

MEMORANDUM

To: PERSONNEL MANAGEMENT LIAISONS

Date: December 10, 1993
Reference Code: 93-80

THIS MEMORANDUM SHOULD BE DISTRIBUTED TO:

Personnel Officers
Labor Relations Officers

From: Department of Personnel Administration
Office of the Director

Subject: Managerial Pay-for-Performance Program

On December 8, 1993, Governor Wilson announced a performance-based pay system for State managerial employees. The following actions are being taken to implement this program:

- The January 1, 1994 cost-of-living adjustment is cancelled for all civil service and exempt managers (M and E-99).
- Directors will have the discretion not to authorize any salary increases this year for managerial employees.
- In departments that do have managerial salary increases, civil service managers will be eligible for up to a 5 percent salary increase on January 1, 1994, at the discretion of their appointing power, provided that the appointing power certifies that they are performing successfully.
- Exempt managers will not receive an increase and will continue to receive eight hours of personal leave credit per month.
- All salary increases for managers after January 1, 1994 will be performance based, and may be withdrawn or reduced if performance declines.

The Department of Personnel Administration (DPA) will be developing a similar program to be implemented for supervisors on January 1, 1995. In addition, DPA will pursue performance-based pay for rank and file employees in future collective bargaining.

The remainder of this memorandum provides discussion and technical direction on the performance-based pay program for civil service managers.



BACKGROUND

For the last several years, pay-for-performance systems have become widespread in the United States. The vast majority of private sector firms operate with some form of pay for performance, especially for salaried employees. The Federal government has a pay-for-performance system for members of the Senior Executive Service. Many states currently have pay-for-performance systems in place, and several others are considering adopting systems in the near future.

On January 31, 1986, the State adopted a managerial appraisal and bonus program. The bonus program has had limited success due in part to limited funding and the competitive aspect of the program, which results in managers competing against each other for monetary awards.

Historically, rather than using pay as a reward system, the State has raised all managers' pay uniformly regardless of their performance. In addition, we have attempted to superimpose a single appraisal system on all departments and managers rather than allowing departments to adopt performance appraisal systems that meet their needs.

The Need to Change the Managerial Compensation Program

- Continuing fiscal and economic problems and shrinking resources in many areas require leadership from State managers for improvements in State government. Government must be made more responsive and efficient. Managerial pay systems which link a manager's performance to organizational performance will contribute to the success of these efforts.
- The United States Appellate Court's interpretation of the applicability of the Fair Labor Standards Act to government employees mandates that the State, as an employer, provide its managers with greater work schedule flexibility. This will require that work be measured more by quality of performance, not the number of hours worked. (Departments will be receiving policy direction regarding the FLSA changes in a separate management memorandum.)

These changes call for a managerial compensation system that ties salary to job performance and encourages all managers to become active participants in the changes and improvements facing us.



The New Managerial Compensation Program

Effective January 1, 1994 and thereafter, pay increases for civil service managers (i.e., all M and E-99 designees, other than those who are exempt from civil service) will be at the discretion of each appointing power and will be available only when an increase is fully supported by their performance in achieving the goals of the organization. The following steps will be taken to implement the new program for 1994 and 1995:

- On January 1, 1994, all managerial employees will be eligible for up to a 5 percent performance pay incentive differential subject to certification by their appointing authority of successful job performance. This increase may be 1, 2, 3, 4, or 5 percent. Employees who are not granted the increase may be reconsidered for the increase at any time during the year. This increase, once granted, is a permanent salary increase and can be reduced or withdrawn only through general salary reductions or adverse actions.
- On January 1, 1995, all managerial employees will be eligible for an additional performance pay incentive differential. This increase will also be granted, at the appointing power's discretion, subject to certification of successful job performance. The 1995 performance pay incentive differential and incentive differentials awarded in pay programs after 1995 will be subject to annual performance reviews and may be reduced or withdrawn if the appointing power finds that the manager is no longer performing successfully.

