

**REPORT OF THE
VIRGINIA DEPARTMENT OF PERSONNEL AND TRAINING**

**A STUDY OF GAINSHARING
AS A COMPONENT OF
MANAGED COMPETITION**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



HOUSE DOCUMENT NO. 36

**COMMONWEALTH OF VIRGINIA
RICHMOND
1999**



COMMONWEALTH of VIRGINIA

Department of Personnel and Training

SARA REDDING WILSON
DIRECTOR

JAMES MONROE BUILDING
101 N. 14TH STREET
RICHMOND, VIRGINIA 23219
(804) 225-2131
(V/TDD) (804) 371-7671

MEMORANDUM

To: The Honorable James Gilmore, III
Governor of Virginia

Members of the General Assembly

FROM: Sara R. Wilson *Sara R. Wilson*

RE: Chapter 464, Item 58.C. of the 1998 Appropriations Act

DATE: January 11, 1999

Chapter 464, Item 58.C. of the 1998 Appropriations Act specifies that:

The Department of Personnel and Training, in conjunction with the Commonwealth Competition Council, shall study effective methods and advantages to the Commonwealth of developing a gain-sharing program as a component of a managed competition process in which state government entities compete with the private sector for the provision of commercial activities. The results of the study shall be reported to the Governor and the 1999 General Assembly.

Enclosed for your review and consideration is the report prepared in response to this requirement.

SRW:rjw

Enclosure

TABLE OF CONTENTS

	<u>PAGE</u>
Authority for Study	2
Summary of Findings	3
Overview	5
Background	6
Private Sector Gainsharing Programs	7
City of Virginia Beach Gainsharing Program	7
Commonwealth of Virginia Initiatives	9
Advantages	12
Appendices	13
Appendix A City of Virginia Beach Gain-sharing Policy	14
Appendix B Chapter 893 1992 Acts of Assembly	15
Appendix C Options for Improving Employee Productivity	16
Appendix D Enabling Legislation for Compensation Pilot Programs	17
Appendix E Employee Suggestion Program Policy and Reports	18
Appendix F Assessing Issues/Developing a Pilot Compensation Plan	19

AUTHORITY FOR STUDY

Chapter 464, Item 58.C. of the 1998 Appropriations Act, specifies that:

The Department of Personnel and Training, in conjunction with the Commonwealth Competition Council, shall study effective methods and advantages to the Commonwealth of developing a gain-sharing program as a component of a managed competition process in which state government entities compete with the private sector for the provision of commercial activities. The results of the study shall be reported to the Governor and the 1999 General Assembly.

SUMMARY OF FINDINGS

Gainsharing is defined as a group bonus plan that shares cost savings from improved performance in productivity and performance with most or all employees of a unit. It is an incentive system that provides rewards for gains in productivity; thus, there must be a measurable output for a payment to occur. Successful gainsharing usually involves three elements: (1) a management philosophy of open communication encouraging employee participation; (2) a system which seeks, evaluates and implements employee suggestions on how to increase productivity; and (3) a formula for measuring productivity gains and sharing these gains between employees and the employer.

Study findings indicate that a mechanism exists for Commonwealth of Virginia agencies and institutions to implement gainsharing programs on a pilot basis. This authority exists in Appropriation Act Language authorizing the Department of Personnel & Training to approve pilot compensation programs within agencies that support the redesign of the classified compensation plan.

Gainsharing programs must be funded from an agency's existing appropriation, which is a characteristic of pilot compensation programs approved by the Department of Personnel and Training.

A gainsharing pilot would not be required to be part of a managed competition process, but could be implemented as part of such a process.

Gainsharing initiatives must consider the source(s) of funding for the agency and whether there are restrictions which might prohibit the distribution of savings to eligible employees.

Gainsharing programs require detailed planning. An example of a method to establish a gainsharing program might include the following steps:

- ❑ Establish a gainsharing design committee.
- ❑ Train them in the organization's sources of income and expenditures.
- ❑ Identify specific, measurable business goals for a specified time period.
- ❑ Determine how to measure results.
- ❑ Test the measures to ensure reliability and set a performance baseline.
- ❑ Determine how participants will share gains.
- ❑ For the plan to pay for itself, there has to be a financial return. Since some measures may not produce a financial result, there must be at least one financial improvement that can fund the plan.
- ❑ Design a payout schedule that shows the required baseline for each measure and how the plan generates award dollars beyond the baseline for each measure.
- ❑ Develop an employee communication program using various means of communication.
- ❑ Obtain management approval.
- ❑ Develop a methodology to evaluate performance to ensure that the quality of services provided has not been degraded.

The decision to pilot test an alternative compensation program is voluntary and contingent upon agencies' or institutions' needs, resources, and staff commitment to develop, implement, and maintain the project pilot.

For those agencies interested in testing such a program, the Commonwealth Competition Council offered the following as a partial list of tangible benefits:

- ❑ Cost savings. No additional funding is required since funding is from savings generated by reengineered or more efficient functions.
- ❑ Management and employees are required to determine the full cost of their operation. This results in good business practices.
- ❑ Gainsharing provides an opportunity for managers and employees to work together in an innovative manner to enhance productivity.
- ❑ Gainsharing familiarizes employees with the agency's performance measures and performance budgeting issues already in place with the Department of Planning and Budget.
- ❑ Implementation of gainsharing programs changes the culture of government.
- ❑ Gainsharing provides an avenue to accurately measure performance, improve communication and hold employees accountable.
- ❑ Gainsharing programs should improve the quality of service benefiting Virginia citizens resulting in increased customer satisfaction.
- ❑ In theory, this type of program should increase morale and reduce turnover and absenteeism.

OVERVIEW

The objective of the study was to examine effective methods and advantages to the Commonwealth of developing a gainsharing program as a component of a managed competition process in which state government entities compete with the private sector for the provision of commercial activities.

The Commonwealth Competition Council provided materials that addressed and defined managed competition and documentation on gainsharing programs implemented in numerous private sector companies and the City of Virginia Beach, Virginia.

The Department of Personnel and Training researched several initiatives studied in the past few years that provided an avenue for the implementation of gainsharing programs in Commonwealth of Virginia Executive Branch agencies. These included:

- A study for the 1993 Session of the General Assembly calling for a plan to implement an “Employee Productivity Incentive Fund”.
- The Watson-Wyatt Company review of the job classification system completed in 1994, which provided alternative job evaluation and supporting compensation programs.
- The General Assembly’s Joint Commission on Management of the Commonwealth’s Workforce recommendations.
- The recommendation of the 1998 General Assembly which established a commission to study the Commonwealth’s classification/compensation program.

BACKGROUND

The Commonwealth Competition Council (CCC) is an independent Council within Virginia's state government created by the General Assembly in 1995. The principal goal of the Council is to find better and less costly ways to provide government services.

The Council addressed gainsharing initially in their 1996 annual report with a recommendation that a gainsharing model be studied to find an effective way to maximize the knowledge of our workforce. Gainsharing is defined as a group bonus plan that shares cost savings from improved performance in productivity and performance with most or all employees of a unit. In their 1997 annual report, the council narrowed its focus concerning gain sharing to "managed competition". The latter is specifically defined in the Code of Virginia § 9-341 as follows:

Managed competition is a competitive process between a state agency and the private sector in which (i) the state agency submits its own proposal after completing the fully allocated cost of the commercial activity and (ii) the proposal is based on its most efficient proposed organization to compete with a private sector bid for the provision of the commercial activity.

The CCC recognized that it would be difficult to compare "costs" between the private sector and public entities. Government budgeting typically does not identify the actual cost of a function or service, which includes direct operating costs as well as capital asset depreciation, indirect costs, and overhead costs. To assist in the process of accurately comparing public and private sector operating costs, the CCC developed an automated Cost Comparison Program called "COMPETE". After an agency has identified its fully allocated costs, it can solicit proposals from the private sector to determine the private sector cost of providing the service. The agency then has an opportunity to reengineer and submit proposals to compete with those received from the private sector. The CCC report stated that government entities that have implemented successful managed competition programs have provided incentives for their work force with gain sharing programs. An example was provided in the report of gainsharing as a component of managed competition:

- The current fully allocated cost of a service is \$200,000.
- Solicitations for public and private proposals produce a private sector cost proposal to provide the service for \$150,000.
- The agency's reengineered proposal is also \$150,000, and the agency is awarded the contract.
- At the end of the first year the audited figures verify that the agency performed the service for \$125,000.
- The \$25,000 difference, or a portion thereof, between the agency's original proposal and the actual audited cost, is the gainsharing amount rewarded to the agency, and may be distributed in accordance with the guidelines of the gainsharing program.

PRIVATE SECTOR GAINSHARING PROGRAMS

Gainsharing is an incentive system that provides rewards for gains in productivity; thus, there must be a measurable output for a payment to occur. For this reason, such programs are often found in manufacturing companies, where they originated. Successful gainsharing usually involves three elements: (1) a management philosophy of open communication encouraging employee participation; (2) a system which seeks, evaluates and implements employee suggestions on how to increase productivity; and (3) a formula for measuring productivity gains and sharing these gains between employees and the employer. The review of gainsharing program documentation from the private sector provided guidance in identifying methodologies for developing such programs. Most often, companies develop “customized” programs, rather than using textbook gainsharing models to meet the particular needs of their business. Gainsharing literature emphasizes that this is not profit sharing, since it can extend beyond financial measures to include operational measures and improvements. Also, gainsharing begins with a decision by senior management to create a corporate culture that encourages employee involvement to build a high performance organization. An example of a method to establish a gainsharing program might include the following steps:

- ❑ Establish a gainsharing design committee.
- ❑ Train them in the organization’s sources of income and expenditures.
- ❑ Identify specific, measurable business goals for a specified time period.
- ❑ Determine how to measure results.
- ❑ Test the measures to ensure reliability and set a performance baseline.
- ❑ Determine how participants will share gains (may include shareholders).
- ❑ For the plan to pay for itself, there has to be a financial return. Since some measures may not produce a financial result, there must be at least one financial improvement that can fund the plan.
- ❑ Design a payout schedule that shows the required baseline for each measure and how the plan generates award dollars beyond the baseline for each measure.
- ❑ Develop an employee communication program using various means of communication.
- ❑ Obtain management approval.
- ❑ Develop a methodology to evaluate performance to ensure that the quality of services provided has not been degraded.

