SANTA BARBARA COUNTY LEADERSHIP PROJECT

A GOOD PLAN IN NEED OF TRANSPARENCY

SUMMARY

Historically, the management salary structure in Santa Barbara County was inflexible and cumbersome. There were approximately 200 management classifications and 77 pay ranges. The salary structure promoted an atmosphere of bureaucracy and little performance accountability. Under this program, an employee received an automatic pay raise. The new Leadership Project, which has been in effect for just over one year, has completely modified that pay system. There now are approximately 20 classifications, and the entire structure is based on what the county calls ACE – accountability, customer-focus, and efficiency. The goal is to make pay raises reflect customer service and to reward employees by setting up a program which recognizes individual merit.

Performance-based compensation systems have been widely used in large businesses and have been applied to public entities only recently. Its implementation requires patience, creativity, good communication, and an acknowledgement that employees in different careers – attorneys, public works employees, physicians, probation officers, mental health workers, firefighters – require different criteria in setting performance standards. In addition, some of those who were promoted became "at will" and gave up their civil service rights. There is widespread misunderstanding as to the reasons to choose "at will" positions. From all accounts, the county has conducted months of training classes and brown bag lunches, as well as one-on-one meetings, to be sure the new standards meet the needs and goals of each department. Yet this was not enough since there continues to be wide areas of misunderstanding. More work needs to be done.

The 2007-2008 Santa Barbara County Civil Grand Jury looked at the implementation of the Project and analyzed the financial costs. The Leadership Project did not come cheaply. The initial pay raises were substantial, and succeeding pay raises will continue to increase the costs. Pre-Project discussions assumed a 1% to 3.5% pay raise. In fact, however, the total dollar increases will be higher since total salaries have increased faster than what had been projected. Moreover, these initial pay calculations did not include the impact on retirement contributions.

In spite of the efforts to include all county supervisors and managers in the development of the program, there is widespread confusion as to what the program does and does not do. Too much of the work on the Leadership Project has remained within the Human Resources (HR) Department. The planning, implementation, and fiscal analysis all come from the same department. This has created some unnecessary problems which easily could be eliminated. To be fully transparent and to remove confusion, the HR Department should be encouraged to work more closely with employees, and financial analysis should come from the Auditor-Controller. Additionally, the Civil Service

Commission is perceived as being too closely tied to the HR Department and should be more independent.

INTRODUCTION

In June 2006, through Resolution 06-180, the Santa Barbara County Board of Supervisors unanimously approved the rescission of the old management salary plan and the implementation of the Leadership Project. This resolution set up class specifications for the following: general management, executive management, attorney/physician, fire, and engineering. Within leadership class specifications it established six separate management levels. Those employees serving "at will" are serving at the will of their immediate supervisors and may be terminated at any time. Those retaining civil service protection have a forum to which they may appeal if they have a grievance or believe they have been wrongfully terminated.

[The first three levels are "at will." The order has been changed to list the levels from the highest ones first.]

- **Department/Corporate Leader**
  This class includes both appointed and elected senior executive leaders including department heads, Assistant CEOs and Deputy CEOs who may or may not report directly to the County Executive Officer (CEO) or the Board of Supervisors.

- **Assistant Departmental Leader**
  This is an At Will executive position that functions as an Assistant Department Head and reports directly to the Department Head.

- **Enterprise Leader**
  This is an At Will manager functioning at either the Team/Project Leader or Program/Business Leader levels. These positions are typically responsible for projects, programs, initiatives, or services that have countywide and/or community wide impacts and involve plans and/or decisions of a policy nature and of key importance to the County having a long term impact....

[The following levels are not "at will" and remain under civil service protection.]

- **Program/Business Leader**
  This is a senior-level management position reporting to executive management and responsible for a significant division within a department ... or

for managing a core business or service of the department.

- **Project/Team Leader**
  This is a journey-level leader with journey-level skills and abilities who is responsible for a unit, section, or specific function within a County department OR a manager who is responsible for leading significant projects and project teams. This class may or may not supervise others, including Administrative Leaders.

- **Administrative Leader**
  This is a manager who is either new to the management workforce or whose assignments primarily consist of high-level, complex, and analytic staff work.

Several "salary bands" (sometimes referred to as "broadbanding") are set for each job classification. Resolution 06-180 also sets forth a management compensation philosophy the Project was designed to follow:

- The County of Santa Barbara's goal is to provide sufficient compensation to attract the talent necessary to provide quality, efficient, effective, and accountable customer service, while responsibly managing financial resources.

