

**TO: HONORABLE CITY COUNCIL**

**FROM: CITY MANAGER DEPARTMENT: HUMAN RESOURCES**

**DATE: SEPTEMBER 21, 2009 CMR: 382:09**

**SUBJECT: Adoption of Resolution Amending the 2008-2009 Compensation Plan for Management and Professional Personnel Adopted by Resolution No. 8844 to Revise the Provisions Related to Variable Management Compensation**

**RECOMMENDATION**

Staff recommends Council approval of the attached resolution amending the compensation plan for Management and Professional personnel effective for the pay periods beginning July 1, 2008 through June 30, 2009 revising the provisions for the Variable Management Compensation (VMC) program.

**BACKGROUND**

The Management and Professional group includes 242 active employees. The Management and Professional employees are unrepresented and do not have a memorandum of agreement or other contract. The benefits for the group are covered in a Compensation Plan which is adopted by resolution of the Council.

In early 2009, it became clear that the City was facing a General Fund deficit for fiscal year 2009-2010. The existing provisions of the plan give the City Manager the discretion to award VMC. In light of the budget situation, the City Manager initially considered recommending eliminating VMC awards for 2008-2009 in order to produce savings of \$650,000 for fiscal year 2009-2010 (VMC dollars are budgeted in the fiscal year following the performance period). After collaborating with the Management and Professional Committee, (a committee comprised of one employee from each department who provide the City Manager with feedback and concerns on behalf of the Management and Professional employees), the concerns raised about this recommendation centered on the potential effects to employees within the group. The Committee recommended that the City Manager offer a choice to the Management and Professional employees for an alternate option in-lieu of a VMC award.

**DISCUSSION**

After considering input from the Management and Professional Committee, the City Manager recommends:

- Amending the FY 2008-2009 Compensation Plan to allow employees to choose to receive an amount equivalent to VMC for FY 2009 or forego it. Those who choose to receive a VMC equivalent must trade an equivalent value of Management leave and/or vacation leave. Subject to department head approval, an employee could also request to trade for furlough. The VMC equivalent amount will be determined based upon performance, will be variable, but will be capped at a maximum of four (4%) percent.

This decision to change the VMC program is a cost saving measure in the short term and is recognized to be a financial impact to the Management and Professional employees who have chosen to forego this award as a contribution to the City's budget deficit. Although the City Manager has discretion not to award VMC, the proposed revision to the program offers an acceptable alternative that meets the City's financial needs and helps mitigate potential hardships to employees. For those few employees electing to have the VMC equivalent paid, they will offset the VMC award by contributing the equivalent amount in leave back to the City. This exchange will have a zero net effect resulting in savings that will help to address the City's budget challenge.

Payment of VMC to members of the Fire Chiefs Association (FCA) is a similar program, but a contractual obligation for this unit does not give the City Manager authority to change the VMC benefit for the FCA employees. The City requested that the FCA group agree to suspend the VMC benefit for this year, but the group declined.

### **RESOURCE IMPACT**

The change to the VMC program will result in a savings of approximately \$650,000 in the General Fund and approximately \$579,000 in all other funds. Total City-wide savings would be approximately \$1.2 million. The General Fund savings will be used to partially offset the \$3 million compensation reduction placeholder that is in the FY 2010 Adopted Operating budget.

### **POLICY IMPLICATIONS**

The action recommended by this report is consistent with City Council direction.

### **ENVIRONMENTAL REVIEW**

This is not a project under the California Environmental Quality Act (CEQA).

### **ATTACHMENTS**


Attachment A: Resolution of the Council of the City of Palo Alto Amending the 2008-2009 Compensation Plan for Management and Professional Personnel Adopted by Resolution No. 8844 to Revise the Provisions Related to Variable Management Compensation

**PREPARED BY:** Sandra T.R. Blanch, Assistant Human Resources Director

**DEPARTMENT HEAD:**

  
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**RUSS CARLSEN**  
Director of Human Resources

**CITY MANAGER APPROVAL:**

  
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**JAMES KEENE**  
City Manager

