

Town of Smyrna

Merit Pay Policy

A. Policy Purpose

The purpose of this policy is to encourage employees to develop and contribute to their maximum potential via compensation based on job performance. For communication purposes, this performance based pay model will be referred to as the Merit Pay Policy.

B. Coverage

All employees working under the supervision of the Town Manager and assigned a grade in the Classification and Compensation Plan approved by Town Council are covered. The Town Manager and Town Attorney receive performance reviews from the Town Council and may be eligible for merit pay in accordance with this policy if deemed appropriate by the Town Mayor and council.

C. Goals and Assumptions

The Town's Merit Pay policy has the following primary goals and objectives:

- 1) To provide sufficient flexibility in its rewards to recognize varying levels of performance through varying levels of compensation.
- 2) To maintain the Town's competitive position in the labor market in order to attract and retain the best employees possible.
- 3) To provide realistic and beneficial feedback regarding employee's performance so that employees may reach their full potential.
- 4) To provide financial incentives for continuous performance improvements and for sustaining such performance improvements.

Underlying these goals are the following assumptions:

- a) The plan must be understood and perceived as fair by the majority of Town employees.
- b) Productivity enhancements can best be achieved by improving the relationship between performance and pay.
- c) Unsatisfactory performance will not be rewarded with merit pay.
- d) Satisfactory performance and above is necessary for merit pay consideration
- e) Exact cut-off scores for merit pay will be determined on a year to year basis.
- f) Job expectations should apply equally to employees in the same job class.
- g) Salary levels are the most appropriate indicator of how job performance is valued.
- h) Market adjustments to the pay plan are necessary to be competitive in our labor market.
- i) Market adjustments should not increase employee salaries across the board but rather based on job specific salary data.
- j) With a market-based average salary attainable and sustainable with standard performance there is no need for cost-of-living increases.

D. Definitions

Base Pay – Base pay is the amount an employee is scheduled to receive for a designated fiscal year. Increases to base pay are cumulative in nature.

Bonus Pay – Bonuses are one time financial rewards for designated performance. They are not cumulative in nature therefore not increasing an employee's base pay for the following fiscal year.

Labor Market - For purposes of determining fair compensation for employees, the Town participates in salary surveys and compensation studies periodically to determine the market value for jobs. Employers included in these studies are generally other similarly sized municipal governments in Tennessee and or governmental in close proximity to the Town of Smyrna.

Market Rate - The "going rate" or fair market value for a standard performer in a specific job classification. Called market rate because employees at this rate typically are those that consistently meet standard job expectations.

Market Adjustment - A periodic adjustment to the salary schedule (all pay ranges) based on changes in the local labor market and in comparable municipalities. The market adjustment creates a new regular salary schedule (salary structure).

Performance Ratings - Terms used to summarize overall performance and conduct during the rating period.

Classification Change - A change in job classification based on significant changes in job duties or responsibilities.

Pay Range Revision - A change in salary grade that is based on market changes for a specific type of work. Only affects the job class describing that type of work.

Pay Grade- A numerical designation for a pay or salary range.

Standard Job Expectations - Performance expectations which are the same for most all employees in a given job class. Among others, these relate to quality, quantity, timeliness, and work outputs, as well as attendance, customer service, and team work.

Pay Range- The minimum and maximum pay rates in a pay grade.

Performance Goals - Individual or group goals established for particular rating period. Individual performance goals are typically used for supervisory, professional, and managerial employees.

E. Structure

Like many local government pay plans, Smyrna's plan contains a number of salary grades that represent pay ranges with minimum and maximum base pay rates. Classes of jobs are assigned to salary grades according to a job evaluation process which considers the internal relationships of classes and pay for similar jobs in Smyrna's labor market.

Each pay range is equally divided into three segments or tiers.

The first segment, Tier 1, starts at the minimum pay range and generally contains newer employees or employees that have been recently promoted to a new job title. This Tier of employees may still be in the developmental stage of their careers as they are still mastering the basic job requirements and responsibilities of their job.