This program will ultimately result in flat pay rates, rather than salary ranges, for all managerial classes. In this way, all increases will be granted through the new performance pay program. This conversion will begin this year with the first step of each managerial salary range being eliminated. Therefore, the new range minimums will be 5 percent higher. Special instructions on the impact of this will be issued in a future pay letter.

As future salary increases become available, consideration will be given to the amount of pay that should be "at risk" under the performance pay program.

Merit Salary Adjustments (MSAs)

In the future, MSAs will not be needed, since the base salary for each managerial class will ultimately be a single rate (equal to the range maximums), with any compensation above that level being decided through the performance pay program. However, while this program is being implemented during the next two years, current managers who are still due to receive MSAs will be eligible for them, as follows:

- MSAs due during 1994 will be granted through the existing MSA process, as scheduled (i.e., on the manager's anniversary date).



- By the end of 1994, the January 1, 1994 increase plus the 1994 MSA will have moved virtually all managers to the single base rate for their class. However, some of them would still have received an MSA in 1995. These managers will be eligible for a corresponding, special adjustment during 1995 using the new performance pay process. This will complete the conversion to the new system.

Effect on Retirement and Other Salary-Based Actions

Retirement, disability, and other benefits will be calculated based on the full rate of pay that a manager is receiving, including any performance incentive. A civil service manager's eligibility to transfer or reinstate to another class will be based on the maximum possible salary for the class, including the maximum performance differential. Similarly, the salary rules for promotion, transfer, etc., will be applied by using the base of the class plus the maximum performance incentives available to determine salary relationships between classes in State service.

The Salary Review

Under this program, there will be an annual review of each manager's performance to determine if it should be certified as successful for salary increase purposes. Each department will be responsible for determining the specific process for these salary reviews. However, managers who are not receiving the full increase should receive personal feedback from the director or his/her designee concerning ways in which their performance could be improved. Also, while a formal appraisal procedure is not being established for these salary reviews, their results should have a logical relationship to the department's more formal planning and performance appraisal processes.

The final responsibility for certifying managerial performance rests with each director. While some may choose to rely on their deputies, division chiefs, etc., for guidance in certifying managers below the top organizational levels, or may actually delegate the approval authority to these individuals, each director will be ultimately responsible for all certifications within their departments.

All certifications must be documented in writing, even when they are electronically communicated to the State Controller's Office (SCO). A sample form that can be used for this purpose (and retained on file) is attached.



Appeal From Departmental Determinations

Performance pay incentives will not be provided as a part of base pay and, therefore, will not represent a legal entitlement. Once certified by the appointing authority, incentives granted after January 1, 1994 must continue to be earned, based on performance, until the certification is modified or rescinded by the appointing authority. Disputes regarding the performance pay may not be appealed except when it is based on political affiliation or legally prohibited discrimination. Disputes based on discrimination shall be subject to the State Personnel Board, Department of Fair Employment and Housing, or Equal Employment Opportunity Commission discrimination complaint procedures; disputes based on political affiliation shall be subject to the excluded grievance procedure.

Funding

There will be no additional funding for 1994 salary increases granted under this program. This covers all departments, including the Department of Corrections.

Implementation

Initial departmental certification of performance must reach SCO before payroll cutoff in January of 1994. A pay letter will be issued with documentation and processing instructions.

We realize that this is a significant departure from the State's traditional approach to managerial pay. However, the challenges facing the State require a new and innovative managerial pay system. The vast majority of State managers are highly capable and motivated employees who will qualify for pay incentives under the new program. For those managers who do not currently qualify, hopefully this program will result in improved performance.

Please bring this information to the attention of all of your managerial employees. We are available to meet with your top executive staff if they would like to discuss this new program. We appreciate your help in making this program a success. General questions regarding this program can be directed to your Classification and Compensation Division analyst. Questions on specific salary-related issues should be directed to Jerri Martin on (916) 324-0439, CALNET 454-0439. Questions from individual employees should be referred to their departmental personnel office.



David J. Tirapelle
Director

Attachment



