1. Call to Order/Roll Call

The meeting was called to order by Committee Chair Au at 10:05 am. Committee Chair Au welcomed everyone in attendance. Roll call is completed.

2. Review of Executive Committee Meeting Notes – March 3, 2014

THE ITEM WAS RECEIVED AND FILED

3. Standing Updates

   1. Review of Annual Operating Budget
   2. Annual Audit
   3. Review of Annual Report to the State Commission
   4. Fiscal
   5. Contract Compliance
   6. Quality Assurance
   7. Evaluation
   8. Policy and Advocacy
   9. Personnel and Compensation

Ms. Chough gives a brief update on the FY14-15 proposed budget timeline.

She indicates that the draft proposed budget for FY14-15 will go before the Budget and Finance Committee meeting on April 21 for its review. Then, it will probably go before the Executive Committee meeting again in May, before it is presented to the Commission in June.

If necessary, Ms. Chough states that staff may review the final draft of the proposed budget for FY14-15 with the Budget and Finance Committee again before it goes before the full Commission for action in June.
Committee Vice Chair Kaufmann wants to know if this meets the recommendations of the Harvey Rose report so that staff can highlight these completed recommendations accordingly.

Ms. Chough acknowledges this suggestion and indicates that staff will come back at a later date with possible changes.

Commissioner Dennis would like to know how we will have the community involved in the new direction that First 5 LA is heading, so that the community will understand the budget changes that are being made. One possible way, as suggested by Commissioner Dennis is for there to be a discussion around the Budget at future Program and Planning Committee meeting. He wants to ensure that that community is engaged in the changes that are taking place at First 5 and that these changes will be reflected in the proposed budget for FY 14-15.

Ms. Belshé informs the Executive Committee that First 5 LA has already planned a public webinar that will allow the Community to learn more about the status quo budget that is being proposed, in addition to the current strategic planning process as well as First 5 LA’s long term financial projection, given the decline in revenues.

There is no further discussion on this item.

4. Compensation and Benefits Study

Mr. Wagner introduces Mr. Keimach, who will give a presentation on the Compensation and Benefits Study that has been undertaken at First 5 LA.

Mr. Wagner says that First 5 LA is finally building a solid classification and grading system of positions at First 5 LA through a comparison and analysis and systemic review process. For example, Mr. Wagner says that currently, we use a pay system that was inherited from previous practices where a new staff member, whom was brought aboard, would be hired at 5% above of their previous pay, regardless of what their position was previously.

In addition, when someone left the position, that position’s pay scale was frozen at that same schedule and the new person hired, would then receive that same pay schedule, regardless of their experience or what they were getting paid previously.

There is not a consistent process to how positions were compensated. As a result, inequities were created and some people with the same job title, were getting paid as much as a $20,000 difference from another person with the same exact job title.

As the L3 indicated, First 5 LA is viewed by staff as not being fair.

Committee Vice Chair also comments that employees were promised raises that was never brought before the Commission for approval, making First 5 LA seem untrustworthy.

Mr. Wagner reminds the Committee that the current presentation that Hay will be giving is a draft recommendation that will help to strengthen First 5 LA as a high performing organization.

Mr. Wagner now hands over the presentation to Mr. Keimach.
Mr. Keimach says one of the goals of today’s presentation will be to determine if all of his presentation today should be presented to the full commission, or just some of it. Mr. Keimach and staff are open to suggestions.

He gives a brief background on what has happened thus far, with the compensation study that has been undertaken at First 5 LA. He reminds the Committee that the Hay Group has already met with the Executive Leadership to discuss organization First 5 LA attracts talent from and loses talent to.

As part of the study, Mr. Keimach indicates that the Hay Group has worked with First 5 LA leadership to learn about its currently business strategy in addition to operating models and challenges. Hay group also interviewed each department and program lead to get a better insight into the First 5 LA’s roles.

The Hay Group then measured all the content of the jobs in the organization using Hay Group’s methodology. The job content findings were also validated by senior leadership and HR.

It has found that First 5 LA does not have a fair and consistent way of compensating its employees. For example, a new employee would get the salary that the previous employee in that position was paid, regardless of what the employee is currently getting paid in his/her current position or were paid in the last position. In addition, a program officer could be paid as much as a $20,000 difference in salary from another program officer, just for the mere fact that there is no consistent methodology in the way that First 5 LA assigns salaries to its new employees. This can make it very difficult for First 5 LA to attract new talent and/or retain the current talent they have due to the inequity amongst employee salaries.

