

**LOS ANGELES COUNTY
CITIZENS ECONOMY AND EFFICIENCY COMMITTEE**

ROOM 743, HALL OF ADMINISTRATION, 500 WEST TEMPLE / LOS ANGELES, CALIFORNIA 90012 / 625-3611, Ext. 64605

August 31, 1966

Honorable Board of Supervisors
County of Los Angeles
383, Hall of Administration
Los Angeles, California

Gentlemen:

**Raymond Arbuthnot
John C. Bollens
Max Candiotty
Myron J. Carr. Jr.
P. S. Magruder
Mrs. Wayne Licher
Kiyoshi Maruyama
Irvin Mazzei
Maurice McAlester
Harold C. McClellan
Lee McNitt
Ferdinand Mendenhall
Robert Mitchell
A.C. Rubel
Mrs. Benjamin Erick Smith
J. B. Roche,
Executive Secretary**

COUNTY COMPENSATION POLICIES AND PRACTICES

Last year, on motion of your Board, this Committee initiated an overall study of the County compensation policies and practices. At that time, with your Board's approval, we organized a Special Industry Committee composed of the vice presidents and personnel directors of eleven companies representing a cross section of Los Angeles business and industry to make an in-depth study of the Joint Salary Survey and the County's compensation practices. They in turn appointed a wage and salary study subcommittee composed of wage and salary managers or specialists in their companies. The Chairman of the Committee was Robert D. Gray., Director of the Industrial Relations Center at the California Institute of Technology. A list of the Industry Committee members is contained in Appendix I.

The Industry Committee spent many hours over a span of four months reviewing the County's compensation practices, comparing them with those used in other governmental agencies and in private industry, and analyzing proposals for improvement. It also met on three occasions with the Chief Administrative Officer or members of his staff to review various aspects of the County's compensation

system. The Industry Committee completed its work and submitted its report to the Economy and Efficiency Committee in February, 1966. At this time we thank the members of the Special Industry Committee for their excellent work and express our deep appreciation to their companies for the loan of their services.

Before submitting a final report to your Board, our Committee concluded that we should first review the Industry Committee's report with concerned employee and union representatives. This we have done, both at a general meeting which we held on March 14, and later in individual meetings with employee and union representatives. Our report is thus based upon the findings and recommendations of the Special Industry Committee with some modifications and additions resulting both from our own analysis and from our talks with employee and union representatives.

I. Setting Salaries Existing Primarily in Government

The County has many jobs which are common to governmental agencies and institutions--such as social worker, probation officer, deputy sheriff, and fireman--for which salaries cannot be determined directly from a survey of salaries paid by private industry. Approximately one-half of the jobs in County government are of this type. The Joint Salary Survey does not provide prevailing wages for setting specific salary levels for these jobs. The County consequently collects information on the salaries paid these jobs from other government agencies. As the recent labor trouble with the social workers indicates; however, this practice is not satisfactory in establishing salaries which both County

management and County employees agree are fair and equitable. It appears clear, therefore, that a more acceptable approach to setting salaries in these categories is required.

The development of proper measurements and guidelines for these jobs will be a very difficult and time consuming process. Nevertheless, as we listened to the numerous salary presentations made by employee groups to your Board during the salary hearings, we were convinced that regardless of the time and effort required, it is essential that more effective guidelines for the fixing of salaries for jobs peculiar to government be established.

We therefore recommend that your Board employ an outside management consulting firm to develop and recommend more effective procedures for determination of pay scales for jobs peculiar to government. Once these procedures have been established, their application should be continued as an assignment by the County's regular staff using outside help from time to time only as needed.

Our Committee, if you so request, will assist in setting up such a survey by recommending outside experts, participating in the formulation of specifications, obtaining cost estimates, and reviewing the consultants' recommendations.

II. Compensation for Craft Jobs

In 1951, your Board agreed to set the salaries of the County construction craft positions (such as carpenter, plumber, electrician, etc.) based on wages negotiated in the construction industry minus 11%. The percentage reduction was negotiated on the basis that County fringe benefits and other working conditions

were significantly better than those paid in the construction industry. The County Charter provides that the County must pay at least prevailing rates for comparable work insofar as these can be ascertained. The application of the AGC minus 11 per cent formula for craft workers has resulted in salaries and wages considerably in excess of amounts paid for comparable work in private firms other than the construction industry.

We believe that the present AGC formula used by the County in setting salaries for some craft employees is inequitable. No employee outside of the crafts and only a portion of the craft employees have the privilege of having their rates tied to those of a special group with significantly different working conditions.

