means a total loss of corporate knowledge. The real Bill Smiths will leave their jobs and take with them irreplaceable institutional knowledge.

The "brain drain" is coming, and few systems are prepared for the loss of so many trained and knowledgeable people in such a short time span. The water and wastewater industry is right in the middle of a nationwide mass exodus of skilled workers.

Add to this mix tight economic factors, increasingly stringent regulatory legislation, and previously unimagined security concerns stemming from the Sept. 11 terrorist attacks, and the industry faces the possibility of meltdown if action is not taken.

To help avoid such a bleak future, this article and the one on p. 114 begin a series of articles that will provide ideas some communities have used to meet the challenge of the mass exodus of workers, as well as share the experts' suggestions.

J. Douglas Brookhart is a senior operations specialist at Jones & Henry Engineers Ltd. (Toledo, Ohio).

Some Facts About the 'Brain Drain'

- The oldest of 79 million baby boomers turned age 60 in 2006, according to the U.S. Bureau of Labor Statistics.
- In the United States, someone turns 60 every 7 seconds, according to the U.S. Department of Health and Human Services.
- According to the U.S. Bureau of Labor Statistics, more than 25% of the working population will reach retirement age by 2010, resulting in a potential worker shortage of nearly 10 million.
- Within the next decade, the average water utility will lose 50% of its current employees, according to the American Water Works Association (Denver).
- Utilities are training full-time employees 20 hours per year, which is inadequate.
- The average tenure in the utility business is 24 years.
- A study of the electrical industry has determined that 80% of useful operational knowledge is tacit — knowledge understood but not documented.
- The retiring water and wastewater industry skilled personnel learned their trade on the job through hands-on training, seminars, workshops, and trade shows — a mix of actual experience and formal training that is difficult to duplicate today.
- Public works salaries from cities and governments are often 25% to 40% lower than similar positions in industry, making recruitment more difficult.