

Creating a Pay Plan for Small Cities: The Do's and Don'ts

By The Waters Consulting Group, Inc.

DO'S AND DON'TS

Each year, cities of all sizes across the United States take on the task of reviewing budgets and determining the dollar requirements for total employee compensation. Will this be the year that raises are granted? If so, how much is affordable? Will the city improve the benefits plan? Will its leaders choose to “hold the line”? What will they do to attract new talent and retain seasoned employees?

Why should a small city be concerned about employee compensation and retention? Much like a small business, small cities must often take a “wait-and-see” approach to any type of pay increase. In fact, many small cities don't have a formal pay plan in place or a compensation expert on staff to develop a formal plan, and hiring a compensation consultant is certainly not in the budget.

What can a small city do if it wants a more structured pay plan but does not have the budget to afford a comprehensive compensation study?

First, the key to understanding this dilemma is to understand the importance of a formal pay plan. Pay administration or compensation plans are simply management tools that enable an organization to control personnel costs, and they often help to increase employee morale and reduce workforce turnover. A formal pay system provides a means of rewarding individuals for their contributions to the success of an organization, while making sure that the organization receives a fair return on its investment in employee pay.

Standard compensation practice dictates the use of time-tested concepts

for determining competitive pay levels and for maintaining fair-pay relationships among the jobs, regardless of the size of the organization.

Who Really Needs a Pay Administration Plan?

Pay administration may simply be a fancy term for something a city is already doing but hasn't bothered to name. Or perhaps a city has not been paying employees according to any system and is just waiting until employee dissatisfaction forces pay adjustments—using payroll dollars to put out fires, so to speak.

A formal pay plan—one that lets employees know where they stand and where they can go, as far as take-home pay is concerned—will not solve all employee relations problems. It will, however, remove one of those areas of doubt and rumor that may keep a city's workforce anxious, unhappy, less loyal, and more mobile than management would like them to be.

Particularly in a small organization, it is good, strong, talented people who can make the difference between the organization's success and failure. Employees appreciate a pay system that is equitable (fair) and equable (uniform). No one likes a pay plan that is set on a whim or is “at the discretion of the organization” or “at the pleasure of the mayor.” There is no better way to instill fear in employees than to take away their stability. If a city doesn't have an established pay structure, this is exactly what will be accomplished...total loss of perceived financial stability by the staff.

Pay plans should not be confused with the “silver bullet” that solves all human resource issues. Instead, they are simply a tool, but certainly a very powerful one. In fact, a well-structured pay plan can greatly support the following strategic objectives for small cities:

- 1) Recruit employees;
- 2) Retain employees; and
- 3) Set in place a culture that will help city leaders to motivate employees.

How Does a City Develop and Install a Pay Plan on a Small Budget?

A formal pay plan doesn't have to cost cities a lot of time or money. *Formal doesn't mean complex.* In fact, the more elaborate the plan, the more difficult it is to put into practice, communicate, maintain, and administer.

The foremost concern in setting up a formal pay administration plan is to get the acceptance, understanding, and support of the city's management and supervisory employees. A well-defined, thoroughly discussed, and properly understood plan is a must for success.

The steps in setting up a pay plan are:

- 1) define the jobs;
- 2) evaluate the jobs;
- 3) price the jobs;
- 4) develop and implement the plan;
- 5) communicate the plan to employees; and
- 6) as an option, appraise employee performance under the plan.

How Does a City Define Employee Jobs?

City management should allow employees to participate in this process by completing a job description questionnaire (often referred to by compensation professionals as a “JDQ”). This is important, because unless city management knows each job’s specifications and requirements, they can’t properly compare the jobs for pay purposes. It’s no surprise, therefore, that the initial step in installing a formal plan is preparing a job description from the JDQ for each position. Of course, one tenured person in the city may be able to write job descriptions for everyone, but it is highly unlikely that all the nuances of each position will be documented. Often, small cities have employees who have performed, at one time or another, many jobs within a department or even the entire city. Therefore, although it may be tempting to have one person write all the job descriptions, it is a mistake. With changing technology, jobs change every day. The best and easiest way to document a job completely is to ask each employee to complete a JDQ. Supervisors should then review these descriptions for accuracy, meet with the employee regarding any discrepancies, and work toward consensus.

This is also the time to begin explaining the process to employees. It is important to communicate that the management is gathering employee input to help price jobs in the comparable market so that a more formal pay structure can be established.

