

**EVERGREEN SOLUTIONS, LLC****Pay Policy Report****INTRODUCTION**

Evergreen Solutions, LLC (“Evergreen”) was retained by Pinellas County (“the County”) to conduct a Classification and Compensation Study for all employees within the Unified Personnel System (UPS). In addition to the comprehensive report summarizing the major findings and recommendations of this study, additional, supplemental recommendations were developed in accordance with the selected compensation and classification system. These recommendations, included within this report, were developed to amend the current pay policy practices for the UPS to ensure proper alignment of the new compensation structure with said policies, and also to reflect human resources best practices.

While the whole of Rule 3 of the Personnel Rules was reviewed for potential changes, only certain policies were identified as potentially impacted by the study’s recommendations. As a result, a summary of the impacted policies is included within this report, with accompanying recommendations for whether or not a modification is needed, and what modifications would be recommended if any were identified.

**SUMMARY OF POLICIES****Starting Pay**

The UPS leverages a stratified approach to starting pay policies for its various employee groups. This report will focus on those directly impacting permanent employees under the UPS. Amongst all permanent personnel, starting pay policies are further differentiated between those located within the classified service and those with an exempt service classification.

***a. Exempt***

*The starting pay of an individual selected to fill an exempt position must be within the salary range utilized by the Appointing Authority for that position or classification within their organization.*

***b. Classified***

*The starting pay of an individual selected to fill a classified position is normally made at the minimum rate of pay of the pay grade established for the job classification. Because of unusual or extenuating circumstances an individual may be hired above the minimum of the pay range established for the job classification. Such appointment requires the*



*recommendation and approval of the Appointing Authority in consultation with the Director of Human Resources.*

### **Promotions**

Currently, the UPS utilizes a promotional pay policy that includes the following guidelines:

- *The employee's pay must be increased to at least the minimum pay rate of the new pay grade, or*
- *The Appointing Authority may award a promotional increase of 4 to 10%.*
- *An increase less than 4% or greater than 10% may be made by the Appointing Authority in consultation with the Director of Human Resources.*

### **Reclassification**

The UPS's reclassification guidelines are similar to those related to promotions, and include the following:

- *The employee's pay must be increased to at least the minimum pay rate of the new pay grade, or*
- *The employee's pay will be increased by an amount equal to 4% of the midpoint of the new pay grade, whichever is greater.*
- *No reclassification pay increase may be granted above the maximum rate established for the classification.*

### **Merit & Special Merit Increases**

The UPS maintains two merit pay increase policies at the present time, one which is based on an annual opportunity to grant an increase (Merit) and one that can be performed at any point within the year, and not at a single time (Special Merit). The design of the special merit is to recognize exceptional employee efforts or contributions, or to account for unusual employment conditions.

In both instances, employees' salaries may be increased at the discretion of the Appointing Authority, but may not be granted above the maximum pay rate of the employee's job classification. If an employee is at the maximum rate of pay established for the employee's classification the merit pay increase shall be granted as a one-time lump sum payment calculated as the annualized value of the merit increase.



## Demotions

Similar to its starting pay policies, the UPS approaches demotions with a stratified approach depending on the classification of the employee with regards to classified or exempt service status. Where this is a highly defined rubric for classified service employees, detailed below. Whereas, currently the procedures state that any change in pay for an exempt employee who is demoted is at the discretion of the Appointing Authority.

### *i. Disciplinary*

*An employee demoted for disciplinary reasons to a job classification for which the maximum pay rate of the pay grade of the new job classification is lower than that of the position's current pay grade shall have their rate of pay reduced in an amount determined by the Appointing Authority, but in no event shall the new pay rate be lower than the minimum of the classification to which the employee is demoted.*

### *ii. Reduction in Force*

*If as the result of a reduction in force, a classified employee is displaced into a job classification for which the maximum pay rate of the pay grade of the new job is lower than that of the employee's current classification the employee shall have his/her salary adjusted in accordance with the provisions of Rule 5. Reduction in Force.*

### *iii. Voluntary*

*Upon such demotion, a reduction in pay should be made. The demotion decrease is granted at the discretion of the Appointing Authority but may not be granted above the maximum pay rate of the employee's job classification. The demotion decrease is calculated on the employee's current pay rate and within the following:*

- The employee's pay may not be reduced below the minimum pay rate nor exceed the maximum pay rate of the pay grade to which the employee is being demoted.*
- The Appointing Authority may make a demotion pay decrease of 4 to 10%.*
- A decrease less than 4% or greater than 10% may be made by the Appointing Authority in consultation with the Director of Human Resources.*

## Market Driven Skills Supplement (MDSS)

One featured policy that is included within the Personnel Rules which is not as commonly found amongst other public-sector organizations is the MDSS policy. This states that a classification identified as requiring a critical skill and also experiencing labor shortages can be granted a supplemental pay additive of up to 10%.