In making wage surveys it is essential that the jobs be as comparable as possible. The establishment of comparability has historically been difficult in certain craft jobs such as painter, carpenter, electrician, etc. Some attempts have been made to distinguish between construction and maintenance work, but this is not a valid distinction because sometimes the same persons are used interchangeably and sometimes maintenance or reconstruction may be even more difficult than original construction.

A logical distinction can be made between (1) craftsmen who are hired on a continuing basis and who report every day to the same employer at the same location and (2) craftsmen with the same job title who are hired for specific jobs for limited periods, requiring the craftsmen to look for another job in a different locality and often with a different employer every time a specific job is completed.

Employment by the Associated General Contractors (AGC) and other contractors falls in this latter category. In contrast, most other firms, including investor-owned utilities, petroleum, department stores, aerospace companies, and others, employ craftsmen on a "permanent basis."

Instead of paying certain craft employees working for the County of Los Angeles on the basis of AGC rates minus 11 per cent, we recommend that the County set their salaries on the basis of a survey covering comparable "permanent" jobs and working conditions.

We do not recommend a cut in wages for these craftsmen; but we do believe that future increases should be appropriately controlled until the rates are in line with the data collected in such a survey.

III. Executive Compensation

The Committee has spent some time in reviewing the compensation for management level jobs. Based on our review, we feel that there are a number of salary inequities among these jobs.

On a County-wide basis, the average differential between a department head and his chief deputy is between 10 and 11 schedules or approximately 30 per cent. However, this varies from three schedules in the Mental Health Department to as many as 14 schedules in the Human Relations Commission. Other inequities have developed between departments. For example, the Sheriff' has two division chiefs, with 741 and 1231 subordinates respectively, compensated at Schedule 73, each of which is responsible for a segment of his detention facilities. In the

Probation Department, the probation officer has one division chief with 1532 subordinates who is responsible for all juvenile detention facilities, compensated at Schedule 67.

Based on the foregoing, we feel strongly that an independent study of executive compensation in Los Angeles County should be undertaken. The study should cover salaries at the department head, chief deputy, and division chief levels. Our Committee has neither the talent nor the organization to conduct such a study. We also believe volunteer help recruited from industry would be inappropriate for this purpose. Therefore, we have conferred with a firm of experienced consultants in this field. In their opinion a. study of approximately 350 positions, which comprise these executive levels in County service, would take from four to five months and would cost approximately \$50,000. Such a study would include the gathering of prevailing salary data from private industry and from other governmental agencies for positions with similar responsibilities. It would also include an evaluation of the relative responsibility of various County executives and recommendations as to proper salary relationships.

We recommend that your Board authorize such a study. The study should be completed by April 1, 1967, so that results can be incorporated in next year's salary recommendations. Since the study should be conducted independently of any County department, we believe it should be performed under our supervision by a firm which we would recommend to your Board.

IV. Employee Benefits

Employee benefits are a large and increasing part of wage costs, and therefore must be considered in any discussion of

compensation. However, because of the wide mix of benefits within private industry, and the relative importance placed on the individual benefits within each company, it is difficult and unrealistic to establish a comparison of all benefits in terms of provisions or even costs since the same benefit will result in different costs under varying circumstances.

Our analysis indicates that the cost of fringe benefits to the County in 1965 approached 28 per cent of the total payroll. This amounted to approximately 90 million dollars. With the approval this year of a medical and hospital plan for County employees, this figure will rise in 1966 by at least four million dollars. One must be careful in comparing the values of fringe benefits in different organizations since the method of computing costs may vary widely. It is clear, however, that the County benefits compare favorably with those in industry for which the average cost in 1963 was approximately 25 per cent according to a survey on fringe benefits conducted by the U.S. Chamber of Commerce.

Although we support a medical and hospital plan for County employees, we believe strongly that such changes in the employee benefit plan should take the entire benefit package into consideration rather than be made on a piece-meal basis. While the County's new health plan is conservative in comparison to some plans in private industry, the County's holiday, vacation, sick leave, and retirement benefits are more liberal than the prevailing practice in industry. County employees receive an average of 11 holidays each year. The prevailing practice in industry is seven or eight. County employees receive two weeks

vacation after one year, three weeks after five years, and an additional day for each year of service over ten years. They receive four weeks vacation for service beyond 14 years. Very few companies are as liberal in their vacation benefits.

