

# STUDY OF CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM AND SALARIES OF STATE ELECTED OFFICIALS - BACKGROUND MEMORANDUM

## STUDY RESPONSIBILITIES

Section 7 of Senate Bill No. 2001 (attached as [Appendix A](#)) provides for a study of the classified state employee compensation system, including a review of the development and determination of pay grades and classifications. This responsibility has been assigned to the Government Services Committee.

Section 4 of House Bill No. 1005 (attached as [Appendix B](#)) provides for a study of the salaries of state elected officials. The study is to include a comparison of salaries, the number of full-time equivalent and temporary employees supervised by the elected official, and the complexity of each elected official's responsibilities. The study is also to include a comparison to similar positions in other states. This responsibility has been assigned to the Government Services Committee.

## BACKGROUND

### Central Personnel Division/Human Resource Management Services

The Central Personnel System Act was passed in 1975. The Act created the Central Personnel Division of the Office of Management and Budget and the State Personnel Board which are provided for in North Dakota Century Code (NDCC) Chapter 54-44.3 (attached as [Appendix C](#)). The purpose of the Central Personnel Division is to establish a unified personnel administration system for classified employees of the state. The purpose of the State Personnel Board is to oversee the development and administration of the classification system. The Central Personnel Division was changed to North Dakota Human Resource Management Services in August 2003 pursuant to 2003 Senate Bill No. 2092.

The Human Resource Management Services division of the Office of Management and Budget has authority to adopt policies, rules, and procedures regarding:

- Classification and compensation plans.
- Salary administration.
- Personnel administration actions.
- Compliance with state or federal law or rule pertaining to merit personnel systems. (In 1995 the administration of the merit system was decentralized, and those agencies required to have a merit system of personnel administration are responsible for their merit systems.)

The federal government requires certain state agencies and units of local government to operate under a merit system of personnel administration because of the federal funds they receive for the programs they administer (i.e., economic assistance).

The merit system follows certain principles:

- Recruiting, selecting, and advancing employees is done on the basis of ability, and it includes open consideration of qualified applicants.
- Equitable and adequate compensation is ensured.
- Employees must be trained to ensure quality performance.
- Employees are retained on the basis of performance.
- Fair treatment is accorded to all employees.
- Employees are protected from coercion and prohibited from using their official authority improperly.

Pursuant to NDCC Section 54-44.3-30 (see [Appendix C](#)), agencies operating under merit system principles are the Department of Human Services, State Department of Health, Job Service North Dakota, Division of Homeland Security, Protection and Advocacy Project, and Human Resource Management Services. Included in the Department of Human Services are the regional human service centers, the Developmental Center at Westwood Park, the State Hospital in Jamestown, and the county social service boards. Other agencies, departments, or divisions and positions may be placed under a merit system in the manner and to the extent required by law.

### Class Evaluation System

To fulfill the purpose of the Central Personnel Division, the North Dakota class evaluation system was developed in 1982. Human Resource Management Services, as part of the class evaluation system, quantifies the factors used for valuing a job in the classification system. The factors evaluated include the knowledge and skills required for the job, the complexity, the accountability of the position, and the working condition hazards. The division conducts market surveys to determine the appropriate pay for a particular job. These surveys are periodically updated. Prior to the 2003-05 biennium, North Dakota updated its midpoint salaries biennially to 95 percent of the previous year's market level. No changes were made in the 2003-05 biennium, and in the 2005-07 biennium the midpoints were adjusted by 4 percent each year. In the 2007-09 biennium, the midpoints were adjusted to reflect 95 percent of market in 2007 and by 3 percent in 2008. Market comparisons are made to Job Service North Dakota labor market information for grades 1 through 10 and to a 10-state market sample, including the states of Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming, for

grades 11 through 20. Pay ranges are based on the salary range midpoints with the salary range minimum being 25 percent less than the midpoint and the salary range maximum being 25 percent more than the midpoint.