It is difficult to mirror the private sector programs in the public sector. Private sector companies must produce a financial return, and this return may be used to support gainsharing productivity payments. Clearly, there are differences in the opportunities for productivity savings that can be diverted to fund programs in “for-profit” organizations, versus the public sector.

CITY OF VIRGINIA BEACH GAINSHARING PROGRAM

Most Commonwealth agencies do not operate on an enterprise basis, and thus, do not generate funds or make a profit. Public sector agencies would have to generate savings from efficiencies, and would be limited in the availability of monies for purposes other than

those specified within their individual budgets. The City of Virginia Beach, Virginia has a policy in place that provided an example of a public sector gainsharing program (Appendix A).

In 1993 the City of Virginia Beach adopted a Gainsharing Policy and Procedure. The purpose of the program was to develop a means by which employees would share in savings realized through increased productivity and operational improvements. The program required that the city determine savings realized in accordance with their gainsharing funding conditions at the end of each fiscal year. A percentage of these savings are allocated to a gainsharing pool that is returned to eligible employees. The latter includes all permanent and part-time employees who have been on the payroll for a specified time period and are satisfactory performers. This policy has been in effect since fiscal year '95-'96, and payouts have been provided each year ranging from \$218-\$319 to each full-time employee (part-time employees receive a prorated amount). The program has a sunset provision and will terminate this month unless continued by the City Manager.

This program provided an example of how a gainsharing program can work in the public sector. However, there are many key issues that would dictate alternative approaches if a similar program were contemplated at the state level. The City of Virginia Beach has approximately 4500 full-time and 1000 part-time employees. The program tracked savings separately for two budget categories, general fund programs and enterprise programs. However, any savings allocated to the "pool" were divided among all eligible city employees.

The Commonwealth of Virginia (COV) does not co-mingle funds between agencies. It has been the practice to allocate funds to individual agency budgets. Therefore, it is unlikely that employees in other COV agencies could share savings generated by one agency. However, it would be possible, for individual agencies to test gainsharing programs.

COMMONWEALTH OF VIRGINIA INITIATIVES

Virginia Department of Planning and Budget

The Department of Planning and Budget (DPB) study on “Options for Improving Employee Productivity” was initiated as a result of Appropriation Act language following the 1992 General Assembly Session (Appendix B). The language was designed as a means to encourage efficiencies in state agencies that could result in long-term savings to the Commonwealth. The majority of these savings (80%) were to become a source of funds for state employee salary adjustments. The remaining 20% were to be used to implement a program of “productivity bonuses” to recognize individual or group efforts contributing to long-term savings to the Commonwealth.

The Department of Planning and Budget (DPB) completed a study of Options for Improving Employee Productivity and submitted results to the 1993 General Assembly (Appendix C). The study concluded that while the “legislative goal behind enactment of Item 585I is clear and positive ... the issues surrounding the development and implementation of this plan are numerous and complex.” The DPB report further stated that efforts to “promote state employee productivity can best be achieved through alternatives other than strict implementation of Item 585I language.” There were three primary legislative goals of Item 585I:

- to save money through innovative ideas;
- to provide for across-the-board salary increases; and,
- to reward those groups or individuals which promote productivity savings.

The recommended course of action outlined in the DPB study included the following:

- making up-front decisions, if possible, about across-the-board salary increases and pay for performance, and fund them in the Appropriation Act;
- modifying the existing Employee Suggestion Program;
- communicating the Employee Recognition Program policy; and
- pilot testing “gainsharing,” an approach which is commonly used in private industry to promote productivity increases in organizations.

The gainsharing recommendation was made as an incentive for employees and managers to work cooperatively to reduce costs through increased productivity. It provided an opportunity to empower individuals or groups within agencies to change their jobs to raise

productivity, lower costs, and/or provide better service. Agency heads were authorized to award bonuses of up to \$500. (Non-monetary awards were also to be considered during this pilot phase.) Funding was to be from unexpended balances that existed on June 30, 1994, thus no supplemental funding was required.

Although no agency came forward with a gainsharing proposal, the DPB study was the initial policy guidance that allowed for this type of pilot program.

Department of Personnel and Training

In 1993, the Department of Personnel and Training (DPT) established a task force to develop up-to-date and responsive job evaluation and supporting compensation alternatives for the Commonwealth. The Watson-Wyatt Company was retained "to facilitate the work of this task force and to provide research information and expert advice on pay program design alternatives and their applicability to the Commonwealth." The Watson-Wyatt Company consultants also provided assistance to the General Assembly's Joint Commission on Management of the Commonwealth's Workforce. Gainsharing was among the alternative reward and performance management methods presented in the Watson-Wyatt Study report. It was defined as an "award that shares group improvement in productivity, cost savings and quality with each employee in the group." For each alternative reward system presented, Wyatt-Watson outlined the type of plan objectives, work characteristics and organizational culture that would create an appropriate environment. The objectives, characteristics and culture presented for gainsharing programs included the following:

Plan objectives

- Tie pay to unit performance
- Productivity
- Cost reduction
- Employee communication
- Employee participation

Work Characteristics

- Group processes
- Groups smaller than 500
- Interdependent

Organizational Culture

- Open communication
- Trust
- Employee involvement
- TQM
- Continuous improvement

Recommendations from Watson-Wyatt and the Joint Commission resulted in the initiation of pilot compensation programs in 1995 by agencies and institutions working with DPT compensation consultants. These pilot programs test whether alternative compensation management strategies address workforce requirements more appropriately than the traditional program. Implementing pilots is voluntary and is contingent upon agencies' and institutions' needs, resources, and commitment of staff to develop, implement, and maintain the project. Authority for pilot projects to test alternative compensation programs was provided in Appropriation Act language beginning in 1996 (Appendix D). In 1998, the General Assembly also approved language in the Appropriation Act that established a Commission on Reform of the Classification Compensation Plan. The Commission is in the process of reviewing all aspects of the current system. Recommendations on a wide range of issues relating to classification and compensation will be made to the 2000 session of the General Assembly.

Employee Suggestion Program

A state policy exists which allows agencies to recognize and reward employees for adopted ideas that improve their agencies' and state government's operations. One option under this policy is for the payment of cash awards. Such awards may be paid to employees whose ideas are adopted, implemented, and result in qualifiable dollar savings or revenue. During the last three fiscal years, this program resulted in estimated savings of almost \$420,000. Employees received payments of approximately \$76,000 from those savings. (Appendix E)

ADVANTAGES

As indicated, the decision to pilot test an alternative compensation program is voluntary and contingent upon agencies' or institutions' needs, resources, and staff commitment to develop, implement, and maintain the project. The Department of Personnel and Training provides agencies' with a checklist of issues to assess if they are interested in considering a pilot (Appendix F). To date, there have been no requests for a gainsharing pilot. For those agencies interested in testing such a program, the Commonwealth Competition Council offered the following as a partial list of tangible benefits:

- ❑ Cost savings. No additional funding is required since funding is from savings generated by re-engineered or more efficient functions.
- ❑ Management and employees are required to determine the full cost of their operation. This results in good business practices.
- ❑ Gainsharing provides an opportunity for managers and employees to work together in an innovative manner to enhance productivity.
- ❑ Gainsharing familiarizes employees with the agency's performance measures and performance budgeting issues already in place with the Department of Planning and Budget.
- ❑ Implementation of gainsharing programs changes the culture of government.
- ❑ Gainsharing provides an avenue to accurately measure performance, improve communication and hold employees accountable.
- ❑ Gainsharing programs should improve the quality of service benefiting Virginia citizens resulting in increased customer satisfaction.
- ❑ In theory, this type of program should increase morale and reduce turnover and absenteeism.

APPENDICES

APPENDIX A

**City of Virginia Beach
Gainsharing Policy and Program Policy #: 5.02(A)**

GAINSHARING POLICY AND PROGRAM

Policy#: 5.02(A)

Date of Adoption: 10/12/93

Date of Revision: 9/24/96

Title: Gainsharing Policy and Procedure

Page 1 of 4

1.0 Purpose:

To control annual operating costs through increased productivity, to improve quality of services to citizens and fellow employees, and to increase employee involvement in operational improvements by providing a program through which permanent and part time employees can share in the savings (i.e., "gains") realized by the City as a result of organizational improvements.

2.0 Policy Statement:

2.1 The City of Virginia Beach has established a Gainsharing Program. Under this Program, the City will determine, on a fiscal year basis, the level of savings which has been realized. A percentage of the savings will be returned to the City to address long-term capital needs and finance reserves, and the remaining percentage will be allocated to a Gainsharing Pool. The funds in the Gainsharing Pool will be returned to eligible permanent and part time City employees in the form of annual Gainsharing Checks.

2.2 The City Manager shall determine/revise the funding formula, percentage of funds available for the Gainsharing Pool, and the performance criteria under which employees are determined eligible for the Gainsharing Checks, as necessary.

2.3 A portion of the Gainsharing Pool may be allocated to fund Special Project Incentive Fund (SPIF) in City departments at the discretion of the City Manager. An application procedure including funding criteria will be distributed on an annual basis.

3.0 Definitions:

3.1 Gainsharing Pool -- The total annual City-wide savings available for distribution in the form of Gainsharing Checks after the percentage of savings to be returned to the General Fund, Debt Reserve, and/or Capital Improvement Program (CIP) Fund has been allocated.

Fully self-supporting Enterprise Funds may be handled in the same manner, but will be maintained separate from the City-wide Gainsharing Pool. Such Enterprise Funds shall adhere to the same funding criteria and guidelines as the City-wide Pool. The Pool will not include the school system funds.

- 3.2 Gainsharing Checks – Checks provided to employees from the pool of funds saved City-wide. All eligible permanent employees will receive equal Gainsharing Checks. Eligible part time employees will receive prorated Gainsharing Checks equal to 50% of the amount of the full checks. (See Section 4.0 below.)**
- 3.3 Gainsharing Funding Formula -- The formula by which the split of gainsharing savings between the City and the Gainsharing Pool is determined.**
- 3.4 Gainsharing Funding Conditions -- The conditions which must be present in the City each year before the Gainsharing Program may be implemented. (See Section 5.0 below.)**
- 3.5 Performance Criteria -- Criteria (in addition to the gainsharing funding conditions) by which it may be determined whether Gainsharing Checks will be distributed. For example, citizen satisfaction surveys may be conducted and specific ratings may be used in part to determine the level of funding available for distribution as Gainsharing Checks.**
- 3.6 Marginal Employees -- Permanent and Part-time employees whose performance and/or feedback indicate that the basic requirements of the position are not being met. Marginal employees are ineligible to receive Gainsharing Checks.**
- 3.7 Eligibility Date Cut-off: June 30 – Permanent and part time employees who have been on the City payroll for at least six months (equivalent of 1,040 hours worked) immediately prior to June 30 of each year will be eligible for the Gainsharing Checks the following October.**

Employees who resign prior to the pay period in which the Gainsharing Checks are issued will be ineligible for Gainsharing.