- County of Santa Barbara managers should be paid competitively with the market for similar positions....

- All compensation earned is based on performance, contribution to the organization, and the delivery of quality customer service.

- Managers who do not meet performance expectations are ineligible for salary increases, and will be placed on an improvement plan and/or provided with a coach. It is anticipated that these efforts will assist the manager in bringing performance to an acceptable level within three to six months. Failure to improve may result in reduction or termination.

- Salary offers will reflect sound business decisions and be adequate to attract the talent required to provide quality service to the community, without being excessive.

- All salary offers will take into consideration:
    - Special department needs
    - The skills and experience of the candidate
    - Internal (countywide salary relationships)
    - Budgetary constraints

- Individual manager's salaries can progress to the top of the salary band, based on performance.

- It is anticipated that those whose performance is exceptional will proceed toward the top of the range more quickly than those whose performance is acceptable and who successfully meet job competencies.

- Additional non-base building compensation is available based on exceptional performance, or at the completion of a significant project assigned to an individual manager or a team of managers.

- Market data will be surveyed at least every two years to ensure that salary bands remain competitive.

To implement the compensation philosophy, there are several basic rules. No employee will be paid less or more than what is shown on the band. Each band has an "anchor point" which limits salaries for new hires. The CEO must approve salary offers which exceed the anchor point. Promotions may occur by moving an employee from one band to a higher one. Likewise, demotions may also occur by moving an employee to a lower band.

The responsibility for pay raises rests with the department heads. In 2007 raises were set from 1% to 3.5%. In addition, in each year exceptional performers may receive a one-time bonus not to exceed $3,500. A separate bonus of up to $2,000 may be paid to individuals who have been assigned significant projects which have been successfully completed. Finally, department heads may grant "equity adjustments" of up to 10% of an employee's salary and no more than 15% of the managers in a department would be eligible. The CEO must approve higher equity adjustments.

These are the rules. The remainder of this report discusses how these rules have been implemented, accepted, and understood by employees, and the Project's fiscal implications.

METHODOLOGY

The Grand Jury interviewed all five county supervisors individually to determine both their understanding of the Leadership Project and what they believed were the fiscal implications. In addition, both the CEO and the Assistant CEO/HR Department Head were interviewed extensively. Each also provided the Grand Jury with multiple documents detailing the Project, showing what information had been provided the supervisors, summarizing the financial costs of the Project, and relating how the Project had been evaluated by various managers throughout the county.

The Grand Jury then looked at individual departments and interviewed three elected department heads and several appointed department heads. The interviews were designed to discover the level of understanding by department heads, as well as how they believed the Leadership Project would impact their departments. The Grand Jury also interviewed department heads who have left county employment since the Leadership Project was first approved and then managers and leaders within five other departments. Finally, the Jury interviewed the executive director of the Service Employees International Union, Local 620, and the Chairman of the Civil Service Commission.

Without exception, each interviewee was candid and helped the Grand Jury understand the Leadership Project and its financial impact on departments.

OBSERVATIONS AND ANALYSIS

For the Grand Jury, receiving timely and complete information was rather challenging. For instance, a response to a request for the production of one memo could not be achieved without the intervention of County Counsel. When finally received, the memo turned out to be an excellent summary of the Project, detailing how it had been set up, and providing important information regarding both salaries and department inputs to the Project.

After receiving this memo, the Jury interviewed the five county supervisors. Each of the supervisors had a different understanding of the Leadership Project and its costs to Santa Barbara County. The supervisors were well informed that this project was going to be implemented. The planning for the project took 18 months, and the supervisors were involved in much of the planning. Periodic reports were given the supervisors as the project was being implemented. And yet there were basic misunderstandings. It certainly was not from lack of effort. But the project is too large and too important to the county for the supervisors not to be fully on board with what the program is and particularly what the financial obligations are.

While some requested material was difficult to obtain, the Jury received several unsolicited memos from the office of the CEO. Each included a request to include the provided information in the Jury's report. Such requests have the appearance of attempting to influence the Jury's investigation and are therefore inappropriate.

Positive Attributes of the Leadership Project

There is a lot to like about the Leadership Project. This Project has greatly simplified the payroll structure for management employees. It has given department heads flexibility in hiring new employees from outside the county and more direct control over pay raises within their departments. This can build loyalty between the employee and the department head and allow the department head to hire more qualified employees.