North Dakota Century Code Section 54-44.3-20 provides that all positions within the state are included in the classification system except for the following positions:

1. Each official elected by popular vote and each person appointed to fill vacancies in an elective office, one principal assistant, and one private secretary.
2. Members of boards and commissions required by law.
3. Administrative heads of departments required by law, other than the superintendent of North Dakota Vision Services - School for the Blind, the superintendent of the School for the Deaf, and the state librarian.
4. Officers and employees of the legislative branch of government.
5. Members of the judicial branch of government of the state of North Dakota and their employees and jurors.
6. Persons temporarily employed in a professional or scientific capacity as consultants or to conduct a temporary and special inquiry, investigation, or examination for the legislative branch of government or a department of the state government.
7. Positions deemed to be inappropriate to the classified service due to the special nature of the position as determined by the division and approved by the board.
8. Employees of the institutions of higher education under the control of the State Board of Higher Education.
9. Members and employees of occupational and professional boards.
10. Officers and employees of the Mill and Elevator.
11. The director of the Committee on Employment of People with Disabilities of the Department of Human Services.
12. Positions referred to under law as serving at the pleasure of or at the will of the appointing authority.
13. Licensed teachers engaged in teaching at the Youth Correctional Center, North Dakota Vision Services - School for the Blind, and the School for the Deaf.
14. Officers of Workforce Safety and Insurance.
15. Officers and employees of the Department of Commerce.
16. Attorneys employed by the Insurance Commissioner.
17. Engineers and geologists employed by the director of mineral resources.

As of August 2008, state agencies employed 6,750 classified employees with an average employee age

of 46.4 years, average years of service of 13.2, and an average annual salary of \$39,622.

### Compensation Plan

According to information from the Human Resource Management Services website, the compensation philosophy applied to the North Dakota classified services is a combination market and internal equity system. Internal equity is achieved through the classification point system described above. Positions with similar total point values are included in the same pay grade.

The current salary range structure includes 20 pay grades with a range width of approximately 66 percent and approximately 10 percent difference between each grade. The ranges are recalculated annually to ensure the midpoints of all ranges are within 5 percent of the average market salary for the level of work (dependent on legislative salary appropriations). The salary range tables for fiscal years 2010 and 2011 are attached as [Appendix D](#). A table identifying salary increases and pay range history since July 1, 1983 is attached as [Appendix E](#).

### Salary Increase History

The following summary provides a history of state employee salary increases and the cost of providing salary increases for the 1997-99 through 2009-11 bienniums:

State Employee Salary Increases				
Biennium	Percentage Increase	General Fund	Special Funds	Total
1997-99	3% on July 1, 1997 (includes 1.5% for merit) and 3% on July 1, 1998 (includes 1.5% for merit)	\$24,304,117	\$12,520,861	\$36,824,978
1999-2001	2% with a \$35 per month minimum on July 1, 1999, and 2% with a \$35 per month minimum on July 1, 2000	\$17,681,836	\$9,633,401	\$27,315,237
2001-03	3% with a \$35 per month minimum on July 1, 2001, and 2% with a \$35 per month minimum on July 1, 2002	\$27,043,178	\$12,493,632	\$39,536,810
2003-05	Up to 1% on January 1, 2004, and up to 2% on January 1, 2005 (based on the elimination of positions and savings from vacant positions)			\$0

State Employee Salary Increases				
Biennium	Percentage Increase	General Fund	Special Funds	Total
2005-07	4% on July 1, 2005, and 4% on July 1, 2006	\$19,778,486	\$21,746,666	\$41,525,152
2007-09	4% with a \$75 per month minimum on July 1, 2007, and 4% with a \$75 per month minimum on July 1, 2008 (salary increases were to be based on merit and equity and were not to be given across the board)	\$23,372,817	\$22,505,911	\$45,878,728
2009-11	5% with a \$100 per month minimum on July 1, 2009, and 5% with a \$100 per month minimum on July 1, 2010 (salary increases are to be based on merit and equity and are not to be given across the board)	\$36,821,006	\$31,667,339	\$68,488,345

### Equity Adjustments

The Legislative Assembly has provided funding, in addition to general salary increases, for pay or market equity adjustments for state employees. The funding has been appropriated either to the Office of Management and Budget to distribute to classified state employees in various agencies or directly to selected agencies. The schedule below presents the funding appropriated by the Legislative Assembly for these equity increases since the 1999-2001 biennium:

	General Fund	Special Funds	Total
<b>1999-2001 biennium</b>			
Equity adjustment - Classified employee salary pool	\$2,700,000	\$2,700,000	\$5,400,000
North Dakota University System salary pool	2,685,227		2,685,227
Merit increase - Department of Transportation engineers		800,000	800,000
Equity adjustment - Elected and appointed officials	77,000	22,000	99,000
Equity increase for Information Technology Department programmers and analysts		317,644	317,644
Equity increase for State Auditor's office	38,000		38,000
Public Employees Retirement System		33,574	33,574

	General Fund	Special Funds	Total
Department of Public Instruction information technology staff	72,444		72,444
Agricultural Experiment Station/Extension Service, Upper Great Plains Transportation Institute, Northern Crops Institute	422,400		422,400
Total 1999-2001	\$5,995,071	\$3,873,218	\$9,868,289
<b>2001-03 biennium</b>			
Equity adjustment - Classified employee salary pool	\$2,700,000	\$2,300,000	\$5,000,000
Pay grade minimum adjustments - Classified employees	360,797	131,505	492,302
Equity adjustment - Elected and appointed officials	142,697	35,536	178,233
Equity adjustment - Supreme Court and district court judges	724,451		724,451
Equity adjustment - Department of Corrections and Rehabilitation	422,528		422,528
Equity adjustment - Department of Transportation		1,200,000	1,200,000
Total 2001-03	\$4,350,473	\$3,667,041	\$8,017,514
<b>2003-05 biennium</b>			
Equity adjustment - Legislative Council	\$150,000		\$150,000
Equity adjustment - Public Employees Retirement System		\$80,362	80,362
Equity adjustment - Attorney General's office for assistant attorneys general		241,024	241,024
Equity adjustment - Department of Human Services Program and Policy Division		131,784	131,784
Equity adjustment - Department of Financial Institutions		167,000	167,000
Equity adjustment - Department of Corrections and Rehabilitation Juvenile Services Division	99,856		99,856
Total 2003-05	\$249,856	\$620,170	\$870,026
<b>2005-07 biennium</b>			
Equity adjustment - Department of Corrections and Rehabilitation	\$1,500,000		\$1,500,000
Equity adjustment - Highway Patrol	166,258	\$28,209	194,467
Total 2005-07	\$1,666,258	\$28,209	\$1,694,467
<b>2007-09 biennium</b>			
Equity adjustment - Classified employee salary pool	\$5,000,000	\$5,000,000	\$10,000,000

	General Fund	Special Funds	Total
Equity adjustment - Office of Administrative Hearings administrative law judges		120,528	120,528
Equity adjustment - State Auditor's office	115,500		115,500
Equity adjustment - Legislative Council	148,000		148,000
Equity adjustment - Securities Department attorney position	61,831		61,831
Equity adjustment - Attorney General's office	872,079	10,921	883,000
Equity adjustment - Council on the Arts	23,079		23,079
Equity adjustment - Agriculture Commissioner's office	151,000	108,000	259,000
Equity adjustment - Highway Patrol troopers and sergeants	352,500		352,500
Equity and pay grade adjustment - Adjutant General (State Radio employees)	300,000		300,000
Additional salary increase - Upper Great Plains Transportation Institute	9,955	106,973	116,928
Additional salary increase - Agricultural research and extension agencies	438,129	391,540	829,669
Base salary adjustment - Governor's office increase of base salary of a policy analyst	22,000		22,000
Equity adjustment - Insurance Department for boiler inspectors, attorneys, chief financial examiner, and directors of examining and licensing divisions		172,236	172,236
Equity adjustment - Retirement and Investment Office		65,301	65,301
Equity adjustment - Public Employees Retirement System		202,760	202,760
Classification adjustments - Department of Financial Institutions		155,696	155,696
Classification adjustments - Department of Corrections and Rehabilitation	748,234		748,234
<b>Total 2007-09</b>	<b>\$8,242,307</b>	<b>\$6,333,955</b>	<b>\$14,576,262</b>