4.0 Eligibility:

All permanent and part-time employees who have been on the City payroll for at least six months (equivalent of 1,040 hours worked) as of June 30, and are performing at satisfactory or higher levels, will be eligible for Gainsharing Checks in the following amounts:

Permanent employees: Full Gainsharing Checks

Part-time employees: Checks equal to 50% of the amount of
the full checks

5.0 Gainsharing Funding Conditions:

The following conditions must be present in the City each year before the Gainsharing Program may be implemented.

- 5.1 The City's total actual General Fund revenues for the fiscal year ended must exceed actual General Fund expenditures.
- 5.2 The City must be in compliance with the Undesignated Fund Balance Policy requirements.
- 5.3 City Department Heads must certify that the savings are not the result of deferred maintenance or deferred replacement of essential equipment or supplies and that listed employees are eligible.
- 5.4 There must be no decrease in planned services in order to achieve the gainsharing savings.

6.0 Performance Criteria:

- 6.1 The distribution of the Gainsharing Checks may be determined by calculating a percentage of City-wide savings realized, as well as performance ratings based on a citizen satisfaction survey and employee performance.
- 6.2 This Gainsharing Pool will be made available for distribution to all permanent and part-time employees whose performance meets basic standards for their respective positions.

7.0 Program Design and Administration

- 7.1 The Department of Human Resources will be responsible for the administration of the Program.
- 7.2 The Department of Management Services will be responsible for recommending the funding formula to the City Manager and determining the available pool of funds.
- 7.3 The Program will be established on the following time table:
 - 1. Following June 30th of each year and when the City's accounts for the fiscal year ending are closed, the Gainsharing Pool, if any, will be determined and the funding formula approved, including performance criteria as may be applied.
 - 2. Department Heads will be requested to certify to the conditions of Section #5.3 above.
 - 3. An appropriation for the Gainsharing Pool will be requested from City Council prior to distribution of checks.
 - 4. Checks will normally be distributed on the last pay day in October.
 - 5. Gainsharing Checks will be separately drawn for each eligible employee. The City will deduct from the gross Gainsharing Check all appropriate state and federal taxes.
- 7.4 In addition, the success of the Program will require the ongoing support and active participation of all employees and departments in a team effort to enhance organizational efficiency, effectiveness, and quality.

8.0 "Sunset Provision":

The Gainsharing Program is hereby adopted for FY 95-96, 96-97 and 97-98. The Program will be automatically terminated in December, 1998, unless continued by the City Manager at his discretion.

APPENDIX B

Chapter 893 1992 Virginia Acts of Assembly

Item 585.I. directed the following:

1. There is hereby established on the books of the Comptroller, an "Employee Productivity Incentive Fund." The Comptroller shall pay into the Incentive Fund 75 percent of the undesignated, unreserved general fund balances of Executive Department agencies which exist at June 30, 1993, per the Comptroller's Annual Report, excluding unexpended appropriations for payments to individuals, aid to localities, or any other pass-through grants. Unexpended balances which are authorized for reappropriation under the provisions of §§4-1.06a.4 and 4-1.06a.5 of this Act shall be included in the Comptroller's designated balances, thereby excluding them from the Comptroller's calculation of the Incentive Fund payment.
2. Transfers from this fund shall be used to provide an across-the-board salary increase for classified employees and faculty in the Executive Department agencies effective December 1, 1993. The actual percentage salary increase shall be determined by the total deposit to the fund.
3. From the total deposit to the fund, 80 percent of funds shall be awarded as across-the-board salary increases and 20 percent shall be utilized to implement a program of "productivity bonuses." It is the intent of the General Assembly that such productivity bonuses be awarded in recognition of individual and/or group efforts which contribute to the balances deposited in the Employee Productivity Fund and for implementation of efficiencies which result in long-term savings to the Commonwealth.
4. The Department of Planning and Budget shall submit a plan for implementing the provisions of this Item to the Chairmen of the Senate Finance and House Appropriations Committees no later than July 15, 1992. The Department shall promulgate such rules and regulations as may be required to implement the provisions of this Item.
5. Undesignated, unreserved general fund balances of Legislative, Judicial and Independent agencies which exist at June 30, 1993, shall be carried forward on the books of the State Comptroller and reappropriated in the second year. From these balances, Employee Productivity Incentive programs may be established in accordance with policies and procedures adopted by the respective governing authorities.

APPENDIX C

**Options for Improving Employee Productivity
Virginia Department of Planning and Budget**

Options for Improving Employee Productivity



Virginia Department of Planning and Budget

December 1992

EXECUTIVE SUMMARY

Overview

Item 585I of the 1992 Appropriation Act establishes an "Employee Productivity Incentive Fund," designed to encourage efficiencies which can result in long-term savings to the Commonwealth. These savings would then become a source of funds for state employee salary adjustments.

According to the broad provisions of the language, the State Comptroller would pay into the fund 75 percent of certain undesignated, unreserved general fund balances of Executive Department agencies which exist on June 30, 1993. Item 585I states that 80 percent of the amount in this fund would then be used for an across-the-board salary increase, and the remaining 20 percent would be used for "productivity bonuses," in recognition of individual or group efforts which contribute to the balances deposited to the fund. This Item also states that the Department of Planning and Budget (DPB) is required to develop and submit a plan for implementing the fund.

The legislative goal behind enactment of Item 585I is clear and positive. Nonetheless, the issues surrounding the development and implementation of this plan are numerous and complex. In recognition of the complexities involved, DPB established a multi-faceted process for responding to this legislative direction, including creating an inter-agency task force and convening three focus groups representing agency heads, employee relations directors, and state employees, respectively. These focus groups were designed to discuss the administrative and policy issues which Item 585I must address.

Issues Regarding Implementation of Item 585I

Agency heads, personnel officers, task force members, and other state employees identified a number of fairly common issues and concerns which must be addressed in developing an implementation plan for Item 585I. Some of the common themes which were routinely cited as major issues by these groups included:

- concerns about the general status of pay comparability for state employees and the ability of Item 585I language to address this issue;
- questions about how the plan to be developed under Item 585I would relate to three existing Commonwealth programs – the Employee Incentive Pay Plan (EIPP), the Employee Suggestion Program (ESP), and the Employee Recognition Program;
- the general uncertainty over projected fund balances in June 1993;
- questions about the inconsistent ability of state agencies and employees to generate continuing fund balances;

-
- concerns over the requirements for selected nongeneral funds; and
 - concerns over potential limitations establishment of this fund might place on agency management.

Each of these topics is discussed in detail in the full report.

Agency heads, personnel officers, task force participants, and other state employees also questioned whether the Employee Productivity Incentive Fund can be effectively planned, marketed, and operationalized. These respondents consistently noted that the Commonwealth should address existing concerns about general pay comparability and the absence of funding for the current pay for performance program. The clear -- almost unanimous -- consensus of the task force members and other participants who contributed to the discussion is that efforts to promote state employee productivity can best be achieved through alternatives other than strict implementation of Item 585I language.

Recommended Course of Action

The legislative goal behind the establishment of Item 585I -- to save money through innovative ideas, to provide for across-the-board salary increases, and to reward those groups or individuals which promote productivity savings -- is valid and appropriate. However, other alternatives may better achieve these goals.

To best meet legislative and executive objectives, the Governor and the General Assembly can consider several actions in submitting and acting on the 1993 Budget Bill, as well as other administrative actions to encourage more individual and group productivity. These actions include:

- making up-front decisions, if possible, about across-the-board salary increases and pay for performance, and fund them in the Appropriation Act;
- modifying the existing Employee Suggestion Program;
- communicating the Employee Recognition Program policy; and
- pilot testing "gainsharing," an approach which is commonly used in private industry to promote productivity increases in organizations.

Decide on State Employee Compensation: A fundamental decision to be made regarding the objectives of Item 585I will be whether the Governor and the General Assembly will consider funding an across-the-board pay raise or all or part of the EIPP. If at all possible, the Commonwealth should make the policy decision on the front end,

with the Governor and the General Assembly committing to funding an across-the-board increase and, in some manner, the EIPP. Focus group respondents consistently noted that the Governor and the General Assembly should make the policy choice on whether and when funds will be provided for the EIPP and communicate that policy choice to state employees.

Modify the Employee Suggestion Program: Another key action is to modify the existing Employee Suggestion Program. The Director of the Department of Personnel and Training (DPT) and her staff have concluded that administrative and marketing elements of the ESP can be strengthened and that policy changes are possible for the program. Among these policy changes could be allowing one-time rewards for suggestions within the parameters of one's work responsibilities and expanding the program to group as well as individual efforts.

Communicate the Employee Recognition Program Policy: The Commonwealth should also communicate again its Employee Recognition Program policy, which allows each agency to develop programs to acknowledge the contributions of its employees to the efficient operation of state government through non-monetary awards. Discussion with personnel officers and employees suggests the level of commitment and understanding associated with this program varies significantly among agencies.

Pilot Test "Gainsharing": A final action for the Governor and the General Assembly to consider is the pilot testing of a concept known as "gainsharing," an approach commonly used in private industry. Gainsharing provides incentives for line employees and managers to work together to increase long-term productivity and reduce costs. Gainsharing should not be viewed as a cornerstone of pay increases. It should be viewed as an incentive to encourage agencies to reexamine and restructure activities and costs within their organization.

At the most basic level, a gainsharing plan is an incentive system that pays one-time bonuses to employees for organization-wide improvements in productivity. In promoting such plans, many organizations encourage employee involvement. Individuals and groups within organizations are encouraged and empowered to identify and act on ways to change their jobs, ultimately resulting in higher productivity, lower costs, or better service.

A pilot approach to gainsharing is recommended for the second year of the biennium. In this pilot, agency heads would be authorized to award bonuses to classified and faculty employees of no more than \$500. Non-monetary awards in lieu of cash bonuses should also be considered during the pilot phase. These awards would be paid entirely from agency unexpended balances which exist on June 30, 1994. No supplemental funding or direct appropriations for this pilot would be required.