Resolution No. \_\_\_\_\_  
Resolution of the Council of the City of Palo Alto  
Amending the 2008-2009 Compensation Plan for  
Management and Professional Personnel Adopted by  
Resolution No. 8844 to Revise the Provisions Related to  
Variable Management Compensation

WHEREAS, the Council Adopted Resolution No. 8844 on July 7, 2008 Approving the 2008-2009 Compensation Plan for Management and Professional Personnel and Council Appointees (the "Compensation Plan"); and

WHEREAS, Section I of the Compensation Plan provides that employees may earn Variable Management Compensation ("VMC"), an annual cash award based on merit, by meeting or exceeding objectives established under the annual performance planning and appraisal system( the "VMC Program"); and

WHEREAS, consistent with the City's budgeting practices, the total amount available for VMC awards for the 2009 fiscal year was to be budgeted in the 2010 fiscal year budget; and

~~WHEREAS, the City faces a budget deficit of more than \$10 million for fiscal year 2010; and~~

WHEREAS, to help address the City's budget challenges, the City must revise the VMC program so that it has no impact on the fiscal year 2010 budget.

NOW, THEREFORE, the Council of the City of Palo Alto does hereby RESOLVE as follows:

SECTION 1. Pursuant to the provisions of Section 12 of Article III of the Charter of the City of Palo Alto, the Compensation Plan for Management and Professional Personnel and Council Appointees adopted by Resolution No. 8844, is hereby amended to revise Section I(B)(4) as follows:

4. Performance Planning and Appraisal. Performance appraisals will be conducted at the end of each fiscal year during the months of July through September prior to determining individual employee fixed and variable compensation. This process includes both review of previous performance plan and preparation of the performance plan for the next planning period (usually the fiscal year). Performance plans are jointly prepared by the employee and supervisor with the concurrence of the department head or Council-appointed officer. The performance plans shall contain measurable objectives which place special emphasis on position description duties or specific assignments. Progress toward meeting objectives shall be monitored periodically. The performance

\* \* \* NOT YET APPROVED \* \* \*

appraisals should be implemented in a manner that will achieve the following objectives:

- Define the employee's job duties and expected level of performance for the next review period to ensure that both the employee and supervisor have a clear understanding of the employee's role and responsibilities;
- Evaluate and document past performance to serve as a basis for establishing and obtaining future performance standards/objectives;
- Facilitate two-way communication and understanding between the employee and his or her supervisor;
- Counsel and encourage employees to work toward a learning development plan and realize their full potential;
- Establish future work plan objectives ~~to be considered for a VMC.~~

Work plans should include job related projects or special goals related to regular job duties when applicable. At the conclusion of the fiscal year (or review period), supervisors shall make a final determination of the overall performance rating. Recommendations shall be forwarded to department heads or council-appointed officers who will then determine individual fixed ~~and variable~~ compensation adjustments according to the provisions of the compensation plan. This process should be completed by September 30<sup>th</sup>, 2009.

Due to the City's budget situation, the City Manager has determined that VMC will not be awarded for the 2008-2009 fiscal year. If, after completing the performance appraisal process, a department head or council-appointed officer determines that an employee would have been eligible to receive a VMC award, the eligible employee may opt to receive an amount equivalent to that award by agreeing to offset that amount. The offset shall be accomplished by returning to the City one or more of the following leaves totaling an amount equivalent to the VMC:

- (1) Vacation hours;
- (2) Management Annual Leave;
- (3) Unpaid furlough (subject to Department Head approval).

SECTION 2. The Director of Administrative Services is authorized to implement the amended compensation plan as set forth in Section 1 of this Resolution.

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**\* \* \* NOT YET APPROVED \* \* \***

SECTION 3. The Council finds that this is not a project under the California Environmental Quality Act and, therefore, no environmental impact assessment is necessary.

INTRODUCED AND PASSED: September \_\_\_\_, 2009

AYES:

NOES:

ABSENT:

ABSTENTIONS:

ATTEST:

\_\_\_\_\_  
City Clerk

\_\_\_\_\_  
Mayor

APPROVED AS TO FORM:

APPROVED:

\_\_\_\_\_  
Sr. Deputy City Attorney

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City Manager

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Director of Administrative Services

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Director of Human Resources