

DENVER BOARD OF WATER COMMISSIONERS

Meeting Date: May 9, 2012

Board Item: V-B-2

Definition of Merit Payments as Compensation

Action by Consent

Action

Information

Denver Water is implementing for the first time the recently adopted pay-for-performance compensation system, which eliminates market adjustments to individual salaries. The new system has retained the concept of pay ranges, where the median salary in the market surveys becomes the midpoint of the range, and the upper and lower bounds are 22.5% higher or lower than the median. Some employees have been in their current positions long enough to reach the top of their pay range. These employees, approximately 14% of the workforce at the present time, are paid salaries that are 22.5% higher than the market survey median.

In implementing the new compensation system, the choice was made not to pay salaries higher than the 22.5% limit created by the pay range, so pay based on performance evaluations is not available to these employees as a salary adjustment. Instead, the equivalent of the salary adjustment is paid in a lump sum, or merit payment, and the employee's base salary remains unchanged. The merit payment is available only to employees at the end of the range who are rated "exceeds expectations" or outstanding.

An issue has arisen regarding whether merit payments constitute compensation under the defined benefit plan. Legal counsel for the plan has opined that the language in the plan is ambiguous and could be clarified in the Personnel Policies. Because the merit payment is based on an annual performance evaluation, it seems to qualify as payment "for services rendered to the Employer," rather than an "award" for a singular accomplishment. The merit payment therefore should be considered as compensation under the pension plan. Because merit payments occur on a one-time basis without affecting salary on an ongoing basis, the financial impact to the plan is not significant.

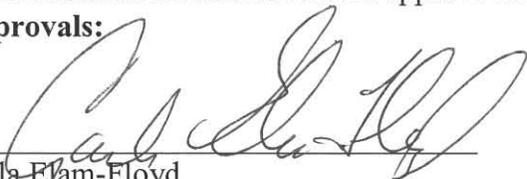
It is appropriate to clarify the definition in the policies rather than the Plan itself to maintain flexibility. The compensation system may evolve over time, and the definition of compensation may also need to be modified in response.

Recommendation:

It is recommended that the Board approve the attached Personnel Policy 12-2-(3).

Approvals:

Respectfully submitted,



Carla Elam-Floyd
Director of Human Resources



James S. Lochhead
CEO/Manager



Patricia Wells
General Counsel