## **RECOMMENDATIONS**

Based on a review of the current policies, and considering how applicability or appropriateness of these policies are impacted by adoption of the new compensation and classification system, Evergreen recommends the following –

### **RECOMMENDATION 1: Retain the existing policies related to employee promotion, reclassification, demotions, and Market Driven Skills Supplement.**

With regards to the promotion, reclassification, and demotion policies, Evergreen found the practices outlined to be a standard approach to adjusting employee pay under the respective circumstances. When an adoption of a new compensation and classification structure occurs, one important facet that often requires updating is adjustment to the percentages tied to each adjustment type, as the number of pay ranges and distance between ranges often change. While the adoption of the new compensation structure does result in changes to these elements, the change is such that the percentages included within each of these policies remains relevant and appropriate. As a result, Evergreen recommends these policies remain intact and continue to be utilized.

For the MDSS, while this policy may not be as commonly found amongst organizations, it is nevertheless a critical tool for any organization that wishes to ensure it compensates employees at market rate regardless of the shifts in market demand. Furthermore, this policy helps the respective Appointing Authorities better recruit and retain employees in hard to fill classifications. The utilization of a supplement to employee pay is common practice amongst organizations leveraging this type of policy, and as a result, Evergreen recommends this remain unchanged at this time.

### **RECOMMENDATION 2: Amend the existing starting pay policy to allow for classified employees to be hired in at a salary of up to the 25<sup>th</sup> percentile of the range. In the case of unusual or extenuating circumstances, an employee may be hired beyond the 25<sup>th</sup> percentile requires the recommendation and approval of the Appointing Authority in consultation with the Director of Human Resources.**

While the existing starting pay policy practices are also commonly found in other public organizations, in conducting the focus group sessions with employees, a number of employees voiced concern that the starting salaries of employees under the UPS were low, and furthermore cited this as a morale issue in the cases where it may cause salary compression within departments.

Furthermore, Evergreen understands the goal of various Appointing Authorities is to attract and retain high quality employees, and by increasing the flexibility of starting pay for classified employees, the Appointing Authorities will better be able to recruit more experienced candidates. It is important to note that the intention of this increased flexibility is to allow for more advanced starting salaries to be offered to those candidates with considerable experience beyond the minimum requirements of the role, and that generally speaking, an employee who possesses only the minimum qualifications would still be expected to be hired in at the minimum of the pay range.



**RECOMMENDATION 3: Evergreen recommends the UPS adopts a new formal set of career paths.**

Currently the UPS has a formalized method of allowing employees to progress within the organization within a defined, pre-designated career path (located in Rule 2). Overall, Evergreen believes this approach to be suitable for the County at the present time, however, with the significant number of class consolidations proposed within the new classification structure, the existing designated career paths are no longer aligned. As such, Evergreen recommends the UPS adopt a new set of designated career paths that is fully aligned with the new classification system.

In the long term, Evergreen recommends the UPS explore some additional methodologies of progressing employees through career paths. The current system represents a formal, deterministic method, which in a large organization, provides stability and consistency. However, with any highly deterministic approach, there will be instances where some individuals and their particular skills and competencies may not be fully leveraged overtime. Evergreen recommends the UPS consider a system with increased flexibility, where more emphasis is placed on individual competencies and career interests.

Such a system is commonly known as a self-reporting system, where employees submit a report once annually, typically done at the same time as the performance evaluation, where an employee submits a self-assessment of their current job fitness, inventories or updates capabilities and competencies, and may even identify specific job assignments they would be interested in. Ideally, the supervisor would then perform a similar assessment, commonly referred to as a talent review, and the two submissions would be trued up. This process enables an organization to better match a given individual to the right job and ultimately construct individualized career paths.

Common drawbacks of moving to this type of career path approach would be the labor intensive nature of the process, as this creates an additional assessment in addition to the performance evaluation process, and ideally a formal tracking system would then need to be developed to record, track, and flag when internal openings arise within the County and what individuals would then best fit the vacancy from both an interest and capability standpoint.

**RECOMMENDATION 4: Evergreen recommends the UPS review its current performance evaluation process.**

While the primary concern of employees with the performance evaluation system was the lack of pay for performance components, employees also cited structural and logistical concerns with how evaluations are performed. As such, performing a review of the current system to determine and necessary changes should precede any consideration of a pay for performance mechanism to ensure employees and supervisors are comfortable with the evaluation process. In addition to this review and redesign process, it will be important that all departments similarly adhere to the process and procedures of the evaluation system in order to ensure an equitable process for all employees.