	General Fund	Special Funds	Total
<b>2009-11 biennium</b>			
Equity adjustment - Classified and nonclassified employee salary pool	\$9,000,000	\$6,984,000	\$15,984,000
Salary adjustment - Deputy Treasurer	10,000		10,000
Salary adjustment - Attorney General (effective January 1, 2011)	10,100		10,100
Equity adjustments - Legislative Council	50,000		50,000
Recruitment and retention bonuses - Industrial Commission Department of Mineral Resources (nonclassified employees)	185,000		185,000
Salary increase - Branch research centers (irrigation scientist position at the Williston Research Center)	65,000		65,000
<b>Total 2009-11</b>	<b>\$9,320,100</b>	<b>\$6,984,000</b>	<b>\$16,304,100</b>

### Benefits

The state of North Dakota offers a comprehensive benefit package to its employees which includes the following:

- Paid health insurance premium.
- Life insurance - \$1,300 coverage.
- Deferred compensation.
- Flexcomp plan.
- Retirement plan.
- Annual leave.
- Sick leave.
- Family and medical leave.
- Ten paid holidays per year.
- Leave sharing.
- Funeral leave.
- Military leave.
- Voluntary group insurance plans, including vision, dental, and long-term care paid for by the employee.

Certain state agencies may also offer the following benefits:

- Training opportunities.
- State-of-the-art technology.
- Employee recognition programs and service awards.
- Flexible work schedules.
- Tuition reimbursement.
- Telecommuting options.

Based on information available from Human Resource Management Services, the following schedule provides information on the fiscal year 2009 value of one year of benefits for a classified employee with one year of service earning \$30,000 annually:

	Benefit	Employer Cost	Employee Cost
Annual leave	12 days	\$1,384.64	
Sick leave	12 days	1,384.64	
Holidays	10 days	1,153.87	
Health insurance	Family coverage	7,896.96	
Life insurance	\$1,300 coverage	3.36	
Retirement	9.12% <sup>1</sup>	2,736.00	
Total		\$14,559.47	\$0
Percentage of salary		48.5%	

<sup>1</sup>Includes the employer's share of 5.12 percent and 4 percent employee share paid by the employer.

### Salaries of Elected Officials

Pursuant to NDCC Section 54-44.3-20, state elected officials are exempt from the classification system. Salaries for state elected officials are determined by legislative action. The salary and powers and duties of each elected official are provided for in each official's respective chapter of the North Dakota Century Code. North Dakota's state elected officials and their respective chapter of Century Code include:

- Agriculture Commissioner - Chapter 4-01.
- Attorney General - Chapter 54-12.
- State Auditor - Chapter 54-10.
- Governor - Chapter 54-07.
- Insurance Commissioner - Chapter 26.1-01.
- Public Service Commissioners - Chapters 49-01 and 49-02.
- Secretary of State - Chapter 54-09.
- Tax Commissioner - Chapter 57-01.
- State Treasurer - Chapter 54-11.
- Judicial branch - Chapters 27-02 and 27-05.

## PREVIOUS STUDIES

### 2005-06 Interim

#### State Employee Compensation Study

The Legislative Council's Employee Benefits Programs Committee was assigned, pursuant to Section 28 of 2005 House Bill No. 1015, a study of issues relating to state employee compensation. The committee reviewed information relating to state employee compensation, including employees' compensation, salary increases, equity adjustments, retirement and health insurance benefits, and leave policies.

The committee learned state employee compensation consists of two components--salaries and fringe benefits. Except for elected officials, whose salaries are set in state statute, all other state employee salary levels are set by the governing body or supervisory personnel of each agency. For classified state employees, salary levels are determined by supervisory personnel within each agency based on the salary range for an employee's assigned pay grade as established by Human Resource Management Services, and total salaries for the biennium must be within the agency's salaries and wages line item appropriation approved by the Legislative Assembly. Unclassified employees' salary

levels are determined by the governing body or supervisory personnel of the agency, and total salaries for the biennium must be within the agency's salaries and wages line item appropriation approved by the Legislative Assembly.