Tier 2 generally contains employees that have been in their respective position for some time or were hired into the Town with significant experience already. Tier 2 includes the pay range mid-point.

Tier 3 primarily contains employees with vast experience in their jobs who have been with the Town for a long period of time. This Tier includes employees nearing the top of their pay range. Employees that reach the pay maximum for their pay range are considered "topped out" for pay purposes and receive no further base pay increases unless pay range is adjusted.

To ensure the competitiveness of the pay plan in the local market, the Town periodically reviews the market competitiveness of the salary schedule. The results of this effort will serve as the basis for the market adjustment, if any, recommended as part of the budget process.

F. Market Adjustments to Pay Ranges

Market adjustments to the pay ranges do not increase pay but do increase an employee's potential for additional pay. Upon implementation of a market adjustment all segments of the pay range are adjusted upward. Employee pay remains the same although position in the range, and sometimes, the range segment or tier, will adjust downward in the range. Exception: Any employees who are below the minimum of the new pay range after a market adjustment will be adjusted to the new minimum.

G. Merit Pay – Base Pay increases and Bonuses

Advancement through a pay range is based entirely on job performance as evaluated by an employee's supervisor. The better an employee performs the larger percentage reward they receive. The amount of any increase varies based on the employee's position in the salary range (Tiers) and level of performance (performance score). Employees are rewarded with both base pay increases and bonuses for performance according to the designated Merit Matrix model. Base pay increases and bonuses will be effective in the new fiscal year starting in July. The exact pay period will be determined by the Finance Department.

H. Merit Matrix

The Merit Matrix is a table designed to calculate employee pay increases. Employees who have earned Merit Pay will generally be rewarded with a base pay increase and a one-time bonus. The Matrix takes into consideration an employee's performance score and their pay tier placement to determine the percentage increases of base pay and bonus. As an employee rises in their pay range, the reward will progressively shift from a base pay dominant reward to a bonus based award.

This change reflects the realities of the normal job growth curve. Employees in Tier 1 will receive larger percentage base pay increases and smaller bonuses than Tier 2 and Tier 3. Those employees who are receiving the maximum pay for their position (topped out) will receive a merit bonus only.

The Merit Matrix is designed to provide flexibility in the performance pay system. By design, the Matrix may be scaled up or down on an annual basis due to budgetary allowances. This structure ensures that rewards are realistically fundable by the Town yet still consistently awarded to employees. For a copy of the current Merit Matrix, please contact the Human Resources office.

I. Eligibility for Merit Pay

Employee Status

Full time employees are eligible for merit pay in accordance with the Merit Matrix and the eligibility guidelines below. Part-time employees who are eligible for a bonus will have that amount adjusted at 72.5% of what would be earned by Full time employees. This is equivalent to the part-time budgeting for part-time employees (72.5% of a full time position).

Cut off scores

Merit Pay is designed to reward employees for merited performance. The Merit Matrix sets forth cut-off scores for levels of performance to determine the amount of merit pay awarded. A minimum score will be set. Those employees falling below the minimum score designated for merit pay will receive no reward for the current review period. Employees scoring above the minimum cutoff score will earn rewards based on their performance score and Tier placement.

Service time in job / Reclassifications / Demotions / Elected Officials

In order to be eligible for Merit Pay as set forth in the Merit Matrix an employee must have worked in their current job for at least 1 full year as of October 1st. There are many situations in which employees may receive a portion of the merit pay as set forth in the Merit Matrix. See the following scenarios:

Note: For service determination the date of October 1st of each calendar year is used.

