

**CITY OF LA VISTA
MAYOR AND CITY COUNCIL REPORT
APRIL 21, 2009 AGENDA**

Subject:	Type:	Submitted By:
DISCUSSION - COUNCIL POLICY STATEMENT - PAY FOR PERFORMANCE	RESOLUTION ORDINANCE ◆ RECEIVE/FILE	RITA M. RAMIREZ ASSISTANT CITY ADMINISTRATOR

SYNOPSIS

An updated draft of a Council Policy Statement regarding Pay for Performance has been prepared for discussion. A preliminary recommendation for an adjustment to the salary ranges and the establishment of a base factor for FY10 is also being presented for discussion.

FISCAL IMPACT

N/A

RECOMMENDATION

No action by Council is being requested at this time.

BACKGROUND

In February of 2009 the first draft of a Council Policy Statement regarding Pay for Performance (PFP) was presented to Council for review and feedback. Subsequently, several changes have been incorporated into the latest version of the policy, including an appeal process for employees and a proposed PFP compensation system.

The proposed policy calls for Council to make two determinations annually regarding the PFP compensation system:

1. An adjustment to the salary ranges should be determined in order to keep La Vista's salaries comparable to the market. (This adjustment only changes the salary ranges – it does not increase employee pay.)
2. An annual establishment of a "base factor," which is a salary increase percentage that employees who receive an overall performance rating of "Meets Expectations" will be eligible to receive. Employees in each of the two rating categories "Exceed Expectations" and "Exemplary" would be eligible for increases 1% and 2% above the base factor.

In preparation for the FY budget staff has reviewed data as identified in the chart below from the U.S. Bureau of Labor Statistics including the Employment Cost Index and the Consumer Price Index, as well as materials from the International Public Management Association for Human Resources (IPMA-HR), World at Work, and Mercer.

	Average Wage Increases 2008	Projected Wage Increases 2009
Bureau of Labor Statistics (State & Local Government)	3.1%	
Mercer	3.8%	3.2%
World at Work (National)	3.9%	3.9%
World at Work (Nebraska)	3.8%	3.8%

The salary survey and salary projection information we compiled from the various sources indicates salaries overall in 2008 rose more than 3% and projections for 2009 are similar. The Bureau of Labor Statistics reports that for the year ended December 2008, wages and salaries for state and local government workers rose 3.1 percent. Mercer's information, which is not exclusive to any particular segment of worker (i.e. government or public sector), indicates the average wage increase in 2008 was 3.8%. Mercer updated 2009 projection information in February, which indicated companies are budgeting salary increases at 3.2 percent. World at Work's survey indicates salary budgets nationally increased 3.9 percent in 2008 and they are predicting an additional 3.9 percent increase in 2009. Nebraska figures were at 3.8 percent for both 2008 and 2009.¹

The Mercer data also reported on base pay increases for 2009 as a function of performance. The report indicated that middle-rated performers are projected to receive annual pay increases of 3.3%; the next highest-rated performers are projected to receive average pay increases of 4.3%; and the highest-rated performers will receive 5.6% increases.²

At this time, staff is looking for feedback from Council regarding the proposed policy and budget preparation assumptions. 1) Is Council supportive of the proposed compensation system as outlined in the attached policy draft? 2) Based on the above data, a 3% adjustment to the salary ranges is being recommended to keep La Vista's salaries in line with the market. 3) A base factor of 3% is being recommended for the Pay for Performance compensation system.

The base factor is the piece of the equation that will result in salary increases for employees. Public Works has another year left on their Memorandum of Understanding with the City regarding wages, which calls for a 3 percent across the board increase. We are anticipating that this group of employees will opt to stay with the agreement for the final year rather than switch to the new system. The FOP contract expires September 30, 2009 and we will be negotiating with that group on a new collective bargaining agreement over the next several months. This recommendation is also in line with the Mercer information regarding increases based on performance.