On the other hand, County employees are not paid a premium rate for hours worked in excess of the established work week. The common, but not uniform, practice is to allow County employees time off at a later date on an hour for hour basis. Under certain circumstances the employee may receive additional pay at a straight time rate for the hours worked overtime. In other cases, he may lose overtime compensation altogether, either as additional pay or as compensating time off. In contrast industry generally pays a premium rate for such overtime hours for covered employees. While overtime is technically not considered a "benefit" as such, it is a factor in total compensation.

With these points in mind, our Committee recommends that the County adopt a policy of conducting periodically a separate survey of the employee benefit programs offered by major employer groups and that the results of this survey be related only to the County employee benefit program and not applied to any of the rate ranges within the rate structure. The Committee further suggests that standardized and published criteria be used as a guide in determining the inclusion of a particular benefit in the survey, such as:

- a. the benefit reflects formal company policy;
- b. it is offered to the majority of employees, or others in particular salary or job classes;

- c. it involves a cost on a continuing basis;
- d. the benefit is provided in addition to pay for actual time worked.

Again we wish to emphasize that changes in County employee benefits should take into consideration the entire package of major benefits and how it compares with area practice.

V. Joint Salary Survey

Although our full report on County salary practices had not then been completed, we submitted a preliminary report to your Board on May 16th covering our final conclusions on the portion of our study covering the validity of the Joint Salary Survey. This report is attached as Appendix II.

Our conclusion is that the Survey is conducted objectively and in a professional manner. The procedures have been improved from time to time to keep pace with general improvements in surveys. However, on the basis of the findings of the Special Industry Committee, we believe further improvements can be made. These changes are designed to improve the display of data in the survey report in order to make it more adaptable to the uses of the government agencies who conduct the survey and the private firms who participate in it. Since the Survey is conducted by joint arrangements with other public jurisdictions, we recommend that your Board instruct its representatives to propose these changes to the other agencies and urge their adoption.

1. Classify employers participating in the Joint Salary Survey by a more detailed breakdown than the four major types now listed.

At the present time, the scope of the survey is indicated in part by a summary table showing the distribution of employment and comparable jobs surveyed by four major types of industries: (1) manufacturing, (2) utilities, transportation and communications, (3) trade and service, and (4) construction. The classifications of manufacturing and of trade and service could be subdivided into several groups either by size, such as manufacturing with 5,000 employees or more and manufacturing with less than 5,000 employees, or by type of industry, such as (a) retail trade, (b) banks, insurance, and other financial firms, etc. Even with such an improvement, the data would reflect only the general adequacy of coverage.

2. Publish this more detailed breakdown for each job surveyed.

The Committee emphasizes that a survey of wages and salaries for 57 jobs should be appraised as 57 surveys, not just one survey. The overall sampling may have been adequate) but how does the sampling look for each position? It is recommended that the improved descriptive table showing the industrial sources of salary data be published for each position so that everyone can determine how much weight should be given to the "prevailing rates" as revealed by the survey.

3. Identify the jobs which are considered comparable to those in County service.

The annual wage and salary survey should also be improved by identifying the survey jobs which are considered comparable to those of the County and what the current salary range and distribution is for these County positions.

4. Show actual rates and scheduled hours per week in the published salary data in addition to converting such rates to a 40-hour work week.

In reporting wage and salary data, the Joint Salary Survey Committee should publish data for each job grouped by the specific work week reported: 40 hours, 37 1/2 hours, 35 hours, etc., in addition to adjusting wages and salaries to a 40-hour work week. The present practice of converting all rates to a monthly salary based on a 40-hour work week conceals whatever the actual practice may be. It is necessary to know prevailing hours scheduled per week and what specific salaries are paid for various work weeks. Judgment rather than a formula is required in valuating these diverse data.

5. Collect information on changes in salaries during the past year as well as the distribution of current salaries.

In addition to the specific information collected for each job in the survey, the Joint Survey Committee should gather and report data on what general changes, if any, have been made in wages and salaries during the preceding year. These data might be for the company as a whole or by job families or by salary levels. Such information will be helpful in interpreting the results of the wage and salary survey because it can be pointed out that general increases or that various special increases in rates have been made.

The present survey method could indicate either an increase or a decrease in rates without any change having been made. For example, a survey made after an extensive lay-off could reflect an increase in the average, median, and quartiles for the job, and a survey made after extensive hiring could reflect a

decrease in these measures, even though the employer made no change in salaries. The explanation is that there is a tendency to lay off and to hire employees in the lower part of a salary range.