**RECOMMENDATION 5: Evergreen recommends the UPS consider a long-term plan to implement a pay for performance system.**

While the opportunity for merit increases exists presently, in conjunction with the general wage increases, the UPS is not currently utilizing a true pay for performance system. Increasingly more local governments are implementing pay for performance systems that link employee outcomes to variable pay increases. This trend has been largely attributed to fiscal realities in the post-recession period, elected official's desire to reward employees that make the largest contribution to the organization, and the desire of elected officials and management to align pay practices with the private sector. Although the degree of success of utilizing variable pay to shift the performance of the organization is mixed, a variety of best practices for implementation have been identified. This will be discussed in more detail in the section below regarding execution of pay for performance systems. Furthermore, employees voiced concerns about the effectiveness and impact of the current performance evaluation process, in particular citing that because the system lacked a variable pay increase element, it carried less weight. However, in order for the UPS to ultimately adopt a true pay for performance system, a number of important steps must be taken to ensure success of the transition.

First, Evergreen recommends the UPS prioritize addressing any new or existing salary compression issues once the initial implementation of the new compensation and classification structure is finalized. This should be done on a priority basis, where the largest issues of compression are dealt with first and foremost, and more minor occurrences addressed secondarily.

Once the adjustments to alleviate salary compression have been performed, the next step would be to review and amend as necessary the current performance evaluation system (as outlined in recommendation 4). Once a finalized version of the performance evaluation system is developed, then the UPS can begin adopting variable pay increases tied to employee performance. With any pay for performance system, there are several structural elements that must be in place at the organization in order to ensure an increased chance for successful execution.

**Funding the system**

One of the most critical elements to any pay for performance system is that a meaningful incentive exists for high performers, meaning there needs to be significant differentiation in compensation for poor, average, and high performing employees. This requires both a financial commitment on the part of the organization, and also a commitment from supervisors to accurately identify and differentiate the levels of performance amongst the employee population. Generally speaking, an average increase of 3 percent for employees would likely represent the lower boundary of necessary funds to execute a meaning differentiation in wage increases, with an average increase of 5 to 6 percent representing a more ideal range.



Understanding the finite resources available to the County to perform salary adjustments, a pay for performance system would likely mean the significant reduction or altogether elimination of any across the board or general wage increases. Instead, the resources previously dedicated to general wage increases would be funneled into the funding of the pay for performance system.

**Execution of system**

Allocating the necessary funds may be a baseline requirement for a pay for performance system, but this alone does not encourage overall organizational improvement. Effective execution and proper distribution of salary adjustments are often even larger hurdles for organizations to overcome when looking to adopt such a program. When an organization is considering adoption of a pay for performance system, it is important to understand what the overall goal of this process should be. Differentiating individual employee pay increases on the basis of performance should not be viewed as the end game, but rather as the means for incentivizing its workforce to achieve greater overall performance, and thus ultimately better overall organizational performance.

Ultimately, not all organizations are strong candidates for adopting and administering a pay for performance system. In order to ensure the County will be best position for a successful execution of pay for performance, the UPS should ensure the following organizational characteristics are or will be present:

Organizational Culture	<ul style="list-style-type: none"> <li>• Open, two-way communication is valued and pursued.</li> <li>• Trust exists between employees and supervisors/managers.</li> <li>• Human resources management (HRM) systems such as selection, training, and performance evaluation have clear and consistent objectives and support pay for performance.</li> </ul>
Supervisors	<ul style="list-style-type: none"> <li>• Employee efforts support organizational goals.</li> <li>• Work assignment, evaluation of performance, and distribution of awards are fair.</li> <li>• Discretion and accountability go hand-in-hand.</li> </ul>
Performance Evaluation	<ul style="list-style-type: none"> <li>• Assessment of employees is fair and accurate.</li> <li>• Employees receive timely, accurate, and meaningful feedback.</li> </ul>
Funding	<ul style="list-style-type: none"> <li>• Appropriate pay increases and bonuses are given.</li> <li>• Top leadership is willing to make difficult choices when allocating funds and awards.</li> </ul>
Fairness	<ul style="list-style-type: none"> <li>• Checks and balances are in place.</li> </ul>



	<ul style="list-style-type: none"><li>• Transparency is valued and ensured.</li></ul>
Training	<ul style="list-style-type: none"><li>• Training is provided to both supervisors and employees.</li><li>• Training covers both pay system philosophy and mechanics.</li></ul>
System Evaluation	<ul style="list-style-type: none"><li>• The organization evaluates how the pay for performance system is being administered and whether the pay for performance system is accomplishing its goals.</li><li>• Employee attitudes are tracked.</li></ul>

**CONCLUSION**

The recommendations included within this report summary are intended to ensure the UPS maintains alignment of its compensation policies and procedures as it adopts a new overall compensation and classification structure. Furthermore, the recommendations seek to address the concerns presented by employees and assist the Appointing Authorities with attracting and retaining high quality talent.