In addition, a strict requirement for participation would be that the balances generated to make these awards must come from actions resulting in productivity increases, and not actions taken to artificially reduce expenditures.

In summary, Item 585I seeks to find ways to promote individual and group productivity. Gainsharing is an excellent opportunity for the Commonwealth to test whether financial incentives can be structured to encourage long-term productivity, while at the same time rewarding group efforts to achieve cost savings and making government more efficient and less costly to operate over the long-term. It is recommended as an option for the Governor and the General Assembly to consider during deliberations on the 1993 Budget Bill.

TABLE OF CONTENTS

Executive Summary.....	i
Overview.....	1
Background Information.....	2
Issues Regarding Implementation of Item 585I.....	3
Conclusion.....	9
Recommended Course of Action.....	10
Appendices	
Appendix A.....	A-1
Appendix B.....	B-1
Appendix C.....	C-1

OPTIONS FOR IMPROVING EMPLOYEE PRODUCTIVITY

Overview

Item 585I of the 1992 Appropriation Act establishes an "Employee Productivity Incentive Fund," designed to encourage efficiencies which can result in long-term savings to the Commonwealth. These savings would then become a source of funds for state employee salary adjustments.

According to the broad provisions of the language, the State Comptroller would pay into the fund 75 percent of certain undesignated, unreserved general fund balances of Executive Department agencies which exist on June 30, 1993. Item 585I states that 80 percent of the amount in this fund would then be used for an across-the-board salary increase, and the remaining 20 percent would be used for "productivity bonuses," in recognition of individual or group efforts which contribute to the balances deposited to the fund. (The specific wording of Item 585I is presented in Appendix A.) This Item also states that the Department of Planning and Budget (DPB) is required to develop and submit a plan for implementing the fund.

The legislative goal behind enactment of Item 585I is clear and positive. The fund is intended to be an innovative attempt by the Commonwealth to fund second year increases in state employee compensation. This fund would be established through an incentive program reaching all state agencies.

Nonetheless, the issues surrounding the development and implementation of this plan are numerous and complex. In recognition of the complexities involved, DPB established a multi-faceted process for responding to this legislative direction. The process included:

- meeting with the staff directors of the House Appropriations and Senate Finance Committees to discuss the goals and policy issues behind the establishment of this fund;
- notifying the heads of all state agencies and institutions, outlining the broad provisions of the fund, encouraging them to critically assess expenditures in light of the fund, and soliciting their views on the development of the plan;
- establishing an inter-agency task force, consisting of staff from the Departments of Planning and Budget, Accounts (DOA), and Personnel and Training (DPT) to address the administrative, budgetary, personnel, and policy issues required to develop this plan. Among other tasks, this inter-agency group conducted a literature search of similar programs in private industry and other governments;
- convening twice a group of 12 state agency heads representative of the breadth and variety of state government to discuss the administrative and policy issues which Item 585I must address;

-
- convening a similar group of 18 employee relations directors to discuss the personnel issues involved in the development of this plan; and
 - meeting with a group of 18 state employees, again representative of all functions of state government and types of agencies, to solicit their views about the fund and compensation issues in general.

Through the course of the development of this report, over 125 individual perspectives regarding important budgetary, administrative, personnel, and policy issues were received.

Background Information on Recent Personnel and Compensation Issues

Recent personnel and compensation actions taken -- and not taken -- by the Commonwealth underlie much of the discussion in the focus groups regarding the establishment of this fund. These include the Commonwealth's current pay comparability to the private sector, the state's actions to promote pay based on performance, and the establishment of a managed health care delivery system for state employees. Many of the issues and concerns cited by respondents reviewing the feasibility of establishing an Employee Productivity Incentive Fund were often made in conjunction with one or all of these three underlying issues.

Pay Comparability: Section 2.1-114.6 of the *Code of Virginia* requires the Director of the Department of Personnel and Training to conduct an *Annual Review of Salaries*. This report is intended to assist the Governor and the General Assembly in comparing the Commonwealth's salaries and benefits to those in private industry in Virginia.

This section of the *Code* states that "It is a goal of the Commonwealth that its employees be compensated at a rate comparable to the rate of compensation for employees of the private sector of the Commonwealth." Private industry salary increases have continued through the current recession, often linked with accompanying "downsizing" actions which have reduced the overall employment levels of these organizations. According to data provided by DPT, private industry salaries increased by 5.4 percent in 1990 and 5.0 percent in 1991. These salaries are projected to increase by 4.7 percent in 1992.

However, state employees received their last pay raise -- a three percent across-the-board increase -- in July 1990. The last scheduled pay raise for all state employees -- a two percent across-the-board increase in December 1990 -- was deferred to address other more critical needs of the Commonwealth caused by FY 1990-92 revenue shortfalls.

The December 1991 report by DPT projected that on July 1, 1992, the total compensation of the average state employee was, based on two different methodologies, from 8.89 percent to 15.5 percent lower than the equivalent counterpart in private industry. The next annual report by DPT on pay comparability will be presented later this month.

Pay for Performance: Related to the issue of employee compensation and pay comparability are actions taken by the Commonwealth to promote pay based on performance. In 1985, the Commonwealth's compensation plan was redesigned into a pay for performance plan, including an Exceptional Performance Award (EPA). However, there was neither universal support from the General Assembly nor the Executive Department for this plan and some of its features. After a pilot program in FY 1987-88, the EPA program was discontinued.

Subsequently, the General Assembly directed the Secretary of Administration to present a plan for revised compensation practices. This plan is called the "Employee Incentive Pay Plan" (EIPP). After substantial development, promotion, and management and employee involvement, this plan was initiated in late 1990, with the first payout under the provisions of the EIPP scheduled for December 1, 1991. However, declining revenues again forced the Governor to recommend to the General Assembly that funding for the plan be redirected to other critical areas. The Commonwealth is therefore about to complete its second year under the EIPP without providing funding for salary increases based on performance. In addition, no funding for the EIPP is currently planned for FY 1993-94.

Managed Health Care: In July 1992, the Commonwealth began a transition away from the traditional health care policies offered by Blue Cross and Blue Shield and its associates toward a managed health care plan called "Key Advantage." As part of this transition, a number of new requirements were placed on state employees and the medical community, causing a large degree of uncertainty and tension among state employees, health care administrators, and the medical community.

These uncertainties, as well as the concerns of reduced pay comparability and continued lack of funding for pay for performance, were mentioned frequently by respondents as a caution against operationalizing a new program which may not be able to deliver significant results without extensive communication with state employees on all components of the program.

Issues Regarding Implementation of Item 585I

Agency heads, personnel officers, task force members, and other state employees identified a number of fairly common issues and concerns which must be addressed in developing an implementation plan for Item 585I. Some of the common themes which were routinely cited as major considerations by these groups include:

Relationship of Item 585I to Current Programs

- the relationship of this fund to pay for performance, which has never been funded and implemented statewide;
- confusion over the relationship between this proposed fund and the existing Employee Suggestion Program (ESP);

Issues Surrounding the Fund and Potential Balances

- the general uncertainty over projected fund balances in June 1993;
- questions about the inconsistent ability of state agencies and employees to generate continuing fund balances;
- concerns over the requirements for selected nongeneral funds;

Issues Surrounding Management and Marketing of the Fund

- concerns over potential limitations establishment of this fund might place on agency management; and
- the ability of the Commonwealth to effectively "market" this plan to state employees.

Many of the topics discussed below involve issues that the Commonwealth must address in considering not only Item 585I, but also any alternative options to promote productivity. These topics are discussed in detail to demonstrate the complexity and inter-relationships involved.

Relationship of the Fund to Pay for Performance: The primary observation of the task force and other group meetings was that if this plan is operationalized as currently envisioned, it would effectively override, at least temporarily, the key current compensation approach of the Commonwealth -- the EIPP -- and establish a brand new program which must be effectively marketed. If funding for the EIPP is not provided in the next fiscal year, the Commonwealth will go through at least three performance cycles without tying pay increases to performance.

Respondents consistently noted that the longer the Commonwealth goes without funding the EIPP, the lower the probability of long-term success for the program. Many people suggested that changes to the EIPP be considered before creating and marketing a brand new plan. Respondents also consistently noted that the Governor and the

General Assembly should make a fundamental policy choice on whether and when funds will be provided for the EIPP, and hoped that policy choice could be communicated to state employees during budget deliberations in 1993. Without that communication, substantial skepticism over the establishment of an Employee Productivity Incentive Fund is likely to be felt by many state employees.

Relationship of this Fund to the Employee Suggestion Program: Many people also questioned how this plan might relate to the Commonwealth's current ESP. The state introduced this suggestion program in 1985 in an effort to make state government more productive and efficient by encouraging creative and innovative ideas by state employees. According to published material, the ESP "rewards ideas that solve problems, reduce costs, increase productivity, generate revenues, enhance safety, or save time." Since the program began, employees have earned more than \$182,000 in cash awards and over 475 days of leave for their suggestions.

The fundamental goal of Item 585I -- to stimulate productivity ideas from state employees -- is complementary to part of the current ESP program. However, under the ESP, state agencies retain savings, whereas under the provisions of Item 585I the majority of savings would be deposited into the Employee Productivity Incentive Fund. In addition, selected provisions of the suggestion program prohibit participation by certain employees or groups. For instance, the ESP is limited to individual suggestions that are outside of the job responsibilities of the employee or to suggestions which cannot be implemented without the approval of a higher level of authority. No cash awards for group ideas coming from organizational units are permitted. In addition, employees whose duties include research, planning, investigation, management analysis, or evaluation may receive an award only if the suggestion is clearly unrelated to their duties.

Given the clear linkage between Item 585I and the ESP program, many participants, including the Director of the Department of Personnel and Training, suggested that changes in scope, marketing, and funding of the ESP should be considered.

Uncertainty Over Fund Balances: Another concern noted is the high degree of uncertainty over the amount of the pay raise state employees would receive. This uncertainty would continue until at least August 1993, when the State Comptroller reports fund balances to be deposited into the Employee Productivity Incentive Fund. Balances from the last four years suggest that the undesignated, unreserved general fund amounts ranged from no balances in three years to the June 30, 1992 balance of \$52.8 million. However, it is important to note that almost all of this year's balance of \$52.8 million is attributable to revenues in excess of projections. Almost all other balances are designated by key Commonwealth decision-makers as necessary for expenditure by state agencies in order to provide the level of service endorsed both by the Governor and the General Assembly.