6. Include, wherever possible, data for more than one level of job in each occupational group studied.

Since the County usually has a series of levels of jobs in any occupational group (such as clerk, intermediate clerk, and senior clerk) the survey should measure the general movement of wages for each broad occupational group. The survey should be designed to measure salaries for a job family or at two or more levels, not just one. It cannot be assumed, for example, that a one-step increase in salaries at an intermediate level justifies a one-step increase at all levels. There might have been a smaller or larger increase at lower and higher jobs in the same broad occupation.

7. Secure data for the Joint Salary Survey through joint activity with the U.S. Bureau of Labor Statistics and the California State Personnel Board.

The County should vigorously pursue its present attempt to consolidate the data gathering of the Joint Salary Survey with that of the California State Personnel Board, the U.S. Bureau of Labor Statistics, and other governmental agencies.

VI. Application of Survey Data to Comparable County Jobs

In applying survey data to County jobs, the current County practice identifies the average rate for a particular job in the survey with the middle step (step 3) of the range for the comparable County job. However, in many cases the majority of County

employees in a particular job have advanced beyond step three to steps four or five. Consequently, in these cases the association of the average rate in the community with step three in the County range results in the average rate for County jobs exceeding the average rate for comparable jobs in the community. Because of recruitment problems or particular working conditions, the County may be justified in some instances in paying more than the prevailing rate in the community. However, the practice of paying more than the average community rate should be closely controlled. Therefore, the Committee recommends that the County personnel staff be instructed to compute and compare community and County averages in order to limit the payment of more than the average rate in the community only to those jobs where circumstances clearly require it.

VII. Periodic Appraisal of Compensation Procedures

At least every five years a group consisting of representatives actively engaged in the salary setting process and a knowledgeable representative from a public non-governmental agency, as chairman, should be appointed by the Board of Supervisors. The functions of this group would be to review the procedures used in the salary survey, to audit at least a sample of the data collected, to study the salary setting methods used by the County, to analyze the County's entire compensation package, and to recommend any necessary improvements in policies, procedures, and administration. We believe that such an appraisal would insure that the salary survey is conducted without bias and that the County's compensation procedures are

properly administered.

VIII. Summary of Committee Recommendations

In summary, we recommend that your Board:

1. Employ an outside management consulting firm to develop and recommend more effective procedure for determination of pay scales for jobs existing primarily in government.
2. Set compensation for all craft jobs on the basis of a survey covering comparable jobs with similar working conditions.
3. Authorize a study by a management consulting firm of County executive compensation to be completed by April 1, 1967, the study to be conducted under the supervision of the Economy and Efficiency Committee.
4. Conduct separate surveys of employee benefit programs in the community. In making adjustments to the County's benefit program, consider the entire package of benefits in comparison to area practice.
5. Instruct the County representatives on the Joint Salary Survey to propose to the other agencies the seven changes in survey procedure listed in the body of this report and urge their adoption.
6. Instruct the County personnel staff to compute and compare community and County averages in order to limit payment of more than the average

rate in the community only to those jobs where circumstances clearly require it.

7. Appoint a special committee of qualified individuals at least every five years to make an overall appraisal and audit of County compensation policies and practices.

Very truly yours,

A.C. Rubel, Chairman
Economy and Efficiency Committee

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J. B. Roche,
Executive Secretary

APPENDIX I

SPECIAL INDUSTRY COMMITTEE

Forrest E. Branch
Director of Employee and
Public Relations
American Potash & Chemical
Corp.

Charles H. Faulkner
Manager, Industrial
Relations
Southern California Edison
Co.

S. A. Halgren
Vice President, Public
Relations
Carnation Company

Clifford F. Schwarberg, Jr.
Vice President, Personnel
Bullock's

Austin W. Strong
Vice President
Southern Calif. Gas Company

N. T. Ugrin Vice President,
Industrial
Relations Union Oil Co. of
California

J.C. Ellsworth
Senior Vice President
United California Bank

Robert D. Gray, Chairman
Director, Industrial
Relations Center
Calif. Institute of Tech.

Robert S. Putnam Vice
President of Industrial
Relations Norris-Thermador
Corp.

E.D. Starkweather
Vice President Personnel
North American Aviation,
Inc.

Herbert L. Sutton
Personnel Director
Pacific Mutual Life Ins.
Co.

Fred C. Walker
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Wage & Salary Study Subcommittee

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Southern California Gas Co.

Donald G. Hilliard
Salary Administrator
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B.L. Chandler
Manager, Compensation &
Pers. Serv.
American Potash & Chemical
Corp.