- New hires with less than 6 months of service in their current job title as of October 1 will be not receive their performance reviews until March. At that time they will be eligible for 50% of any scheduled merit pay in accordance with their performance score.
- New hires after October 1, will not receive performance reviews and will not be eligible for merit pay until the next review cycle.
- New hires with more than 6 months of service but less than 1 year in their current job title as of October 1st will be eligible for 70% of the merit matrix rewards.
- Employees *promoted* to a new position during the evaluation period who have less than 6 months of service in their new position as of October 1st will be eligible for an evaluation in March and will be eligible for 50% of the scheduled merit pay.
- Employees *promoted* to a new position during the evaluation period that have more than 6 months of service but less than 1 full year will be eligible for 70% of the merit matrix rewards.
- Employees promoted after evaluations are completed for the year will be eligible for any bonus earned at time of evaluation, but will not receive any additional base pay increases due to their recent increase during promotion. Bonuses will be calculated using their pre-promotion salary, not their current salary.
- Employees that are reclassified per request of the department during the budget process are treated like any other promotion and will be eligible for any bonus earned at the time of evaluation but will not receive additional base pay merit increases due to receiving a pay increase at the time of their reclassification.
- Employees that are reclassified due to a compensation study are not considered promotions and are eligible for merit pay if applicable.

- Employees that are demoted, either voluntarily or for disciplinary reasons, after evaluations are completed but before the new fiscal year has begun, may be eligible to earn merit pay. These situations will be handled on a case by case basis.
- Employees whose status changes from Part-time to Full-time but received no pay raises will be eligible for merit pay under the same provisions listed above.
- Employees with less than 6 months of service in their job but have made a substantial impact on the organization may be eligible for an incremental bonus. The department head must submit justification in writing to the Town Manager for approval.
- Other situations not listed here will be handled on a case-by-case basis.

J. Performance Reviews

Performance reviews are completed on an annual basis typically in the months of October, November, and December. Performance reviews are completed by supervisors in which they evaluate the performance of their subordinates using a tool tailored to the job classification of the employee.

Categories of Performance

Each performance review assesses performance on multiple categories. Categories may include the following:

- Attendance
- Communication Skills
- Judgement
- Job Knowledge / Coaching
- Working with Others
- Quality of Work
- Initiative
- Managing Subordinates
- Strategic Planning / Goals

The categories of performance are uniquely weighted so that each job classification can be rated and scored according to which categories are most important for success in that position.

Rating Scale

Each category has a five (5) point behaviorally anchored scale for which evaluators may rate their employees with a score of 5 being the highest and a score of 1 being the lowest possible score. A behaviorally anchored scale is a scale that provides a unique explanation or statement of behaviors for each possible rating score within that performance category. This is used by evaluators as a general guide for determining appropriate scores for their employees. The Rating scale is listed below:

- | | |
|--------------------------------|--|
| 1 = Unsatisfactory: | Consistently performs below job standards. |
| 2 = Some Deficiencies Evident: | Occasionally performs below job standards |
| 3 = Satisfactory: | Consistently performs job to standards |
| 4 = Exceeds Expectations: | Occasionally exceeds job standards |
| 5 = Clearly Outstanding: | Consistently exceeds job standards |

Recording Ratings

Evaluators select the score which best represents the performance level for that category of performance. Ratings are to be selected based on the performance observed in the past rating period only. Each category is to be rated on its own merit and not in conjunction with other categories. Evaluators may select ratings 1-5 and may use .25 point ratings as well (ex. 3.5 or 4.25). Evaluators are to provide detailed explanations for each score especially for scores above or below a score of three (3). The detailed explanations should provide enough specific feedback for the employee to understand their score. Supervisors are trained on a periodic basis in the proper way to complete the evaluations and on how to provide feedback on performance throughout the year as well.

Self-Evaluations

Employees may be permitted to complete a self-evaluation of their performance for purposes of providing feedback to their supervisor prior to evaluations being completed. Each department will make the determination as to if employees will be required or permitted to complete the self-evaluation.

K. Policy Duration

The language in this policy is not intended to create a permanent rule or regulation but rather to provide direction and practical guidelines for managing the Merit Pay program. The policy is subject to change in whole or in part with or without notice.