Respondents also noted that the lack of any minimum payout, linked with the need of most agencies to implement nine percent reduction plans for both this year and the next under other Appropriation Act provisions, increases the probability that this new program could result in very limited fund balances. A number of agency heads stated it was highly unlikely, given current budget pressures, that their agency could contribute any significant balances to this fund on June 30, 1993.

A point was also made that agencies and employees would need a clear definition and explanation of what "undesignated, unreserved general fund balances" would actually be after all potential exclusions. Even with this definition, it would be hard to ensure that employees statewide understood what funds would and would not be available to fund salary increases.

Given the accounting and budgetary intricacies involved, employees may not be able to understand or accept distinctions between balances exclusive of state aid to localities, payments to individuals, or other pass-through grants after undertaking good faith efforts to generate savings. Further, the press generally publicizes the end of year balance which the Comptroller reports. However, the amount publicized is not usually the adjusted balance that takes into account the money that is designated and reserved for specific purposes. This can easily lead to misunderstandings by state employees on the actual amounts available to fund pay raises. A number of agency heads and personnel officers stated that the fund sets up high expectations for state employees when in reality employees may receive either a very small increase or no increase at all.

In summary, many contend that the collective uncertainty over fund balances will not be conducive to employee productivity or desired from a personnel management standpoint. Many noted the potential implications to the Commonwealth if no fund balances materialize and were concerned over the long-run personnel issues connected with such a scenario.

Inconsistent Employee Ability to Generate Funds: Inconsistent efforts and ability among employees and agencies to generate balances were also frequently cited as potential employee morale factors which should be considered carefully before operationalizing this plan. A contrast was made by respondents between "bottom up" employee suggestions which can foster long-term savings and "top down" policy or management decisions which can do the same. While both are important, most agreed the opportunities for generating large dollar savings is much greater through the "top down" approach within an agency. For instance, while an individual mental health nurse's aide may be able to identify some ways to save funds, the amounts saved are likely not as great as a management decision to hold vacant a position, or to close a unit, or a facility. Similarly, people often pointed out that a prison guard or a mine inspector who performs his or her job with distinction may have limited ability or options to identify significant savings of the magnitude required to fund sizable employee pay increases.

A number of respondents noted that after significant budget reductions over the last three years, managers and agency heads of the Commonwealth can give employees little guidance on substantive ways to generate major savings within their agencies. Some made the point that to continue to achieve significant savings of the magnitude required to fund state employee salary increases, the Governor and the General Assembly may need to consider eliminating whole programs which are lower in priority than others.

Nonetheless, specific criteria and measures of efficiency will have to be developed to determine individual and group efforts which qualify for the productivity bonus and be accepted by state employees as objective and consistently applied across agencies. With this information as background, the types of hypothetical questions or situations identified during discussions pointed out that:

- relatively few agencies can generate significant savings because their total appropriations are relatively small as a proportion of other agency budgets. Data from the Department of Accounts suggest that no more than 20 agencies contributed the majority of all fund balances for the last fiscal year;
- there could be mitigating circumstances for a particular agency (such as a coal strike for the Department of State Police) which could completely eliminate any potential savings identified by individuals or groups and planned for contribution to this fund;
- the plan could conceivably reward a poor performer who identifies one way to save funds more than a consistently excellent worker who is not in a position to suggest meaningful cost-savings; and
- individuals who identify ideas which generate major cost-savings could potentially see far less of these cost-savings returned directly to them in the form of a productivity bonus than they might realize going through the traditional Employee Suggestion Program.

Nongeneral Fund Balances: Item 585J of the 1992 Appropriation Act states that agencies supported in whole or in part by nongeneral funds would also be required to pay for salary increases. Agencies representing institutions of higher education, natural resources, transportation, and mental health services, among others, all pointed out that most of their nongeneral fund revenues are cost based or fixed. Some of these revenue sources cannot be increased to offset salary increases and would result in direct reductions in services.

While many of these issues would be the same if the Commonwealth were to make a front-end decision to adjust employee compensation, the issues are magnified if funds must be saved, prospectively, to fund salary increases. They are again magnified if

balances required will be defined, primarily without significant policy direction, by what a limited number of state agencies with a majority of the general fund appropriations might have remaining at the close of the current fiscal year.

On a related note, institutions of higher education and task force members raised the possibility of an unintended sequence of events where tuition and fees from students would be increased not to fund operations of the institution but to provide balances that could ultimately fund employee increases at other universities or state agencies.

Potential Limitations Placed on Agency Head Discretion: Agency heads, personnel officers, task force members, and state employees consistently pointed out that under Item 585I, most of the fund balances would be generated through key management decisions rather than "bottom up" employee actions. In turn, agency heads and others noted that implementation of this plan will force individual agencies to anticipate the actions of other agencies as they weigh the relative advantages and disadvantages of spending their appropriations or making contributions to a fund which may not generate a proportional return to their employees. A number of related policy issues and concerns raised with Item 585I address this point in different fashions.

First, given cumulative agency budget reductions of up to 25 percent, many agency heads and personnel officers stated a number of times during meetings that the potential for any meaningful agency savings through additional efficiencies to support significant employee compensation increases has been diminished.

Implementation of this fund also has the potential to create major conflicts between management, employees, and clients, almost all respondents contend. To generate fund balances, some stated that employees might propose short-term strategies for cost-savings which are inconsistent with an agency mission, current policies, or longer term productivity. Agency heads who decide to expend fund balances to further agency goals and objectives rather than salary increases will likely experience conflict within their agencies. A number of agency officials also noted that there is the clear potential for using one-time year-end unexpended balances, or deferring needed maintenance, for salary increases which will become recurring costs and cannot be sustained.

Finally, managers from almost all agencies noted that they would be making decisions over spending, addressing all of the above overlapping and sometimes competing concerns, without the benefit of overall policy direction as to how large the envisioned Employee Productivity Incentive Fund is to be or whether other agencies will be contributing to the balances. Concern was expressed that, given the wide variety of agencies in the Commonwealth, the likelihood of significant conflict in operationalizing this fund without formal, up-front policy direction would be fairly high.

Other Issues: Beyond these common themes and concerns, a number of other issues were raised that warrant discussion. These include:

- the need for training and quantified standards for awards to ensure that there is no "adverse impact" in the allocation of salary increases. These standards for productivity bonuses would need to be developed and administered separately from the EIPP;
- the need to address how any compensation action funded through this plan may or may not affect salary adjustments for local employees, Constitutional officers, and other classes of employees who traditionally receive pay increases funded through the state appropriation process; and
- a variety of special arrangements which would have to be addressed for institutions of higher education, including their exemption for the first two percent of any fund balances (related to compliance with management standards), the impact and timing of tuition and auxiliary fee increases to fund prospective salary increases, and the treatment of student financial assistance grants.

Marketing Item 585I: Finally, but perhaps most importantly, almost everyone stated that establishment of this fund inadvertently sends a message to state employees that they are the "last in line" for funding consideration. If this fund is implemented, some contend, the message could appear to be that whatever salary adjustments state employees get will be determined not on the basis of performance or pay comparability, but solely on what is not expended by state agencies at the end of the year. This message can inadvertently establish a very negative connotation that decision-makers have no intention of conveying, which could be extremely detrimental to long-term productivity.

Agency heads, personnel officers, task force participants, and other state employees almost universally questioned whether the Employee Productivity Incentive Fund can be effectively planned, marketed, and operationalized. To address the recurring and fundamental issues discussed earlier, personnel officers, especially, suggested that the same level of detail in plan development, testing, and training should go into marketing any new compensation mechanism as went into the 1990 development and establishment of the EIPP.

Conclusion

Based on the issues discussed above, it is clear that the key to successful implementation of Item 585I would be a detailed plan, outlining specific steps to be taken, and by whom. In addition, dates for completion and accountability would need to

be clearly established. Based on discussion with task force participants and members of the other groups contacted, an initial broad implementation plan for Item 585I is presented in Appendix B. It should be emphasized that this broader plan would have to be developed in much more detail prior to full commitment towards implementation. Nonetheless, it serves as an excellent frame of reference by which to judge the tasks and time required for Item 585I to be implemented.

The clear -- almost unanimous -- consensus of the task force members and other participants who contributed to the discussion is that efforts to promote state employee productivity can best be achieved through alternatives other than strict implementation of the 585I language.

Recommended Course of Action

The legislative goal behind the establishment of Item 585I -- to save money through innovative ideas, to provide for across-the-board salary increases, and to reward those groups or individuals which promote productivity savings -- is highly desirable. However, other alternatives may better achieve these goals at this time.

To meet legislative and executive objectives, the Governor and the General Assembly should consider several actions in submitting and acting on the 1993 Budget Bill, as well as other administrative actions to encourage more individual and group productivity. These actions include:

- making up-front decisions, if possible, about across-the-board salary increases and pay for performance, and funding them in the Appropriation Act;
- modifying the existing Employee Suggestion Program;
- communicating the Employee Recognition Program policy; and
- pilot testing "gainsharing," an approach which is commonly used in private industry to promote productivity increases in organizations.

Recommended steps for the Governor and the General Assembly to consider follow.

Decide on State Employee Compensation: A fundamental decision will be whether the Governor and the General Assembly will consider funding an across-the-board pay raise or all or part of the EIPP for the next fiscal year. If at all possible, the Commonwealth should make the policy decision on the front-end, with the Governor and the General Assembly committing to funding an across-the-board increase and/or all or part of the EIPP.

As a Commonwealth we now have put in place an administrative system which is designed to recognize gradations in performance and reward those who are performing at the highest levels. Respondents consistently noted that the Governor and the General Assembly should make the policy choice on whether and when funds will be provided for the EIPP and communicate that policy choice to state employees. If at all possible, funding for the EIPP should be provided in the next fiscal year so that the Commonwealth will not go through three performance cycles without tying performance to pay increases.

Modify the Employee Suggestion Program: Item 585I provisions are similar in concept to the existing Employee Suggestion Program. The Director of the Department of Personnel and Training and her staff have concluded that administrative and marketing elements of the ESP can be strengthened and that policy changes are possible for the program. Among these policy changes could be allowing one-time rewards for suggestions within the parameters of one's work responsibilities and expanding the program to group as well as individual efforts.

Communicate the Employee Recognition Program Policy: The Commonwealth should also communicate again its Employee Recognition Program policy, which allows each agency to develop programs to acknowledge the contributions of its employees to the efficient operation of state government through non-monetary awards. Discussion with personnel officers and employees suggests the level of commitment and understanding associated with this program varies significantly among agencies.