A sound JDQ should have the following categories at a minimum:

- Employee basics, such as name, job title, department, length of time in job, length of time with organization, typical work hours, and immediate supervisor’s name and title;
- Brief description of the job (What is the main responsibility of the job?);
- Main duties (Essential functions and related tasks are documented here.

It is important to also add an estimate of the percentage of time spent on each essential function, as well as the physical strength required. Information for the most current physical strength demands can be found on many Web sites, including the Department of Labor’s site at www.dol.gov;

- Other duties (List various duties not performed on a regular basis, such as preparing for an annual street carnival or sanding/salting streets.);
- Job requirements, such as formal education, training, and technical complexity; and
- Other issues, like non-physical demands, budgetary controls, responsibility for supervision, unusual working conditions (extreme heat, for example, or safety issues), certifications, licenses, reading level, math level, writing level, and so on.

Experts recommend that supervisors review these items and perhaps even help craft the JDQ.

It will probably take some time to prepare job descriptions based on the information gained from employees, but what is learned may be useful in ways other than comparing jobs for pay purposes.

For example, the management team may discover that some employees are not doing what it was assumed they were doing or what they were hired to do. This often merits a change in job title (for example, “I was hired as a secretary, but now I really run the local election process”). Remember, jobs change for a variety of reasons, including but not limited to:

- technology;
- an increase or decrease in population;
- customer demands;
- changes in the council/mayor; and so on.

City leaders may also decide they want to make some changes in employee

work routines. And the information may also be useful for:

- hiring, training, and developing employees;
- realigning duties in the organization;
- comparing job data for salary surveys;
- ensuring compliance with various employment practice and pay rate laws; and
- evaluating job performance based on assigned duties.

How Does a City Price the Jobs in the Market?

“Point factor job evaluation,” the method by which jobs are ranked based on compensable factors, is typically used in more elaborate pay structures. For small cities, a market-based approach is usually the best because of its ability to be easily maintained from an administrative and budgetary perspective.

To put a dollar value on a position, cities should determine what other organizations in the area are paying for similar work. If managers have not ranked and grouped jobs in pay levels based on internal equity, they will need to survey as many of the organization’s job titles in the market as possible. Job titles that are easiest to describe and are most commonly found in comparable organizations should be surveyed, as well as jobs that have more than one level (for example clerk I and clerk II).

A survey of who’s paying how much for what in the geographical area is the best way to learn how much should be paid for each of a city’s jobs to remain competitive. However, all salary survey data should be used strictly as a “measuring stick,” since budgets may not allow for increases in salaries to match the market. (This comes under the heading of “Compensation Philosophy” or pay strategy, which is discussed in this article.)

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Small cities probably have neither the time nor the money to spend on creating such a survey. That shouldn't be a problem, because all the necessary data is usually available from sources like the local chamber of commerce or major firms in the area, or from such national sources as the U.S. Bureau of Labor Statistics, the Administrative Management Society, and so on. In fact, the Texas Municipal League, in partnership with The Waters Consulting Group, Inc., offers an exceptionally reliable tool (the HR Toolkit™ for Small Cities) for gathering this information quickly, easily, and at an affordable, annual price. (Visit www.tml.org and click on "Small Cities" to learn more.)

When studying pay in the area and applying what is learned to the jobs in a particular city, job *descriptions* should be compared, not just job *titles*. This is where the importance of the job description process comes into play. Job titles can be misleading; there can be great differences between what one organization and another call the same job. One city's "mail clerk" may be another city's "supervisor of shipping and receiving."

After city leaders are satisfied that they are comparing apples to apples, an average rate can be computed for each job and entered on a worksheet as follows (the averages in the table below are purely arbitrary):

TABLE 1

Pay Level	Job Title	Average Annual Salary
1	Clerk-Typist	\$24,960
2	Payroll Clerk	\$27,120
3	Secretary	\$30,160
4	Accounting Clerk	\$33,200
5	IT Technician	\$37,280

The average pay rates may need to be adjusted to keep a sufficient difference between pay levels. The going rates found for each pay level can then become the midpoints of the pay ranges.

Of course, midpoints can be set above or below the survey averages, based on the city's ability to pay, the city's pay philosophy, and the type and value of the city's benefit programs. Typically, the minimum rate in a pay range is 70 to 80 percent of the midpoint rate, and the maximum rate is 120 to 130 percent of the midpoint. With this arrangement, new employees can increase their earnings by plus or minus 50 percent without a job change (minimum to maximum), thus having performance incentives even if they are not promoted.