Mr. Keimach goes through and explains that all jobs are measured by three aspects:

1. Knowledge required to do the job (input)
2. Problem solving involved to do the job (throughput)
3. Results expected from doing the job (output)

He explains that Hay Group also constructed an external market for comparison by using a combination of sources representing organizations with which First 5 LA might compete for employee talent.

Using LA County as one comparison, Hay Group determined that what LA County has, that First 5 LA didn’t have, is a defined contribution plan. Mr. Keimach said that it would not be possible to compete with this benefit given how expensive it would be to implement. Mr. Keimach also adds that senior leadership also agreed with this determination.

Overall, Mr. Keimach indicates that base salary levels for positions at First 5 LA fall around the median of the market, which is considered the “competitive” level. However, there are some variances by grade level.

- Support, administrative positions and entry to mid-level professionals tend to be paid in line with the market
- For seasoned professional roles and functional leaders, there is less differentiation in base salary between different grade levels than is seen in the market
- Higher-level directors and executives generally fall below the market, but move closer to the market at the executive levels

EXECUTIVE COMMITTEE
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As part of the Hay Group’s methodology, Mr. Keimach says that market data was collected, via local data sources and Hay Group’s compensation databases, in order to determine First 5 LA’s competitive market position. He notes that all compensation data was updated to reflect a common effective date of July 1, 2014. In addition, Mr. Keimach says that all data pulled from national data sources was adjusted by a geographic differential of 12.4% to reflect the cost-of-labor in the Greater Los Angeles Area.

Once all this data was collected, Mr. Keimach states that a review process was initiated where after reviewing internal job levels and competitive market data, Hay Group developed a salary structure designed to help First 5 LA establish internal pay equity and external competitiveness.

In order to properly study First 5 LA’s competitiveness, 34 positions were selected to be surveyed, which contained $28% of the jobs and $67% of the incumbents in the organization.

Mr. Keimach states that jobs were selected based on the following criteria:
- A selection of different levels across departments and job families
- “Journey” or fully-qualified level
- Positions that can be reliably matched to the market (i.e., roles that tend to be found in most organizations)
- Positions that were likely to have a significant number of matches among market data sources

Mr. Keimach continues his presentation by indicating that he and his team worked very closely with the HR team and leadership at First 5 LA to validate job measurement findings. Accordingly, he and his team applied significant rigor to the job content analysis because they believe consistent internal measurements are important for employee development, salary structure development, overall fairness, and also provide a reliable map to the external market.

Hay Group then assigned job content levels to First 5 LA:

<table>
<thead>
<tr>
<th>Level</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>21+</td>
<td>Highly seasoned professional directors overseeing a major functional areas or departments. Focuses primarily on setting long-term strategies and objectives for a function which is relatively homogeneous nature with necessity for integrating into the overall business objectives of the company. Relatively high degree of autonomy in taking action to set operational goals given general management direction and functional policies.</td>
</tr>
<tr>
<td>20</td>
<td>Advanced level functional directors of homogeneous activities or departments. Involves the longer-term strategic planning and budgeting of all areas within the function with first-line managers responsible for daily operational implementation of action plans. Actions are typically directed by specific functional precedents and the achievement of circumscribed operational activity.</td>
</tr>
<tr>
<td>19</td>
<td>Functional Managers with responsibility for managing the daily operations of department(s) or work unit while developing short to medium-term action plans for meeting functional goals. Work often accomplished through subordinate supervisors or project leaders. Consultative or research/analysis positions with a long-term development or advisory focus.</td>
</tr>
<tr>
<td>18</td>
<td>Primarily composed of functionally proficient positions typically managing the daily operations of a department or a group. Requires a high degree of human relation skills for managing subordinates or working with external contacts. Also may be advanced technical positions requiring a high degree of innovative and conceptual thinking. Problems solving skills focus on broad operational and strong functional issues and heavy tactical initiatives. Quarterly or annual focus.</td>
</tr>
<tr>
<td>17</td>
<td>Primarily composed of seasoned professional positions with extensive experience. Typically a manager of a small department or area or team / project leader of a technical function. Problem solving skills focus on broad operational and strong functional issues. Monthly to quarterly focus.</td>
</tr>
<tr>
<td>16</td>
<td>Primarily composed of highly proficient seasoned professionals. Managers of programs and events, senior individual contributor or entry managerial position over other junior level professionals. Interprets policies to develop procedures for others to use. Project based, weekly to monthly focus.</td>
</tr>
</tbody>
</table>
Mr. Keimach informs the Executive Committee of the following findings:

- Hay Group examined the relationship between base salary and job content levels (determined during the job evaluation phase)
  - There is generally a positive relationship between evaluated job content and base pay (as job size increases, pay increases)

- Pay dispersion is seen at some job content levels. This is an appropriate HR practice and is typically due to:
  - Varying years of service
  - Employee’s salary previous to First 5 LA
  - Outstanding individual performance
  - Pay pressure in the external market on particular jobs and/or skill sets

- There are several positions we identified that appear to be paid inconsistent with their internal value to the organization
  - There are several positions we identified that appear to be paid inconsistent with their internal value to the organization

Mr. Keimach moves on to the next part of his presentation to explain how it is that they define the market. He states that Hay Group and First 5 LA worked together to construct an external market for comparison by utilizing a combination of sources representing organizations with which First 5 LA might compete for employee talent.

Some examples are as follows:
- Hay Group’s US Executive Compensation Report
- Hay Group’s US General Market Professional/Managerial Report
- Local city and county data, e.g. City of Los Angeles, County of Los Angeles
- Local organizations from whom First 5 LA may recruit from/lose staff, e.g., UCLA, County of Los Angeles, etc.
Mr. Keimach says that Hay Group matched each benchmark position to survey data based on similar job content levels. In addition, he informs the Committee that market results are calculated according to the measures below:

- P25 is the 25th Percentile
  - 75% of the data is above this point, and 25% below
- P50 is the 50th Percentile
  - 50% of the data is above this point, and 50% is below
- P75 is the 75th Percentile
  - 25% of the data is above this point, and 75% is below

Mr. Keimach indicates that in cases where LA County data cuts were unavailable for a position match, a geographic differential was applied to the market data, to reflect a differential in pay practices in the LA County area versus national average.

Overall, the Hay Group did find that there was some variation found by grade:

- Support, administrative positions and entry to mid-level professionals (levels 13-15) tend to be paid at market
- Seasoned professional roles and functional leaders (levels 16-20) had less of a differentiation in base salary between different grade levels than is seen in the market – First 5 LA pay practice tracks lower than the competitive market
- Higher-level directors and executives (levels 19 and above) generally fall below the market, but move closer to the market at the executive levels

They also found that First 5 LA provides a full range of benefit programs to its employees that vary in market competitiveness depending on salary:

- The benefits program for employees earning up to $100,000 is above the market median, due in large part to the competitive health care program
- The benefits program for higher paid employees approximates falls below the market median due to the less competitive retirement program and caps on death and disability benefits

Other key findings with regards to First 5 LA’s benefits versus benefits market are highlighted in the chart below:

<table>
<thead>
<tr>
<th>Benefit Area</th>
<th>Market Position</th>
<th>Key Findings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Benefits</td>
<td>≤ $100K</td>
<td>&gt; $100K</td>
</tr>
<tr>
<td>Total Retirement</td>
<td>50th - 75th percentile</td>
<td>&gt; $100K</td>
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<tr>
<td></td>
<td>&gt; $100K</td>
<td>&gt; $100K</td>
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</tr>
<tr>
<td>-----------------------</td>
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<td>-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Healthcare</td>
<td>$\leq 100K$</td>
<td>- First 5 LA requires NO employee premium contributions for medical (HMO only), dental or vision coverage. The PPO medical plan does require employee premium contributions; however, most employees are not enrolled in the PPO</td>
</tr>
<tr>
<td></td>
<td>$&gt; 100K$</td>
<td>- Prevalent market practice requires contributions of 20% to 25% premium contributions for single and family coverage</td>
</tr>
<tr>
<td></td>
<td>&gt; 75th percentile</td>
<td>- The HMO is the most prevalent plan for First 5 LA employees, which maintains low out of pocket costs – no deductibles or coinsurance, low copayments (office visits and prescriptions)</td>
</tr>
<tr>
<td></td>
<td>&gt; 75th percentile</td>
<td>- Prevalent plans in the market are PPOs that include deductibles, coinsurance (percentage paid by employer/employee, typically 80/20 or 90/10) and higher out of pocket maximums</td>
</tr>
<tr>
<td></td>
<td>&gt; 75th percentile</td>
<td>- Dental coverage is typically cost shared in the market and requires more employee out of pocket costs, including a deductible and annual maximum</td>
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<tr>
<td></td>
<td>&gt; 75th percentile</td>
<td>- Vision coverage is typically employee paid in the market</td>
</tr>
<tr>
<td>Death</td>
<td>75th percentile</td>
<td>- First 5 LA’s basic benefit of 2 times base salary up to a $200,000 maximum is at the market P75, as a benefit of 1 times base salary is most prevalent in the market.</td>
</tr>
<tr>
<td></td>
<td>25th – 50th percentile</td>
<td>- The $200,000 maximum diminishes the market position, as salary increases</td>
</tr>
<tr>
<td>Disability</td>
<td>&lt; 25th percentile</td>
<td>- First 5 LA provides 10 days of sick leave annually, with no maximum</td>
</tr>
<tr>
<td></td>
<td>&lt; 25th percentile</td>
<td>- In the market, limited sick days combined with employer paid short term disability (STD) coverage is prevalent</td>
</tr>
<tr>
<td></td>
<td>&lt; 25th percentile</td>
<td>- First 5 LA also provides long term disability (LTD) coverage – 66 2/3% benefit up to a $6,000 month, following a 90 day elimination period</td>
</tr>
<tr>
<td></td>
<td>&lt; 25th percentile</td>
<td>- While the LTD benefit is aligned with the market, the limited income replacement provided for short term disability decreases First 5 LA’s market position</td>
</tr>
<tr>
<td></td>
<td>&lt; 25th percentile</td>
<td>- First 5 LA employees do contribute to the State disability program, which improves the disability income replacement for all employees; however, the State program is not reflected in the value as it is not paid for by First 5 LA</td>
</tr>
<tr>
<td>Other Benefits &amp; Allowances</td>
<td>&gt; 50th percentile</td>
<td>- First 5 LA provides transportation benefits to employees, up to a $60 monthly reimbursement for parking or transit</td>
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<tr>
<td></td>
<td>&gt; 50th percentile</td>
<td>- First 5 LA also provides an EAP, discounted services, and pre-tax spending accounts, which are all prevalent in the market</td>
</tr>
<tr>
<td></td>
<td>&gt; 50th percentile</td>
<td>- Tuition reimbursement is also prevalent in the market, but is not provided by First 5 LA</td>
</tr>
<tr>
<td></td>
<td>&gt; 50th percentile</td>
<td>- Other Benefits includes: Transportation, telecommuting, adoption and tuition assistance, access to pre-tax spending accounts, EAP and discount programs. Allowances include: car, club, and fitness</td>
</tr>
<tr>
<td>Holidays &amp; Vacation</td>
<td>Above Market</td>
<td>- First 5 LA provides 12 paid holidays, which is more than typical market practice of 10 holidays</td>
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<td></td>
<td></td>
<td>- First 5 LA’s service based vacation schedule provides 10 days annually up to 3 years, 15 days in the 4th year and 20 days thereafter</td>
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<td></td>
<td></td>
<td>- First 5 LA provides a higher accrual at lower service levels to its employees, but the 20 day maximum is on the low end the typical range of 20 to 25 days</td>
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</tbody>
</table>
Based on these findings, Hay Group determined that the mix of First 5 LA’s benefits is not aligned with the market and relies heavily on the strength of its health care program for its market position.