Pilot Test "Gainsharing": A final action for the Governor and the General Assembly to consider is the pilot testing of a concept known as "gainsharing," an approach commonly used in private industry. Gainsharing is a concept which provides incentives for line employees and managers to work together to increase long-term productivity and reduce costs. It can be used as an incentive to encourage agencies to reexamine and restructure activities and costs within their organization.

At the most basic level, a gainsharing plan is an incentive system that pays one-time bonuses to employees for organization-wide improvements in performance. In promoting such plans, many organizations encourage employee involvement. Individuals and groups within organizations are encouraged and empowered to identify and act on ways to change their jobs, ultimately resulting in higher productivity, lower costs, or better service.

It is important to note that gainsharing should not be viewed as a cornerstone of pay increases. Other actions on compensation will need to be taken by the Governor and the General Assembly.

A pilot approach to gainsharing is recommended for the second year of the biennium. A possible approach to a pilot gainsharing program is presented in Appendix C. Under this approach, the program would be optional, with participation limited

during the pilot phase. The unanimous recommendation of respondents who reviewed the feasibility of the Commonwealth beginning this program was to pilot test before marketing the program statewide. In doing so, respondents stated that the Commonwealth could identify the program's strengths and ability to encourage productivity increases, while isolating and correcting possible weaknesses.

Under the recommended program, agencies would be selected to participate by the Secretaries of Finance and Administration, after input from the appropriate Secretaries and chairs of the money committees. The program would be designed for all employees within the organization to participate. However, agency heads could elect to limit program participation to specific divisions with prior approval.

Agency heads would be authorized to award bonuses to classified and faculty employees of no more than \$500. Non-monetary awards in lieu of cash bonuses would also be considered during the pilot phase. These awards would be paid for entirely from agency unexpended balances which exist on June 30, 1994. No supplemental funding or direct appropriations for this pilot would be required.

In addition, a strict requirement for participation would be that the balances generated to make these awards must come from actions resulting in productivity increases, and not actions taken to artificially reduce expenditures. Agencies could not award bonuses for balances generated through:

- a reduction in the quality of program service rendered or clients served without specific approval by the Governor or General Assembly;
- reduced pass-through or transfer expenditures;
- postponement of scheduled purchases or maintenance, or accounts payable, in order to artificially reduce expenditures during the fiscal year;
- substitution of non-state or federal funds for state appropriations; or
- any other practice which causes an artificial inappropriate reduction in expenditures.

To qualify to award productivity bonuses, a state agency which elects to participate would have to operate at less cost during the fiscal year than the amount appropriated for specific purposes. Balances generated should be the result of activities such as:

- elimination of duplicative or unneeded services;
- improved management approaches through reorganizing administrative or functional program units;

-
- improved administrative techniques, procedures, or systems;
 - elimination of budgeted positions;
 - reduction in wage payments or overtime for eligible employees; or
 - elimination of payments for consultant fees, unnecessary travel, printing and mailing, or other nonessential outlays of state agency funds.

To ensure that balances generated to make these awards come from actions resulting from productivity increases, pilot agencies would have to provide general plans to the appropriate Secretary, the Governor, and the General Assembly, identifying the major areas where productivity increases or cost reductions would be considered or implemented. This preliminary plan would have to identify any potential direct service elimination or reduction. Plans would be approved by the appropriate Secretary prior to July 1, 1993. Agencies would be permitted to make changes to the plan during the fiscal year, again in consultation with the Secretary, and the Governor and members of the General Assembly as appropriate.

After the close of the fiscal year, pilot agencies would develop a final report to the Governor and the General Assembly on specific actions taken to achieve June 30, 1994 fund balances. This report would have to document that savings were generated through intended practices, and would be subject to review by the appropriate Secretary and the Department of Planning and Budget. Upon completion of this review, the appropriate Secretary would approve the use of fund balances for the productivity award.

Finally, the Department of Personnel and Training, DPB, the appropriate Secretaries, legislative staff, and the pilot agencies would evaluate the pilot program and report to the Governor and the General Assembly concerning the feasibility of continuing this plan.

In summary, Item 585I seeks to find ways to promote individual and group productivity. Again, gainsharing is not presented as a cornerstone for compensation increases -- other actions can better address this issue. However, it is an excellent opportunity for the Commonwealth to test whether financial incentives can be structured to encourage long-term productivity, while at the same time rewarding group efforts to achieve cost savings and making government more efficient and less costly to operate over the long-term.

APPENDIX A

Item 585I 1992 Appropriation Act

1. There is hereby established on the books of the Comptroller, an "Employee Productivity Incentive Fund." The Comptroller shall pay into the Incentive Fund 75 percent of the undesignated, unreserved general fund balances of Executive Department agencies which exist at June 30, 1993, per the Comptroller's Annual Report, excluding unexpended appropriations for payments to individuals, aid to localities, or any other pass-through grants. Unexpended balances which are authorized for reappropriation under the provisions of §§4-1.06a.2, 4-1.06a4 and 4-1.06a5 of this Act shall be included in the Comptroller's designated balances, thereby excluding them from the Comptroller's calculation of the Incentive Fund payment.
2. Transfers from this fund shall be used to provide an across-the-board salary increase for classified employees and faculty in the Executive Department agencies effective December 1, 1993. The actual percentage salary increase shall be determined by the total deposit to the fund.
3. From the total deposit to the fund, 80 percent of funds shall be awarded as across-the-board salary increases and 20 percent shall be utilized to implement a program of "productivity bonuses." It is the intent of the General Assembly that such productivity bonuses be awarded in recognition of individual and/or group efforts which contribute to the balances deposited in the Employee Productivity Fund and for implementation of efficiencies which result in long-term savings to the Commonwealth.
4. The Department of Planning and Budget shall submit a plan for implementing the provisions of this Item to the chairmen of the Senate Finance and House Appropriations committees no later than July 15, 1992. The Department shall promulgate such rules and regulations as may be required to implement the provisions of this Item.
5. Undesignated, unreserved general fund balances of Legislative, Judicial and Independent agencies which exist at June 30, 1993 shall be carried forward on the books of the state Comptroller and reappropriated in the second year. From these balances, Employee Productivity Incentive programs may be established in accordance with policies and procedures adopted by the respective governing authorities.

APPENDIX B

Broad Implementation Steps Employee Productivity Incentive Fund

This broad plan outlines steps to implement the Employee Productivity Incentive Fund in Item 585I. This plan is for illustrative purposes only, and would have to be developed in greater detail prior to full implementation. It is not recommended at this time.

1. The State Comptroller establishes an Employee Productivity Incentive Fund.
2. State agencies and institutions of higher education are notified that the fund is to be implemented as a mechanism for compensation increases in FY 1994. In this notification, the relationship of this fund to the EIPP and the ESP should be clearly established and the long-term commitment of the Commonwealth to funding the EIPP should be clearly defined.
3. The interagency task force develops specific written guidelines for implementation, which would then be reviewed by selected state agencies, amended as needed, and approved by the Secretary of Administration, the Secretary of Finance, and the Governor. Parameters are established which clearly identify acceptable cost-savings measures, as well as actions that state agencies must not take in order to generate cost-savings. Supplemental guidelines will likely be required to address selected issues within institutions of higher education.
4. The Governor provides policy guidance to his Secretaries and agency heads outlining his expectations for agency performance in contributing balances to this fund.
5. The Departments of Planning and Budget and Personnel and Training deliver or contract for a statewide marketing approach to notify all state employees of the Employee Productivity Incentive Fund, how it will work and how it can benefit individual employees and the Commonwealth. A series of statewide meetings are held to respond to state employees' questions and concerns.
6. The inter-agency task force develops written criteria for awarding productivity bonuses to individuals and groups. These criteria include detailed instructions and forms to document efficiencies and the decision-making process in providing productivity bonuses. They also define whether agencies must contribute to the fund in order for individuals or groups with cost-saving ideas to participate in the productivity bonuses. These criteria are reviewed by selected agencies, amended as needed, and approved by the Secretary of Administration, the Secretary of Finance, and the Governor.

-
7. The Department of Personnel and Training delivers or contracts for statewide training sessions on the criteria for awarding productivity bonuses to managers, ensuring objectivity in the decision-making process. This training is also made available to interested employees.
 8. The inter-agency task force develops supplemental policies for addressing compensation increases and productivity bonuses for agencies funded in whole or in part by nongeneral fund revenues. These policies are reviewed by appropriate nongeneral fund agencies, amended as needed, and approved by the appropriate Secretary, the Secretary of Finance, and the Governor.
 9. The Departments of Planning and Budget and Personnel and Training develop and administer an information process for all state employees, making them aware of all criteria established for determining fund balances at the end of the year, as well as the criteria for making individual and group awards, so that the decision making process is clearly understood prior to the close of the fiscal year.
 10. The Department of Personnel and Training completes its annual survey on pay comparability and transmits this information to the Governor and the General Assembly.
 11. The Secretary of Finance and the Department of Planning and Budget establish a system to assess projected balances which might be contributed to this fund. This information is transmitted to the Governor and the General Assembly.
 12. The Governor and the General Assembly make a decision on whether minimum and maximum balances will be established for the fund in order to provide more certainty to the level of pay increase; if so, necessary legislative amendments are prepared.
 13. The Governor and the General Assembly determine how local employees, school teachers and other groups of governmental employees normally treated similarly to state employees in the appropriation process will be handled.
 14. The Governor and the General Assembly decide on whether to continue the concept of an Employee Productivity Incentive Fund beyond June 30, 1993.
 15. The State Comptroller determines the state agency balances available for transfer into this fund at the close of the fiscal year.
 16. State agencies are notified by the Governor and the Department of Planning and Budget as to balances which agencies may distribute in the form of productivity bonuses and across-the-board increases. Agencies make decisions and complete appropriate documentation and award bonuses to selected individuals and groups.