There is now a pay range for each position in the organization, and it will resemble the following example:

TABLE 2

Pay Level	Minimum	Percent from Minimum to Midpoint	Midpoint	Percent from Midpoint to Maximum	Maximum
1	\$19,968	+20 percent	\$24,960	+20 percent	\$29,952

The dollar value from grade minimum to grade midpoint is the same (\$4,992).

TABLE 3

Pay Level	Job Title	Minimum	Midpoint	Maximum
1	Clerk-Typist	\$19,968	\$24,960	\$29,952
2	Payroll Clerk	\$21,696	\$27,120	\$32,544
3	Secretary	\$24,128	\$30,160	\$36,192
4	Accounting Clerk	\$26,560	\$33,200	\$39,840
5	IT Technician	\$29,824	\$37,280	\$44,736

Such a pay range will tell where employees' pay and pay potential stand in relation to the market rates for the type of work they perform. It should show at a glance where changes are needed to achieve pay rates that are fair within the organization and competitive with comparison cities. (Of course, if a

city wants to compare to the private sector, that is always an option.)

How Does a City Implement the Plan?

At this point, it is necessary to consider how the plan will be administered to provide for individual pay increases. In administering the pay increase feature of the plan, several approaches are possible:

- **Merit or performance** increases, granted to recognize individual or group performance and contribution;
- **Promotion** increases for employees assigned to different jobs in higher pay grades or ranges;
- **Progression to minimum** for employees who are below the minimum or hiring rate for the pay range (always a good practice);
- **Probationary** increases for newer employees who have attained the necessary skills and experience to function effectively (if policy allows);

■ **Longevity** increases to recognize time employed with the city; and

■ **General** increases, granted to employees to maintain real earnings as economic factors require and to keep the city's pay system competitive to market.

These approaches are examples; there are many variations. Most annual

increases are made for cost-of-living, tenure, or employment market reasons. Several, all, or combinations of the various increase methods may be used.

Communicating the Plan to Employees

After the pay administration plan is in place, the management team must consider how to tell employees about it. At this point, city leaders should have done their homework as instructed: They have had communication sessions at the beginning of the process, have asked employees to assist by completing JDQs, and have involved supervisors at several key points (such as development of the JDQ and review of the JDQs completed by employees).

If setting up a sound compensation program is number one in importance, a close number two is explaining the plan to employees. Some of the more successful methods include employee meetings, letters, e-mails, or a combination of all these methods. It is important, however, that employees are given the chance to ask questions and receive answers from reliable sources. This means that the management team needs to be well versed and prepared, so that employees receive the same, accurate message at all levels.

However the new pay plan is communicated to employees, it is essential that the way the plan works is explained clearly, honestly, and openly. This is a prime opportunity to build goodwill and good relations with employees. Supervisors should understand the plan and explain it to their direct reports. Explaining it to new hires during orientation is also essential. Finally, it is a good idea to review the plan periodically with all employees.

Updating the Plan

Pay plans are not systems that are developed and then shelved. They are like an evergreen tree; they require

nurturing and feeding throughout the year. On some occasions, they may also require trimming. To keep a pay administration plan in tune with the times, it should be reviewed at least annually. Adjustments can be made where necessary, and supervisory personnel can be retrained in the proper and basic steps. This is not the kind of plan that can be established and then ignored.

During the annual review of the pay plan, city leaders should ask themselves if the plan is working for the city. Is the city getting the quality of employees it wants, or is it just making do? What is the turnover rate? Do employees seem to care about the city and its success? If not, is the city relying on the pay plan to solve this problem (a mistake that organizations of *all* sizes make from time to time...just ask any owner of a professional ball team)?

In the final analysis, it is not how elaborate the plan, how much the consultant was paid, or how snazzy the forms and administration are. What matters is that the plan works to support the key objectives of a city's core business strategy. When it comes to pay, the organization will "get what it strokes," in most cases.

Getting Professional Help

Just as many people use "kits" to write their own wills or divorce papers, a pay plan can be developed without any professional assistance. However, after a plan is developed, it is prudent to have a professional compensation consultant review it with city leaders. The few hours of professional fees are good insurance before a new system is implemented and can prevent headaches and heartaches in the future.★

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