Employees will have a greater influence on how they will be paid. Pay for merit as opposed to an automatic pay increase for everyone will encourage employees to look inward and to focus on the service they provide their customers, whether those customers are other departments within the county or individuals outside the county government.

A great deal of time and effort went into the planning of the Project. Many hours of training, consulting, and planning were invested over an 18-month period. While "broadbanding" and pay for merit are fairly common in private industry and becoming more common in public agencies, what was created here exists only for Santa Barbara County. An identical program cannot be found in business or any other public entity. It is tailor-made for this county by incorporating the desires of middle managers in many diverse departments to have equitable performance standards and to meet the job specifications of attorneys and physicians.

The Leadership Project is a significant departure from the system used in the past. It has changed the overall philosophy of being a county employee and redefined the authority of the department head. Change of this magnitude does not come easily. In 2007, Santa Barbara received the "Strategic HR Leadership Award" from the Society for Human Resource Management (SHRM) in recognition of the Leadership Project. Credit should be given to the HR Department for having developed the Project.

Financial Implications of the Leadership Project

In an Agenda Letter to the Board of Supervisors, dated December 11, 2007, the Assistant CEO/HR Department Head stated: "There is no fiscal impact associated with the implementation of the new classifications and allocation of positions into the classifications."

On February 15, 2008, the CEO forwarded the Jury a memo written by the Assistant/Deputy CEO labeled "1st Annual Report – Leadership Project." Regarding pay decisions, the memo states:

> The first pay decisions in the new plan were made in December 2007. As previously noted, in June 2006 the Board approved financial parameters of $1.7M or 3.75% of management payroll for the Project. As shown below..., financial management of the Project was well within the planned financial parameters approved by the Board of Supervisors. The following

chart compares the planned costs of the old pay system and the actual costs experienced in the Leadership Project pay system:

Old Pay System		**Leadership Project Pay System**	
3.5% COLA	$1,065,482	Base Building Increases	$ 860,144
Step Increases	$ 176,916	Exceptional Lump Sum	$ 138,000*
Total:	**$1,242,398**	Project Lump Sum	$ 160,650*
		Total:	**$1,158,794**

*One-time, re-earnable compensation

The memo continues:

> As the chart demonstrates, the Project was more cost effective for the County than the previous pay system and was executed well within planned financial parameters with approximately $541,206 remaining from the $1.7M authorized by the Board in June 2006. In addition $298,650 or approximately 18% of the $1.7M was in the form of one-time, re-earnable (lump sum) payments for exceptional performance and/or project completion.

For the HR Department to conclude that the Project "was executed well within planned financial parameters" raised questions for the Jury. In an earlier memo prepared by the Assistant CEO/HR Department Head, dated June 25, 2007, it stated initial salary raises varied from 1% to 25%, with most of the top executives receiving approximately 10% to 16%. Of the 158 employees initially included in the Leadership Project, 49 did not receive a pay raise ("allocation adjustment"). The average raises or adjustments to the remaining 109 employees were slightly over 9%. It was difficult for the Grand Jury to conclude that the total compensation change was less than the raises would have been under the pre-Leadership Project. In fact, it appeared from the June 25, 2007 analysis that compensation exceeded what would have been paid.

The Grand Jury was told that the initial increase in payroll in 2007 was $144,975. However, this amount did not include all leadership positions. Omitted were increases for elected officials, other promotions to leadership classifications, and in addition promotions to non-leadership classifications. When these other classifications are added, the total increase in salaries should have been $361,791. The Grand Jury was not told that these numbers represented only a portion of the year – the period left until the new fiscal year started – not the entire year. This means that if an employee received a $20,000 annual raise at the beginning of the fourth quarter of the fiscal year, the amount would reflect $5,000. The remaining $15,000, which will be paid in the following fiscal year, was omitted. If total annual salaries are shown, the conclusion is markedly different. Based on the June 25, 2007 memo, the annualized cost was $1,103,733.

The Grand Jury asked the Auditor-Controller to calculate the salary changes from prior to the implementation of the Project to the last pay raise for the 309 management employees brought into the Leadership Project. In fact there were multiple pay raises: initial raises which took place in 2007 and an additional raise which took place in the second pay period of 2008.

Total Payroll:

	Prior to Leadership Project	**With Initial Raises 2007**	**With Second Raises 2008**
Salaries per Pay Period (26 periods per year)	$ 1,214,001	$ 1,305,230	$ 1,339,733
Annualized Costs	$31,564,015	$33,935,983	$34,833,068
% Increase from 2006		**7.51%**	**10.36%**
$ Difference from 2006		**$ 2,371,968**	**$ 3,269,053**

By analyzing total payroll, rather than just the fiscal year raises, there is a fairer picture of the total cost to the county. Total management payroll today is 10.36% higher than pre-Leadership Project payroll, for a total increase of $3,269,053. This amount excludes increased retirement contributions, which will certainly be impacted by higher salaries.