Roland Jones
Director of Industrial
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Carnation Company

Charles H. Miller
Manager; Wage & Salary
Services
Union Oil Company of Calif.

Jerald Russ
Personnel Director
Bullock's Downtown

N. S. Gomsrude
Corporate Director
Wage & Salary
Administration
North American Aviation,
Inc.

Nelson Higby
Head, Salary Administration
Personnel Relations
United California Bank

Norman M. Kellett
Manager, Industrial
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D.G. Probst
Specialist, Industrial
Relations
Union Oil Co. of Calif.

D. Thomas Van Etten
Personnel Director
Presbyterian Intercommunity
Hospital

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7/18/66

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APPENDIX II

May 16, 1966

**Raymond Arbuthnot
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Honorable Board of Supervisors
County of Los Angeles
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Los Angeles, California

Gentlemen:

VALIDITY OF THE JOINT SALARY SURVEY

For your information, the Citizens Economy and Efficiency Committee is scheduled to make two reports to your Board in the next few weeks, one on May 24 at 9:30 a.m. covering Civil Service operations and the other on May 31 at 9:30 a.m. covering County organization structure.

We also expect to complete our study of County compensation policies and practices in the next few weeks. Part of this study involves the validity of the Joint Salary Survey which your Board asked us to study as a result of the criticism directed against it during last year's salary hearings, notably by Mr. George Jordan of Taxation, Inc. Although our complete report on salary practices cannot be presented before this year's salary hearings beginning on May 17, we believe it may be helpful to your Board to report certain

conclusions which we have reached with respect to the Joint Salary Survey.

1. The Joint Salary Survey is an objective survey conducted in a professional manner by competent persons. We have reviewed the survey procedures from beginning to end and have uncovered no evidence to indicate that the salary rates as collected are influenced by self-interest or a predisposition for certain results on the part of the employees involved.

2. As far as we can determine, the survey reflects an accurate cross-section of Southern California industry. Of the 702 firms in the 1965 survey, 274 or approximately 40%; employed less than 250 people. Approximately 20%; employed less than 100 people. Among the types of businesses represented in the survey, we classified 38% as manufacturing firms, 30% as service and wholesale firms, 7% as hospitals and medical laboratories, 7% as banks and financial institutions, 5% as retail stores and 5% as construction firms.

Among the manufacturing firms, we identified 50 as government contractors on the basis that 50% or more of their sales go to government agencies. However, because some of these firms are the largest in the area, the job rates collected from them amount to 19% of the total collected in the survey. These figures, we believe,

reflect a reasonable ratio of government contractors versus commercial firms and small versus large firms in the survey. Our conclusion is that the rates collected for the 57 benchmark positions are accurate

indicators of the prevailing rates in the community and, therefore, provide a sound basis for setting salary rates in the County.

3. In the past, the Joint Salary Survey has not published the names of the contributing firms for fear that a number of them would refuse to participate if their names were released. As a consequence, Mr. Jordan criticized the survey for the secrecy which surrounds the names of the participating firms. This year, however, the survey team asked each company for permission to list its name. Each firm which agreed has been listed in the survey report. This listing includes 75% of the contributors.

4. The survey has been criticized because it does not take employee benefits into account. Our Committee disagrees with any proposal that would treat salaries and employee benefits as equivalents. In other words, salaries are not a substitute for benefits and benefits are not a substitute for salaries. We feel, therefore, that it is entirely proper that the Joint Salary Survey limit its information to actual salary rates. Information on

employee benefits in private industry should be collected separately from the salary rates.

5. In his criticism of the Joint Salary Survey, Mr. Jordan emphasized that the tenure of County employees should be taken into consideration in setting County salaries. Our Committee does not agree. First of all, we know of no way in which tenure can be translated into dollar terms, either on the basis of cost to the company or benefit to the employee, as is the case with other fringe benefits. We therefore see no way in which County salaries can be adjusted to take job tenure into account.

Secondly, it is not true, as is commonly assumed, that County Civil Service employees cannot be discharged. Department management can discharge any Civil Service employee at any time. If the employee has not completed his six month probationary period, the departments decision is final. If he has completed the six-month period, the employee has the right to appeal the action to the Civil Service Commission. There is no basis, therefore, to include tenure as a consideration in the adjustment of County salary rates.

These conclusions are based on the findings of the Special Industry Committee which we formed to study County compensation practices. The Industry Committee, however, also concluded that certain improvements can be made in the reporting of survey data. These recommendations will be included in our forthcoming report.

Very truly yours,

A. C. Rubel
Chairman

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