¹ World at Work's projections for 2009 were made in the fall of 2008 prior to some of the major declines in the economy. Additionally, while companies are projecting salary increases for existing employees, some are also reducing head counts by not filling vacant positions, not adding new positions or in some cases enacting lay offs.

² Much of the data we looked at made reference to Pay for Performance and the trend toward performance management programs that differentiate strong from average or weak performers. This data supports that a switch to Pay for Performance is in line with the trend.

For the FY11 budget preparations and in subsequent years we would anticipate Council taking action in March of each year to set the salary range adjustments and the base factor. As Council has not officially adopted the Pay for Performance (PFP) policy, this year we are looking for some general guidance regarding the assumptions we make as the budget is prepared for FY10.

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SUBJECT: EMPLOYEE COMPENSATION – PAY FOR PERFORMANCE
ISSUED: (Date)
ISSUED BY: Brenda Gunn, City Administrator

Purpose

The City's Pay for Performance compensation program is designed to attract, retain, motivate and reward qualified employees who demonstrate a commitment to the City of La Vista, Nebraska and its mission through the payment of financial compensation that is commensurate with the employee's ability, responsibility and contribution toward the City's goals.

Objectives

The primary objectives are to:

- Maintain internal equity by evaluating jobs to assure that a position's duties and responsibilities and the required skills, experience, and education are valued fairly as compared to others within the organization.
- Ensure external competitiveness by developing and maintaining compensation levels that reflect current market rates of pay.
- Promote a pay for performance philosophy by providing incremental pay increases that distinguish between levels of performance.
- Ensure that compensation actions comply with federal, state and local legal requirements.
- Provide employees with information on the compensation process, the overall pay structure and current market pay for each position.
- Provide flexibility to allow the system to remain responsive to changes in the marketplace, the organization and the economic conditions within our industry.

Applicability

The Pay for Performance program shall apply to all employment positions in the City with the following exclusions:

- a. Employment positions covered as part of a collective bargaining agreement, except to the extent otherwise provided in the agreement.
- b. Any temporary employment position such as seasonal positions.
- c. Any employment position covered by an express employment contract, except to the extent otherwise provided in the contract.

Provisions

The City Administrator or his/her designated representative shall be responsible for administering the Pay for Performance program according to the following provisions:

- ***Salary Ranges***

Salary ranges will be established for each class of positions and shall be approved by the Governing Body as part of the annual Compensation Ordinance. Each range will be defined by minimum and maximum salary amounts. The range defines the pay opportunities for the class of positions.

The Governing Body shall annually consider adjustments to the salary ranges. Recommendations for adjustments to the salary ranges shall be based on information

compiled from multiple sources including but not limited to national surveys conducted by the Society for Human Resource Management (SHRM) or Workforce Management, the U.S. Bureau of Labor Statistics, World at Work, and the Consumer Price Index. Additionally, the City of La Vista will conduct a market study every three years for all positions covered by the pay for performance program to ensure market comparability. Every five years position descriptions will be reviewed to maintain internal equity and relevancy.

Adjustments to the salary ranges do not increase employee pay, but do increase the range maximum. Upon implementation of a salary range adjustment all ranges are adjusted upward. Any employee (other than a probationary employee) who is below the minimum after a salary range adjustment will be moved to the new minimum.

- ***Starting Salaries***

New employees in positions that are part of the Pay for Performance program shall be hired at the minimum of the pay range in which the position is classified. However, a Department Head, with the approval of the Human Resources Department, can recommend to the City Administrator that an exceptionally well-qualified applicant be employed above the minimum, not to exceed the mid-point of the range. The City Administrator shall approve any appointment above the entry level salary.

- ***Performance Appraisals***

The performance appraisal process provides the basis for determining employment status and performance-based salary increases. Appraisals are considered in determining promotions, used as a factor in determining the order of layoffs, and as a means of identifying employees who should be transferred, rehired, or who, because of their poor performance, should be demoted or dismissed, and for any other purpose related to job performance.