Given this, Mr. Keimach states that Hay Group gives the following recommendations to improve First 5 LA’s market alignment, increase market competitiveness, and enhance recruitment and retention of employees:

- **Healthcare** – Cost sharing in the form of employee premium contributions or deductibles and coinsurance should be introduced. The health care program provides significant value to First 5 LA’s compensation package, especially for employees at lower salary levels. Any changes should be considered in conjunction with health care reform, as First 5 LA’s rich plan design may be considered a Cadillac plan if not reduced.
- **Retirement** – While the level of contribution is competitive, the program design is not aligned with the market. In order to better compete with public sector employers, a 2 prong approach to retirement contributions is recommended – 403(b) match and non-elective employer contribution – along with changes to plan eligibility.
- **Disability** – Introduce an employer paid STD benefit or enhance the sick leave accrual to ensure employees have adequate income replacement in the event of disability. The State disability program provides good income replacement, so adding employer paid STD may not be critical for First 5 LA, given the current sick leave and LTD.
- **Death** – First 5 LA may consider decreasing the basic death benefit to 1 times salary, as it exceeds market median practice. Alternatively, if First 5 LA maintains the 2 times salary benefit, it should consider increasing the maximum to ensure the benefit is not capped for higher paid employees.
- **Tuition Reimbursement** – First 5 LA should consider implementing a tuition reimbursement policy to be aligned with typical market practice and improve its ability to retain employees.

Mr. Keimach adds that it will only cost approximately $55,000 to get those employees who are below the minimum salary to the minimum level.

Committee Vice Chair Kaufman would like to know if the Hay Group can include a graph that would show the median and where all employees fall within that median line.

Mr. Keimach says that he does have a graph what Committee Vice Chair Kaufman us describing but that the decision was made to not include it because he and his team felt that it would cause some to point out various dots asking which employees represent which dots.

Commissioner Dennis would like to know who the “Executives” are at First 5 LA because he is unclear of who is being described here.

Mr. Keimach responds to Commissioner Dennis that the term “Executives” only includes Kim, John and Teresa.

Committee Chair Au would like to know when one is looking at the organization, to keep in mind all the variables that would impact how talent is attracted.
Ms. Belshé says that staff is looking for feedback from the Committee on how First 5 LA can move towards the median in a way that also includes rewarding components.

Committee Chair Au would like to know who exceeds the minimum.

Mr. Keimach says there are 16 individuals who are over the maximum. Ms. Belshé adds that most of these individuals include IT staff and those staff whom have been at First 5 LA for a long time.

Committee Vice Chair Kaufman would like to know if employee salaries are listed by names and made public.

Ms. Sandoval from the public indicates that this information is not public.

Commissioner Dennis would like to know which organizations the Hay Group ended up using to make their comparisons.

Mr. Keimach responds by stating that the most reliable sources in the area to make these comparisons are the County, UCLA, city and a number of other organizations that include also health organizations.

Ms. Belshé reminds the Committee that it is not about the organization that is important in this study and instead it is about identifying those jobs with comparable job content.

Mr. Wagner also calls out that the last time there was an attempt to do a compensation analysis, the Commissioners did not adopt any of the recommendations. However, Mr. Wagner does point out that the only recommendation that was adopted from this compensation study was the freezing of Admin salaries. And though staff is not making a recommendation today, Mr. Wagner wants to ensure that the Committee understands this aspect of the study so that when a recommendation is made in the future around this, then there would have been context shared already.

Mr. Wagner continues and explains that as part of this freeze, if admin employees’ salaries had already reached the maximum range, then this employee was not eligible for a raise, although he/she was still eligible for a COLA increase.

Ms. Martinez indicates that this recommendation was executed due to the fact that based on the study at the time, admin employees were getting paid way above the market. She adds that there was a legitimate reason to why the Commission proceeded with the way they had with the freezing of admin salaries.

Committee Chair Au says that if there is an employee who is below the minimum salary and the goal would be to bring this employee to the minimum salary, then asking for employee contribution to the medical plan won’t seem so bad since the two will balance one another out.

There seems to be a consensus in the room around this comment.

Committee Vice Chair says that it is important to offer a culture of health as part of the recommendation to the Commission in order for the recommendation to be complete.
There is no further discussion on this item.

5. Roles and Responsibilities

Given there is no time left in the meeting, Ms. Belshé asks Executive Committee Chair Au if the next Executive Committee meeting can begin with this item. Committee Chair Au says that this will be fine.

ADJOURNMENT:

The meeting was adjourned at 12:08 pm.

NEXT MEETING:

The next scheduled meeting will take place as follows:

Tuesday, May 13, 2014
2:00 pm – 4:00 pm

First 5 LA
Conference Room B
750 N. Alameda Street
Los Angeles, CA 90012

Meeting minutes were recorded by Linda Vo, Secretary to the Board of Commissioners.