The Grand Jury is submitting this chart and its analysis of the June 2007 memo as an illustration that the financial information as provided by the HR Department did not tell the complete story. The fiscal implications are greater as the county moves to future years. As an example, in the most recent pay period many of the highest paid employees received no increase, as their prior increases already brought them to market rate. It is reasonable to believe they will receive a raise in future years. Most interviewees said that total payroll raises will exceed the pre-Leadership Project raises.

This is not a simple analysis. Employees were brought into the program at different times, and total payroll can deviate by what is included, for example, cash and auto allowances. This is too large an issue to stay within one department, particularly when that department is the one which developed, implemented, and now monitors the project. The Board of Supervisors did not direct the Auditor-Controller, an independent department which reports to the Board, to prepare a financial analysis regarding the Leadership Project. That would have provided the necessary checks and balances that would lend needed transparency and credibility to the Project. It is only then that the Board of Supervisors can have fair, factual and impartial information as to the true cost of the Leadership Project.

"At Will" vs. Civil Service

There has been considerable controversy in the county regarding converting so many civil service positions to "at will" positions. Some questioned the propriety of moving employees out of civil service. Others found no fault with the change and believed it would increase the opportunity for promotion. Still others were afraid to become Enterprise Leaders, believing that becoming "at will" would take away their civil service protections. It was not clear to the Grand Jury why being promoted to Enterprise Leader required employees to give up civil service status and become "at will."

The Board of Supervisors was well aware that many employees would leave the civil service system and become "at will." The supervisors were not as aware that many managers who had been in civil service and who had objected to becoming "at will" were allowed to remain with civil service as a Program/Business Leader but were not promoted to Enterprise Leaders, thus precluding further advancements.

There is confusion on the part of some managers as to the benefits of becoming an Enterprise Leader. And there is some fear on the part of others who believe they need the protection of civil service. The county's position on civil service status vs. "at will" has yet to be clarified for all employees.

Civil Service Commission

The Civil Service Commission is an independent body consisting of five commissioners, each appointed by a different supervisor. The chairman is selected by rotation among the commissioners. The commission arbitrates disputes between the county and its employees and conducts investigations regarding employment conditions.

In support of the Civil Service Commission there is one secretary. That secretary is physically located in the HR Department, and her salary is paid by the HR Department. The Jury was told the current secretarial location intimidates employees and makes them concerned about setting up a meeting with the Civil Service Commission. A long-time secretary has recently retired, and her temporary replacement is a full-time HR Department employee who is assigned part-time to the Civil Service Commission. A process is underway to hire a new secretary, and the Jury has been informed the HR Department wants to take part in the hiring process. Section 27-23 of the County Code states: "The civil service commission may appoint, with the concurrence of the board of supervisors, a confidential secretary who shall not, as such secretary, perform the duties of the personnel director or personnel officer. He shall serve at the pleasure of the commission."

At the Jury's request, the chairman of the commission reviewed the protection of records at the HR Department to verify that civil service work was kept confidential. He reported back that he was comfortable with the safeguards in place.

The commission should be perceived as independent and open to all employees. The Jury believes there is too close a link between HR and the commission. An example is a letter summarizing the changes to the civil service rules that was signed and sent to the Board of Supervisors by the HR Department on behalf of the Civil Service Commission.

Clerical Pay Changes

Pending approval by the Board of Supervisors, 900 clerical employees, not part of the Leadership Project, will be placed into bands with possible payroll increases. In many cases the pay raises can be substantial. The Grand Jury has not looked into the potential ramifications but has heard from several department heads that they are concerned that some clerical employees will end up earning more than some professional employees. The Grand Jury believes the Board of Supervisors should be aware of both the potential financial costs and the potential for decreased morale as a result of the application of the Project.

Impacts on Morale

Changes in any organization can result in feelings of inadequacy, insecurity, and intimidation. Lack of consistent implementation and effective communication can further complicate the progress of any program with no reflection on its quality or merit. The Leadership Project is no exception. When the Leadership Project was in its beginning phases, there was an attempt to organize a "management association" as a way of providing protections in bargaining with upper management. The issues which drove the middle managers to propose the association have not gone away. As stated above, some county managers have told the Jury that they are concerned the Project will work against them and their jobs will be in jeopardy if they agree to become "at will" employees. Clearly morale among many managers and departments has been adversely affected.