Salary increases will be based exclusively on the performance appraisal system which rewards for job knowledge, citizen/public service, adaptability/flexibility, communication, dependability, initiative, integrity/ethics, teamwork and work place safety as core competencies. As salary increases are dependent upon the performance appraisal, it shall be the responsibility of supervisors to complete an accurate and honest evaluation on employees supervised.

Performance appraisals shall be completed as follows (includes employees whose salary is at the top of the range):

- (1) at the end of an employee's introductory period;
- (2) annually, corresponding with the employee's anniversary date in his/her current position; or
- (3) after 3 months if an employee has received a "Fails to Meet Expectations" performance rating.

Prior to the time frame set out above, employees will be required to complete a self-evaluation using the approved performance appraisal instrument, which shall be reviewed with their supervisor. This requirement is meant to provide an opportunity for open communication between the employee and the supervisor on measurements of performance. An important part of the performance appraisal is the establishment of goals for the next year. Goal achievement should, where appropriate, be linked to individual and departmental performance goals and/or measures.

Direct supervisors are responsible for completing employee performance appraisals. The performance appraisal shall be reviewed and approved by additional department/division supervisors, if appropriate, as well as the Department Head. Prior to presenting the appraisal

to the employee, it must be submitted to Human Resources for review and approval, along with a Personnel Action Form (PAF) if a salary adjustment is being recommended. After the appraisal and the PAF are reviewed by HR and returned, the appraisal will be presented to the employee.

Recommended salary adjustments shall be one of the following:

- (1) a salary increase in an amount commensurate with the corresponding level of performance consistent with pay for performance guidelines,
- (2) maintain the current rate of pay, or
- (3) reduction of the current salary.

- ***Performance Appraisal Appeal Process***

The City believes that managers and supervisors are in the best position to evaluate an employee's work performance and work behavior. For this reason, Human Resources will not attempt to substitute its judgment for the supervisor's unless an employee can demonstrate that the evaluation was arbitrary, capricious, illegally discriminatory or not factual based on solid data. The appeal process can still be helpful, however because it involves a neutral third party who can help to facilitate a better understanding or resolve a dispute between an employee and a supervisor.

An employee who is dissatisfied with his or her performance appraisal should request a follow-up meeting with his/her supervisor to discuss the appraisal candidly, express any disagreements the employee may have with the review and provide additional information/documentation to support his/her case.

If the employee still disagrees with his/her appraisal after follow-up discussion with the supervisor, the employee may submit a formal, written appeal to the Department Head within 10 working days of the follow-up meeting with the supervisor. The appeal must include (1) a written memo stating the employee's intent to appeal and listing the specific parts of the appraisal with which the employee disagrees, explaining the nature and extent of the disagreement; (2) a copy of the performance appraisal with the employee's comments; and (3) any relevant supporting documentation.

The Department Head will review and respond in writing to the employee within 15 working days.

If the employee continues to disagree with their performance appraisal, he/she may then appeal to Human Resources within 15 working days. The appeal must include all of the information submitted on appeal to the Department Head and the Department Head's written response.

Human Resources response to appeals of an employee performance appraisal may include some or all of the following actions:

- a. Review the appraisal, appeal, and supporting documentation.
- b. Contact the employee and/or the supervisor to obtain clarification or additional information.
- c. Contact the Department Head to obtain clarification or additional information.
- d. Collect additional information from other relevant sources.
- e. Make a decision and inform the employee in writing with a copy to the supervisor and the Department Head. If applicable, take any necessary action to implement the decision.

Human Resources shall present a final recommendation to the City Administrator for approval. This decision shall be final.

- **Performance Ratings**

The City's performance appraisal system is based on the following rating system:

Fails to Meet Expectations (An overall score of 0-1.8): Does not meet standard job expectations. May not provide an acceptable level of service to citizens, the general public and other employees. Performance is inconsistent; additional training may be needed. May have received one or more warnings during the review period.

