REPORT

DATE: December 14, 2006

TO: Regional Council
Administration Committee

FROM: Debbie Dillon, Human Resources Manager, 213-236-1870
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SUBJECT: Merit Pay Program – Extend Pilot Status through July 2007

EXECUTIVE DIRECTOR'S APPROVAL

RECOMMENDED ACTION:
Approve extension of Merit Pay Pilot Program through July 2007.

SUMMARY:
On June 7, 2001, the Regional Council approved recommendations contained in the Compensation study conducted by Personnel Concepts, Inc. One component of that study was the recommendation to implement a Pay for Performance Program. The parameters of that study have been the basis for SCAG's performance evaluation process and compensation planning over the course of the last four years.

Policy direction from the Regional Council in 2001 included applying a Pay for Performance Program to all employees in the senior level positions and above. This includes executive management, managers, supervisors, leads, and seniors. All other employees were to stay on the current compensation system until a later date.

SCAG staff receives compensation adjustments only through the Merit Pay Program. The percentage increases per rating category, as approved by the Regional Council in 2001, are as follows:

Evaluation Rating	Percentage Adjustment
Excels	7-9%
Above Standards	4-6%
Meets Standards	1-3%
Needs Improvement or Unsatisfactory	0

SCAG staff does not receive cost of living adjustments and they do not receive step increases. The salary ranges may be adjusted annually if they are determined by a salary survey to no longer be at the Regional Council approved level of the 75th percentile. Only those employees that fall below the new bottom of the range are adjusted at the time of a range change. A salary survey is conducted annually to determine if adjustments are necessary. Any suggested changes to the ranges are provided to this committee prior to implementation.

BACKGROUND:

To assist in the implementation of the Pay for Performance Program, a new performance evaluation process was implemented during fiscal year 2002/2003.

In November 2003 the Personnel Committee received a report on the status of the program and information that staff expected to recommend an extension of the program to the rest of the staff in June 2004.

In April 2004 the Personnel Committee received a status report and a staff recommendation to extend the Pay for Performance program to all employees for a two-year pilot period. The Personnel Committee provided input and recommended to the Administration Committee and the Regional Council in May 2004 to extend the two-year pilot program to all staff effective July 2004.

The Regional Council approved the Merit Pay two-year pilot program and requested periodic updates.

In July 2004 all employees were evaluated and compensated under the Merit Pay pilot program.

In October 2004, May 2005 and October 2005 program status reports were provided to the Personnel Committee.

In October 2006, the Personnel Committee acted to recommend that the pilot program be extended through July 2007 to allow further refinements to the program.

EVALUATION RATING STATISTICS & SALARY ADJUSTMENTS:

The evaluation rating statistics and applicable salary adjustments are listed on the following page. The Excels and Needs Improvement rating categories have remained relatively constant for each year. While the Above Standards category has gradually increased and the Meets Standards category has gradually decreased. This is reflective of the performance of the organization as a whole, in that it has improved in the last four years.

In July 2003, employees below senior level were eligible for a 3% or 0% salary adjustment based on the prior evaluation system. In July 2004, all employees became eligible for the Merit Pay program.

In all years, employees who are at the top of the salary range received a lump sum equivalent to the percentage that was over the top salary range. Effective in July 2006, these lump sum payments are counted by CalPERS as part of an employee's eligible compensation. This became effective with the lump sum payments in July 2006.

EVALUATION RATING STATISTIC & SALARY ADJUSTMENT TABLE

Evaluation Rating Scale	July 2003 Ratings	July 2003 % Salary Adj.*	July 2004 Ratings	July 2004 % Salary Adj.	July 2005 Ratings	July 2005 % Salary Adj.	July 2006 Ratings	July 2006 % Salary Adj.
Excels	17 or 17%	8%	13 or 13%	7%	11 or 12%	7%	10 or 13%	7%
Above	23 or 22%	5%	31 or 31%	5%	35 or 38%	5%	35 or 44%	5%
Meets Standard	59 or 57%	3%	51 or 51%	3%	43 or 47%	3%	32 or 40%	3%
Needs Improvement	4 or 4%	0	6 or 6%	0	2 or 2%	0	3 or 4%	0
Unsatisfactory	0	0	0	0	0	0	0	0
TOTAL**	**103**		**101**		**91**		**80**	

* Employees below Senior Level received 3%; all-other employees eligible for more than 3%.

** Excludes Probationary Employees

Average overall salary increase for fiscal years 2002/2003, 2004/2005 and 2006/2006 were 3.64%, 4.3% and 4.10%, respectively.

ADDITIONAL BACKGROUND:

We are continually improving the process. After four years of using a standardized evaluation form and process, we are experiencing improvements in the overall performance of the organization and the staff. The rating distribution is a good indicator of the performance of the organization as a whole. We determine the success of the program based on the rating statistics, the content of the written evaluations, and the effectiveness of performance management on improving staff performance.

With the assistance of a management consultant, Miralto Consultants, we are implementing three organizational improvement projects that will feed into the performance evaluation process and enable better alignment with each employee's performance agreement measures and the overall mission, vision and goals of the organization. These improvement projects are designed to create more objective measures of an individual's performance and their team performance.

These projects include:

- Initiating a pilot Project Chartering effort to create a governance template and common processes as a means to help work teams and the organization manage and allocate resources more effectively. Maglev will serve as the pilot project.

- Establishing preliminary Performance Metrics for the MagLev Project Charter pilot program as a template for developing more integrated organizational performance measurement and evaluation processes to better focus activities toward achieving regional and organizational goals.

- Conducting the Staff Retreat on November 7, 2006 to initiate an organization-wide discussion on the fundamental principles and values that we believe should guide how we work and to incorporate these values into our SCAG mission. These values will feed into the performance evaluation goals and process.

CONCLUSION:

This is an important program and we will continue to seek feedback and make adjustments or changes to the rating factors, criteria, process, and forms. Performance evaluation and performance management training was provided in November 2004, May 2005, Spring 2006 and November 2006 for all management/supervisory employees. The next mid-year review cycle is scheduled for completion in January 2007. We have seen improvement in performance expectations and performance management with the refinement of the program. We will continue to refine the linkage between the employee performance agreement, professional development goals, the mission statement, and the rating criteria. A report will be provided to the Personnel Committee following the mid-year review cycle.

FISCAL IMPACT:

None. This request does not impact the current fiscal year. The next Merit Pay Program payouts will be in the 2007/2008 fiscal year.

Reviewed by: _____
Division Manager

Reviewed by: _____
Department Director

Reviewed by: _____
Chief Financial Officer