The Grand Jury recognizes the concerns of many hardworking and loyal county managers are valid. Failure to address these concerns and their impact on morale will interfere with the success of the Leadership Project.

In a program like this, it is inevitable that major changes will continue to be required. One area of concern to many is whether the program will be applied consistently across all departments. Interviewees have expressed concerns that salary bands are not consistent between departments, and that salaries based on experience and performance are not treated equally. Consistency is needed between departments and similar managers in different areas, so that all employees will agree they have been treated equally. The Grand Jury recognizes flexibility and an open mind will be required to make the changes necessary to keep this Project on target and to fulfill its mission.

CONCLUSION

The Leadership Project has the potential to reinvigorate and revolutionize management in Santa Barbara County. Leaders are to be rewarded for their success and have far greater flexibility in hiring and promoting their management staff. The pay structure has been clearly defined, and no manager should be confused as to how to earn pay raises or bonuses. Applying the Project equally and consistently to all departments will be key to morale and performance.

The county needs to guard against the Project's being controlled by only one department. The HR Department has not only created and implemented the Project, but it also has presented the financial summaries. The County Auditor-Controller has not been consulted, in spite of the weighty nature of the fiscal implications. As a result, the understanding of the Project by members of the Board of Supervisors is incomplete. Any financial understanding must also include an analysis of the additional costs of the retirement contributions by the county.

In addition, employees may lack an understanding of the full ramifications of giving up their civil service status. Some employees are reluctant to bring complaints to the attention of the civil service because the secretary is physically located within the HR Department. The HR Department and the office of the County CEO need to promote an atmosphere more conducive to working together with all employees, department heads, and supervisors so that the Leadership Project is more transparent for everyone.

The Project is a good project and, if affordable, is going to benefit the county. Supervisors and employees have told the Grand Jury that openness is essential to improving the Project. A Human Resources Department should be seen as a resource by employees, not a threat. Transparency will help that happen.

FINDINGS AND RECOMMENDATIONS

Finding 1:

The Human Resources Department has prepared the financial analysis for the Leadership Project, which it has created and implemented.

Recommendation 1:

The Board of Supervisors should require that all financial analyses of county payroll systems be prepared and presented by the Auditor-Controller.

Finding 2:

County employees are not universally aware of the impact of being an Enterprise Leader and "at will," as opposed to another leadership classification that remains under civil service protection.

Recommendation 2:

The Human Resource Department should prepare a short summary explaining the advantages and disadvantages of civil service vs. "at will." This summary should be distributed to all leadership employees, including those who are not "at will."

Finding 3:

There is widespread concern that the Leadership Project has not been applied consistently to all departments and classifications.

Recommendation 3:

As part of its annual review with each department, the Human Resources Department should specifically discuss and review the payroll bands to ensure against inconsistencies between departments.

Finding 4:

The full financial impact of proposed pay raises and pension contributions has not been provided to the Board of Supervisors. This includes raises for management as well as clerical employees.

Recommendation 4:

The Board of Supervisors should request the Auditor/Controller to prepare payroll analyses showing the fiscal impact of future pay raises for all classes of employees. Financial projections also should include changes in pension contributions.

Finding 5:

The Civil Service Commission does not give the appearance of being an independent body, serving both the county administration and county employees.

Recommendation 5:

The Civil Service Commission should be given its own budget to pay for a secretary. It should be assigned an office that is separate from the Human Resources Department. In accordance with Section 27-23 of the County Code, it should appoint its own confidential secretary.

REQUEST FOR RESPONSE

In accordance with Section 933(C) of the California Penal Code, each agency and government body affected by or named in this report is requested to respond in writing to the findings and recommendations in a timely manner. The following are the affected agencies for this report, with the mandated response period for each:

Santa Barbara County Board of Supervisors – 90 days

Findings	1, 3, 4, 5
Recommendations	1, 3, 4, 5

Chief Executive Officer – 60 days

Findings	1, 2, 3, 4, 5
Recommendations	1, 2, 3, 4, 5

Assistant Chief Executive Officer/Human Resources Director – 60 days

Findings	1, 2, 3, 4, 5
Recommendations	1, 2, 3, 4, 5

Auditor-Controller – 60 days

Findings	1, 4
Recommendations	1, 4

Civil Service Commission – 60 days

Finding	5
Recommendation	5