Meets Expectations (An overall score of 1.9-2.6): Consistently meets minimum job expectations. Is competent in all essential job functions and routinely provides acceptable service to citizens, the general public and other employees. Meets most performance goals within his/her control. The employee does what is necessary and is a valued member of the team.

Exceeds Expectations (An overall score of 2.7-3.6): Fully meets all job expectations and routinely exceeds some job expectations; routinely demonstrates initiative, accuracy and reliability; routinely provides service to citizens, the general public and other employees at a high level. Meets most performance goals and surpasses others within his/her control.

Exemplary (An overall score of 3.7-4.0): Consistently exceeds most job expectations, including all major expectations. Provides exemplary service to citizens, the general public and other employees. Surpasses most performance goals within his/her control. Actively supports department and City mission.

Note: Receipt of the "Exemplary" level of overall performance rating is rare and should be reserved for only those employees that routinely out perform all others, or where circumstances during the evaluation period allowed an employee to truly distinguish him/herself. Employees receiving this rating would typically be a small percentage of the total workforce.

Any employee who receives a performance appraisal with an overall rating of "Fails to Meet Expectations" will be placed on a Performance Improvement Plan (PIP) for a minimum of 90 days. A PIP is a document that may include, but is not limited to, levels of performance that must be achieved to obtain a "Meets Expectations" rating, current performance deficiencies, support that may be provided by the department or City, actions the employee must take to address the performance deficiencies, and a timeline for completion of the actions. If the employee's performance does not improve, the employee will be subject to termination. If the employee's performance does improve to an acceptable level, any salary adjustment forthcoming will not be paid retroactively.

- **Performance Pay Increases**

Employees may be considered for performance pay increases each year as part of their annual performance appraisal according to the following:

- (1) An employee whose overall performance is rated "Meets Expectations" is eligible to receive a merit increase in an amount to be defined annually by the Governing Body. This shall be known as the base factor.
- (2) An employee whose overall performance is rated "Exceeds Expectations" is eligible to receive a merit increase in an amount equal to the base factor plus 1%.

(3) An employee whose overall performance is rated "Exemplary" is eligible to receive a merit increase in an amount equal to the base factor plus 2%.

The Governing Body shall annually determine the amount of the base factor for pay for performance increases subject to the City's overall financial state. The goal is to appropriately reward and recognize employees for the overall appraisal rating.

Exceptions:

- ❖ Employees in their introductory period will not be eligible for an increase.
- ❖ An employee receiving an overall rating of "Fails to Meet Expectations" will not be eligible for an increase.
- ❖ Employees placed on a Performance Improvement Plan will not be eligible for an increase.
- ❖ An employee subject to disciplinary action consisting of suspension, more than one written warning, or more than two oral warnings in the year immediately preceding their evaluation will not be eligible for an increase.
- ❖ An employee subject to disciplinary action consisting of one written warning or two or less oral warnings in the year immediately preceding their evaluation will be eligible for a limited increase.**

** Increases in these situations are the exception and require prior approval from the City Administrator.

Employee salaries shall be maintained within the range established for the position classification they currently hold. Employees whose salary is at the maximum of the pay range and whose overall performance is rated "Exceeds Expectations" or "Exemplary" may receive additional compensation above the top of the range in the form of a one-time, lump sum amount not to exceed the base factor established by the Governing Body for that year.

• ***Other Pay Rate Adjustments***

The following actions shall affect the pay status of an employee in the manner provided:

- (1) Transfer: When an employee is transferred to a different position within the same pay classification, the employee shall continue to receive the same salary.
- (2) Promotion: When an employee who meets all established requirements is promoted to a position in a higher pay classification, the employee's salary shall be advanced to the minimum level of the new pay range. If the employee's rate of pay prior to promotion was equal to or greater than the minimum of the new range, the employee shall be advanced to the minimum of the pay range or the level which would provide at least the equivalent of a five (5) percent increase.
- (3) Demotion: Upon demotion an employee may receive a decrease in pay. It shall be the responsibility of the City Administrator or his/her designated representative to determine the amount of the pay decrease, if any.