APPENDIX C

A Possible Gainsharing Approach for Consideration by the Governor and the General Assembly

- Not a cornerstone of pay increases. Decisions on across-the-board increase and EIPP are critical.
- Program intended to reward line employees and managers who work together to increase long-term productivity and reduce costs.
- Simple, pilot productivity program for FY 1993-94.
- Agency heads in pilot agencies authorized to award bonuses to classified and faculty employees of no more than \$500. Awards paid from agency unexpended general fund and/or nongeneral fund balances which exist on June 30, 1994. (Non-monetary awards in lieu of cash bonuses should also be considered during the pilot phase.)
- Optional program, and participation in the program would be limited in its first year. Agencies selected for pilot by Secretaries of Finance and Administration, with input from the appropriate Secretaries and the chairs of the money committees.
- Participation designed at the agency-wide level. However, agency heads could elect to limit program to specific divisions with prior approval.
- Balances generated must be result of productivity increases, and not actions which artificially reduce expenditures. (See additional detail on page C-3.)
- Pilot agencies provide general plan by April 15, 1993 to appropriate Secretary, the Governor, and the General Assembly, identifying major areas where productivity increases/cost reductions will be considered or implemented. This preliminary plan identifies any potential direct service elimination or reduction. Plans approved prior to July 1, 1993.
- Plans subject to change by agency during year, with periodic progress briefings to appropriate Secretary, the Governor, and the General Assembly.
- After close of fiscal year, agency head develops final report to the Governor and the General Assembly on specific actions taken to achieve June 30, 1994 fund balances. Report documents the savings were generated through intended practices to improve productivity and lower costs.

- Appropriate Secretary, with staff support from DPB, reviews the report and approves, as warranted, all or a portion of fund balances for payment of the productivity bonus. Payment made on December 1, 1994.
- DPT, DPB, the appropriate Secretaries, legislative staff, and the pilot agencies evaluate pilot program and provide report to the Governor and the 1995 General Assembly.

Additional Information on Potential Gainsharing Plan

Agencies could not award bonuses for balances generated through:

- a reduction in the quality of program service rendered or clients served without specific approval by the Governor or General Assembly;
- reduced pass-through or transfer expenditures;
- revenues received in excess of budgeted amounts;
- postponement of scheduled purchases or maintenance, or accounts payable, in order to artificially reduce expenditures during the fiscal year;
- substitution of non-state or federal funds for state appropriations; or
- any other practice which causes an artificial or inappropriate reduction in expenditures.

To qualify to award productivity bonuses, a state agency which elects to participate would have to operate at less cost during the fiscal year than the amount appropriated for specific purposes. Balances generated should be the result of activities such as:

- elimination of duplicative or unneeded services;
- improved management approaches through reorganizing administrative or functional program units;
- improved administrative techniques, procedures, or systems;
- elimination of budgeted positions;
- reduction in wage payments or overtime for eligible employees; or
- elimination of payments for consultant fees, unnecessary travel, printing and mailing, or other nonessential outlays of state agency funds.

APPENDIX D

Chapter 912 1996 Virginia Acts of the Assembly

Item 528.G. directed the following:

The Department of Personnel and Training may approve pilot compensation programs within agencies. Such pilots shall be funded from existing agency appropriations or from funds provided for increases specified in paragraph C of this item, or a combination of both. A report on such pilot programs shall be made to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees by October 1, 1997. The Secretary of Administration shall approve any changes in compensation plans based on pilot programs, prior to their implementation.

Chapter 924 1997 Virginia Acts of the Assembly

Item 528.G. contained identical language to the 1996 provision.

Chapter 464 1998 Virginia Acts of the Assembly

Item 546.T. directed the following:

1. The Department of Personnel & Training shall continue those pilot programs that were in effect on January 1, 1998.
2. The Department of Personnel & Training may approve pilot compensation programs within agencies that support the redesign of the classified compensation plan, as directed in paragraph L. of this item. Such pilot programs shall be funded from existing agency appropriations or from funds provided for increases specified in paragraph C of this item, or a combination of both. A report on such pilot programs shall be made to the Governor and the Chairmen of the House Appropriations and Senate Finance Committees by October 1, 1998. The Secretary of Administration shall approve any changes in compensation plans based on pilot programs, prior to their implementation.

APPENDIX E

Department of Personnel and Training Policy 1.21, Employee Suggestion Program

Status Reports – Employee Suggestion Program

1996-97

1995-96

1994-95



EMPLOYEE SUGGESTION PROGRAM

OBJECTIVE

It is the Commonwealth's objective to promote agencies' employee suggestion programs (ESP) whereby employees can be recognized and rewarded for adopted ideas that improve their agencies' and state government's operations.

I. EMPLOYEES TO WHOM POLICY APPLIES

(REVISED 12/94) This policy applies to positions covered under the Virginia Personnel Act to include full-time and part-time classified, restricted, and "776" employees. (See section II of Policy 2.20, Types of Employment.) This policy also applies to wage employees and can apply to excepted employees whose agencies adopt this policy.

II. DEFINITIONS

A. Agency ESP Coordinator

An employee in each state agency designated by the agency head as the administrator of that agency's suggestion program.

B. Awards

Cash payments, days of leave, and/or certificates of recognition given to employees by agencies for suggestions adopted because they have identifiable value to the agency and/or state government generally.

C. ESP Manager

The employee within the Department of Personnel and Training responsible for overseeing and monitoring ESP programs in Executive Branch agencies and other participating agencies.

D. Evaluation

The analysis of a suggestion that documents the feasibility and merit of its adoption, or reasons for non-adoption.

E. Evaluator

The agency employee to whom a suggestion is referred for evaluation because of his or her knowledge or expertise in the subject matter of the suggestion, or expertise in doing evaluations.

EMPLOYEE SUGGESTION PROGRAM

F. Incurred Costs

Those costs incurred in implementing a suggestion as determined by comparing reduced costs and/or increased productivity to previous costs of procedures, systems, equipment, material, or standards.

G. Management Reviewer

The manager of the evaluator's unit/ division who is qualified to review and support or reject the evaluator's assessment of a suggestion.

H. Net Revenue

The dollar amount generated by an adopted suggestion during its first year of implementation, and adjusted for any cost incurred in implementing.

I. Net Savings

The dollar amount saved by an adopted suggestion during the first year of implementation and adjusted for any cost incurred in implementation.

J. Suggestion

A proposal made by an eligible state employee that may result in increased productivity, a reduction in state expenditures, an improvement in the quality of state services, or an increase in state revenues.

III. ESP GUIDELINES

A. All agencies will have an Employee Suggestion Program

All agencies are required to have an Employee Suggestion Program that comports with eligibility requirements and awards as prescribed in this policy.

1. Suggested administrative procedures and forms for implementing an ESP program can be found in the "ESP Administrative Manual" promulgated by the Department of Personnel and Training.
2. DPT's ESP Manager is available to provide assistance and guidance to agencies' ESP Coordinators.

B. Suggestions submitted to agency ESP Coordinator

Employees should submit suggestions to their agency ESP Coordinators for processing, even though the suggestions may apply to other agencies.

EMPLOYEE SUGGESTION PROGRAM

1. If a suggestion pertains to the suggester's agency, the agency's ESP Coordinator is responsible for forwarding the suggestion to the proper person(s) within the agency for evaluation.
2. If the suggestion does not pertain to the suggester's agency, the ESP Coordinator is responsible for determining the appropriate evaluating agency and for forwarding the suggestion to that agency ESP Coordinator.

NOTE: The ESP Manager can be contacted to assist in determining to which agency ESP Coordinator a suggestion should be referred.

C. Evaluator qualifications

Evaluators must possess knowledge of suggestion subject matter and agency/state operations. They should be sufficiently qualified to consider the following: originality of idea; value of the suggestion; feasibility of its implementation; extent of its application; estimation of costs; and savings upon implementation.

D. Suggestions eligible for award consideration

Suggestions are eligible for award consideration when their implementation causes agency activity that is related to the suggestion and results in savings (including cost avoidance) or revenue.

NOTE: If a suggestion is not adopted for reasons other than ineligibility, and has been closed, an appeal can be made to the agency ESP Coordinator for re-evaluation within one year from its closing date.

E. Suggestions ineligible for award consideration

Suggestions are ineligible for award consideration when an employee can be expected to effect them as part of his or her job duties, responsibilities and assigned tasks, or when an employee can implement them without higher level approval. Determination of ineligibility is the responsibility of the agency evaluator and the suggester's supervisor.

F. Employee eligibility for award

A suggester's eligibility for award is based on his or her employment status at the time the suggestion is received by the agency's ESP Coordinator as indicated below.

[REVISED 12/94]

1. All full-time classified, part-time classified, "776," and wage employees in Executive Branch and other participating agencies, are eligible for award, and their suggestions are protected for one year from the date of final disposition of the suggestion.

EMPLOYEE SUGGESTION PROGRAM

2. Former state employees whose suggestions were not finalized before their separation will remain eligible for cash award for one year from the date of final disposition of the suggestion.

G. Patents and Copyrights

Patents and copyrights, or materials that are potentially patentable or copyrightable, that are developed within the scope of an employee's job or when using state-owned or controlled facilities, shall be the property of the Commonwealth and shall not be eligible for award consideration under this policy. (This provision does not apply to employees of state-supported institutions of higher education who are subject to intellectual property policies of their institutions.)

H. Claims Against the State

The state's use of an employee's suggestion shall not be the basis for further claims of any kind by the suggester or the suggester's heirs or assigns.

IV. CASH AWARDS

A. Awards of cash

Awards of cash are authorized only for eligible employees whose ideas are adopted and implemented and result in quantifiable dollar savings or revenue.

NOTE: Cash payments will not be made in those instances when federal regulations or local fund restrictions prohibit payment of awards from savings. However, agencies are encouraged to request their funding sources to cooperate and allow award payments under ESP when merited.

B. Funding of cash awards

Cash awards are to be made to suggesters by agencies from dollar savings and/or revenue actually generated by suggestions. Agencies are responsible for identifying the source (program) from which savings are realized and for paying cash awards from that program.

NOTE: This payment with the Commonwealth's Integrated Payroll and Personnel System (CIPPS), is classified as a Special Payment No. 5 - Bonus. Fiscal officers should refer to Topic 50510 in the "Commonwealth Accounting Policies and Procedures (CAPP) Manual," dated 9/1/93, for more detailed information.

EMPLOYEE SUGGESTION PROGRAM

C. Calculation of award as % of savings/revenue

Cash awards shall be computed as a percentage of savings or revenue as outlined below.

If the amount of Net
1st-Yr. Sav./Rev. Is:

The cash award will be:

over \$20,000:	\$5,000 + 1% of amt. over \$20,000
\$501 - \$20,000:	25%
\$101 - \$500:	25% or 1 day of leave (employee option)
\$100 or less:	No cash award may be made.

D. Awards for group suggestions

The amount of cash award for a group of employees' joint suggestion will be divided equally among eligible employees in the group.

