



CITY OF HOUSTON

Administrative Procedure

Subject: **Performance Incentive Pay Plans for Municipal Employees**

A.P. No:

3-8

Effective Date:

March 11, 2011

1. AUTHORITY

- 1.1 Article VI, Section 7a, of the City Charter of the City of Houston.

2. PURPOSE

- 2.1 To provide a process for departments to recognize employee performance individually and/or through teams.
- 2.2 To reward contributions and the achievements of pre-determined goals, objectives and/or milestones that enhances the efficiency and/or effectiveness of departments in providing services to the citizens of the City of Houston.

3. OBJECTIVES

- 3.1 Provide a method of compensation that recognizes and rewards employee/team performance that enhances the efficiency and/or effectiveness of departments.
- 3.2 Promote an environment that encourages departments to establish goals, objectives and milestones that will enhance the efficiency and/or effectiveness of departmental services.
- 3.3 Provide individuals or groups of employees a link between their accomplishments of pre-determined goals, objectives and/or milestones and their own compensation.

4. SCOPE

- 4.1 The procedure applies to all departments proposing performance incentive pay plans for municipal employees.

5. RESPONSIBILITIES

- 5.1 Departments are responsible for creating and administering their incentive pay plans in accordance with local, state and federal regulations.
- 5.2 Departments are responsible for periodic program audits and/or review of their plans to ensure effectiveness and proper documentation and execution.
- 5.3 Departments are responsible for modifying or discontinuing the plans if the review/audit indicates that the plan no longer promotes the desired performance outcomes or is not being properly administered.

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5.4 Unless otherwise specified by the Administration, departments shall submit plans for review through the Human Resources Department. Plans determined to be in compliance with this policy by the Human Resources Department will be forwarded to the Mayor's Office for review and approval.

6. POLICY

6.1 Incentive pay plans will vary based on many factors including but not limited to: the affected employee group(s), duration, funding, type of payment and the performance outcomes targeted. However, each incentive pay plan shall be prospective and contain most or all of the following elements:

6.1.1 A clearly stated purpose;

6.1.2 A list of performance objectives;

6.1.3 A defined effective period (not to exceed two years);

6.1.3.1 If no end date is specified, the plan shall establish a timeframe for review and renewal.

6.1.3.2 The department should send a renewal letter 60 days before the plan expires. However, the plan will continue until the Human Resources Department provides written notification to the affected department(s) that the plan is being renewed or terminated.

6.1.4 Defined eligibility criteria;

6.1.4.1 Clearly define which employees are eligible if you are not including all employees and address how you will handle new hires, terminations, transfers, etc. (i.e., prorate, exclude, etc.).

6.1.4.2 Employees whose most recent performance evaluations are below acceptable performance (2.99 and below) should be ineligible for most performance incentive pay plans.

6.1.5 Measurements;

6.1.5.1 Specify what will be used to measure performance (ensure the measurements are measurable, attainable, relevant and time-bound).

6.1.5.2 State what the employee must accomplish to be eligible for the incentive pay.

6.1.5.2.1 Specify any thresholds (ex. must perform X before becoming eligible).

6.1.6 Incentive pay rates; and

6.1.6.1 Ensure the plan is established prior to the measurement period.

6.1.6.2 Consider the incentive amounts, frequency and method of payment and whether to establish a maximum cap on the payment amounts within an established period of time.

6.1.6.3 If non-base pay, state for clarity purposes that the incentive awards will not be considered as compensation for pension, life insurance, disability or any other City benefit plan.

6.1.7 Plan administration;

6.1.7.1 Determine who is responsible for determining eligibility.

6.1.7.2 Determine who is responsible for conducting periodic reviews and program audits.

6.1.7.3 Determine who is responsible for modifications to or discontinuation of the plan.

7. PERSONNEL TRANSACTION AND DOCUMENTATION

7.1 Prior to submitting payment transactions, departments are responsible for ensuring the performance, recipients and payments comply with the plan. Payment documentation from the plan shall be submitted through HR with documentation illustrating that criteria were met.

7.2 Payments can be accomplished by several different methods: submitting 201s, PARs or Payout Forms for each employee receiving an increase or providing an electronic file to HR for an upload to the payroll system. Departments opting to pursue the electronic file strategy need to contact HR for the proper format.

7.3 Departments shall submit payments in a timely manner and review the list of recipients for accuracy. As per the Texas Constitution, incentives shall be awarded prospectively, not retroactively except for those authorized by law (i.e., ordinance).