V. NON-CASH AWARDS

Eligible employees may receive non-cash awards of one to five days leave for suggestions that result in significantly improved processes, programs, or safety, for which benefits are not quantifiable.

A. Six factors used to determine value of a suggestion

Evaluators are to use the following six factors in estimating the point value of a suggestion: (1) degree of improvement in operations, forms, facilities or equipment; (2) degree of improvement in employee relations, working conditions, safety, service to the public or public attitude; (3) extent of application; (4) completeness of proposal; (5) effort involved; and (6) cost of adoption. (See "Evaluating Criteria for Suggestions Yielding Intangible (Non-Cash) Awards" in Attachment A.)

B. Points converted to days of leave

After totaling the point value of a suggestion, the evaluator must convert the points to days of leave awarded. (See "Converting Points to Days of Leave" in Attachment B.)

C. Awards for group suggestions

Leave awarded for a suggestion made by two or more employees will be divided equally among eligible employees in the group. In cases when the leave award amounts to less than one day per employee, agencies may substitute other awards as outlined in Policy No. 1.20, Employee Recognition Programs.

EMPLOYEE SUGGESTION PROGRAM

D. Wage employees may not receive days of leave

Agencies are not allowed to grant paid leave to wage employees whose suggestions are adopted. However, they are encouraged to recognize them in other appropriate ways.

VI. CERTIFICATES OF RECOGNITION

Certificates of recognition signed by the Governor and the employee's agency head are to be presented to suggesters for ideas that are either adopted or considered worthy of recognition. These certificates may be obtained by contacting the ESP Manager.

VII. RESPONSIBILITIES OF THE DEPARTMENT OF PERSONNEL AND TRAINING

- A. The Department of Personnel and Training is responsible for promulgating, interpreting and enforcing this policy, preparing reports, and establishing and maintaining a suggestion system database.
- B. The Department of Personnel and Training will collect information from agencies on the awards that have been given to employees during a year, and produce an annual report.
- C. The Department of Personnel and Training will maintain and distribute to agency ESP Coordinators an up-to-date listing of all agency ESP Coordinators.

VIII. RESPONSIBILITIES OF AGENCIES

- A. Agency heads in executive branch agencies and other agencies that opt to participate are responsible for organizing and implementing employee suggestion programs in their agencies.
- B. By July 31 of each year, agencies will submit an ESP Activity Report - Fiscal Year (see Attachment C).

IX. AUTHORITY AND INTERPRETATION

- A. This policy is issued by the Department of Personnel and Training pursuant to the authority provided in Title 2.1, Chapter 10, of the Code of Virginia.
- B. The Director of the Department of Personnel and Training is responsible for official interpretation of this policy, in accordance with section 2.1-114.5(13) of the Code of Virginia. Questions regarding the application of this policy should be directed to the Department of Personnel and Training's Office of Policy and Personnel Programs. The Department of Personnel and Training reserves the right to revise or eliminate this policy as necessary.

EMPLOYEE SUGGESTION PROGRAM

Attachment A

EVALUATING CRITERIA FOR SUGGESTIONS YIELDING

Intangible (Non-Cash) Awards

Degree of improvement in operations, forms, facilities,
or equipment:

None.....	0 Pts.
Minor.....	5 Pts.
Moderate.....	15 Pts.
Major.....	20 Pts.

Degree of improvement in employee relations, working
conditions, safety, service to the public, or public
attitude:

None.....	0 Pts.
Minor.....	5 Pts.
Moderate.....	15 Pts.
Major.....	20 Pts.

Extent of application:

Single operation/facility/office.....	0 Pts.
Several oper./fac./offices.....	5 Pts.
Majority of the employees/fac./ divisions of an agency/university.....	10 Pts.
Majority of the employees/fac./ divisions of two or more agencies.....	15 Pts.
Statewide (most agencies/univ.).....	20 Pts.

Completeness of proposal:

Incomplete or unclearly presented (required much clarification).....	0 Pts.
Basic facts sound, needs refining.....	5 Pts.
Facts clearly presented, little further effort required to implement.....	10 Pts.
Facts clearly presented, no further effort required to implement.....	20 Pts.

Effort involved:

No research involved.....	0 Pts.
Average substantiation.....	5 Pts.
Considerable personal research.....	15 Pts.

Cost of adoption:

Large.....	0 Pts.
Moderate.....	5 Pts.
Small.....	10 Pts.

EMPLOYEE SUGGESTION PROGRAM

Attachment B

CONVERTING POINTS TO DAYS OF LEAVE

<u>Points</u>	<u>Days of Leave</u>
89 - 105	5 Days
71 - 88	4 Days
53 - 70	3 Days
35 - 72	2 Days
18 - 34	1 Day
Below 18	None

ESP ACTIVITY REPORT - FISCAL YEAR

For: _____
(Fiscal Year)

MONTH	NO. OF SUGG. RECEIVED	ESTIMATED SAVINGS	AWARDS					NO. DUP.	NO. NON-ADOPTED	TOTAL CLOSED
			CASH		LEAVE		CERT. ONLY			
			NO. EMPLOYEES	TOTAL AMOUNT AWARDED	NO. EMPLOYEES	TOTAL DAYS AWARDED	NO. EMPLOYEES			
JAN.										
FEB.										
MAR.										
APR.										
MAY										
JUN.										
JUL.										
AUG.										
SEP.										
OCT.										
NOV.										
DEC.										
TOTAL										



STATUS REPORT - EMPLOYEE SUGGESTION PROGRAM

For: 1996-97

Sec. Area	No. of Sugg. Received	Estimated Savings	AWARDS					NO. DUP.	NO. NON-ADOPTED	TOTAL CLOSED
			CASH		LEAVE		CERT. ONLY			
			NO. EMPLOYEES	TOTAL AMOUNT AWARDED	NO. EMPLOYEES	TOTAL DAYS AWARDED	NO. EMPLOYEES			
ADM	2	000	0	000	0	0	0	0	5	5
COMM	10	000	0	000	1	1	1	0	7	10
EDUC	19	\$ 24,535.00	4	\$ 6,133.75	2	5	0	0	11	16
FIN	0	000	0	000	0	0	0	0	0	0
H&HR	30	\$ 5,499.80	2	\$ 1,744.73	2	5	1	0	17	23
NAT R	3	000	0	000	0	0	0	0	3	3
PUB S	17	000	0	000	1	2	0	2	14	17
TRANS	293	\$ 57,970.83	9	\$14,492.47	46	67	51	10	162	325
OTHER	...	...	...	...	...	...	...	...	...	...
TOTAL	374	\$ 88,005.63	15	\$22,370.95	52	80	53	12	219	399

ESP STATE TOTALS

STATUS REPORT - EMPLOYEE SUGGESTION PROGRAM

For: 1995-96

Sec. Area	No. of Sugg. Received	Estimated Savings	AWARDS					NO. DUP.	NO. NON-ADOPTED	TOTAL CLOSED
			CASH		LEAVE		CERT. ONLY			
			NO. EMPLOYEES	TOTAL AMOUNT AWARDED	NO. EMPLOYEES	TOTAL DAYS AWARDED	NO. EMPLOYEES			
ADM	5	000	0	000	0	0	0	0	6	6
COMM	18	\$ 4,675.00	0	...	2	2	0	2	11	16
EDUC	43	\$ 78,770.79	10	\$11,869.63	5	11	1	2	33	51
FIN	16	\$ 5,024.00	1	\$ 1,256.00	2	3	0	1	8	10
H&HR	15	\$ 2,447.00	3	\$ 611.75	2	5	0	0	14	18
NAT R	6	000	0	000	0	0	0	0	4	4
PUB S	40	\$ 18,820.80	1	\$ 2,758.43	3	7	5	0	34	39
TRANS	382	\$124,319.19	8	\$21,349.38	25	35	32	12	221	300
OTHER	10	000	0	000	0	2.4	8	0	6	8
TOTAL	535	\$234,056.78	23	\$37,845.19	39	65.4	46	17	337	452



STATUS REPORT - EMPLOYEE SUGGESTION PROGRAM

For: 1994-1995

DECENTRALIZED

SEC.	No. of Sugg. Rec'd	Estimated Savings	AWARDS					NO. DUP.	NO. NOT ADOPT.	TOTAL CLOS.
			CASH		LEAVE		CERT. ONLY			
			NO. EMPLOYEES	TOTAL AMOUNT AWARDED	NO. EMPLOYEES	TOTAL DAYS AWARDED	NO. EMPLOYEES			
ADM	17	000	0	000	0	0	0	0	12	12
COM & TRADE	36	000	0	000	4	8	0	0	17	26
EDUC	116	\$ 9,718.50	4	\$2,783.23	4	10	1	2	64	74
FIN	29	\$10,519.00	2	\$ 2,548.50	0	0	1	0	15	18
NAT RES	0	000	0	000	0	0	0	0	0	0
H & HR	62	\$18,653.45	4	\$ 4,663.36	7	16	1	0	36	48
TRANS PORT	*316	\$ 2,519.19	6	\$ 629.79	11	17	9	7	158	184
PUB SAFE	42	\$56,354.00	2	\$ 5,497.38	5	7	2	1	34	41
TOTAL	618	\$97,764.14	18	\$16,122.26	31	58	14	10	336	403

* VDOT received 250 of this number.

APPENDIX F

Assessing Issues/Developing a Pilot Compensation Plan

If consideration of a pilot project is warranted, DPT Compensation Consultants work with agencies to develop a plan which includes such items as the following:

- identification of issues prompting a study
 - identification of and contact with stakeholders
 - clarification of expectations of stakeholders
- designation of a team to conduct a study
 - determination of members of the team
 - development of a charter (expectations) for the team
- identification of desired principles of the new or revised system, including answering such questions as:
 - what does the organization value?
 - what does the organization want to recognize and/or reward?
 - what are the benefits to the taxpayer/customer?
- investigation of alternative systems
 - other states
 - localities
 - other sources including the private sector
- development of a communications plan
 - identification of targeted audience
 - identification of methods of communication
 - development of a plan to provide communications throughout the duration of the project
- development of an implementation plan for the pilot project, to include:
 - a clear statement of objectives;
 - a description of the methodology that will be utilized;
 - a description of the specific strategy(ies) to be developed;
 - a description of the scope of the project;
 - an identification of the measures which will be used to evaluate progress toward meeting the stated objectives and expected benefits;
 - the method to report project data so that they can be jointly assessed by the agency and DPT;
 - administrative processes; and
 - implementation schedule
- the establishment of target dates for design, testing, and evaluation.