### Agency Pay Increase Systems

The committee learned some agencies have developed systems for providing salary increases separate from general legislatively authorized increases. Agencies with formalized systems of providing salary increases include the judicial branch, State Board for Career and Technical Education, Workforce Safety and Insurance, Highway Patrol, and Adjutant General.

The judicial branch has developed its own salary system consisting of 52 job classifications and 23 salary grades. In addition to the general salary increases authorized by the Legislative Assembly, the judicial branch uses a step system to move employees through their assigned salary ranges. The step increases are provided to employees initially upon the completion of their probationary periods and then every other year thereafter. An employee is eligible to receive a step increase only if the employee's performance is acceptable. Assuming acceptable performance, an employee staying in the same pay grade would move from the pay grade minimum to the maximum after 19 years of employment.

The Department of Career and Technical Education has been using its performance-based salary increase policy since 2003. In addition to the general salary increases provided by the Legislative Assembly, each year during an employee's employment anniversary month the employee's performance is evaluated. As a result of the employee's performance evaluation, employees receive "shares," which convert into an additional salary increase. In recent years, each share's value has been \$18 per month; therefore, an employee receiving the maximum of three shares would receive an additional salary increase of \$54 per month. The performance-based salary increases cost approximately .9 percent of the total salaries appropriation of the department.

Workforce Safety and Insurance was authorized by the 1995 Legislative Assembly to establish its own personnel system. As a result, the agency has developed a pay-for-performance system that ties the employees' goals to the organization's goals and objectives and establishes clear expectations for employees. The system includes four components:

1. Planning performance - Performance plans are developed for each employee at the beginning of the performance management cycle. Each employee is assigned three to five individual goals that are linked to departmental objectives.
2. Coaching performance - Employees receive advice and assistance to meet or exceed their

established performance expectations. The coaching occurs throughout the year and a midyear review is useful for discussing the results to date to identify performance results that are not adequate and develop plans for improving performance before the final review.

3. Reviewing performance - An employee's actual performance is compared to the established performance expectations through a formal review process. Through the review, managers and employees outline major strengths, areas for development, and action plans to assist in improving performance in certain areas.
4. Rewarding performance - The pay-for-performance system must be administered consistently throughout the agency. The system rewards employees commensurate with their performance. Employees who perform better receive higher levels of reward and recognition. Recent performance increases provided to employees in addition to the general increases authorized by the Legislative Assembly are 2003--3.74 percent, 2004--3.06 percent, and 2005--3.24 percent.

The Highway Patrol has administered a step system for providing salary increases to its troopers for 30 years. These step increases are in addition to the general increases authorized by the Legislative Assembly and are based on each employee's performance. The system provides step increases through the first 10 years of service. A trooper serving in the trooper's 10<sup>th</sup> year receives a salary at 45.5 percent of the pay grade. Two additional steps are available. At the beginning of a trooper's 13<sup>th</sup> year of service, the salary will increase to 50.4 percent of the pay grade; and at the start of the 16<sup>th</sup> year, the trooper's salary will be 55.5 percent of the pay grade. The maximum base pay for a trooper under the current pay structure is attained in the trooper's 16<sup>th</sup> year. The Highway Patrol believes its salary increase system is very important in its ability to recruit and retain employees.

The Adjutant General has administered a step program for providing salary increases in addition to the legislatively authorized increases since the 1999-2001 biennium. The step increases are based on longevity and satisfactory performance by an employee. The additional cost for providing these increases for the 2005-07 biennium is estimated to total \$110,000, of which \$45,000 is from the general fund. The additional general fund money needed for these increases is provided from savings resulting from employee turnover.

### **Compensation System Considerations**

The committee received information from Human Resource Management Services indicating there are generally two basic pay philosophies--the entitlement philosophy and the performance-oriented philosophy. Under the entitlement philosophy, automatic increases

are given to employees each year and the majority of employees receive the same or nearly the same percentage increase. This philosophy is based on the premise that individuals who have worked another year are entitled to a raise in base pay and that incentives and benefits programs should continue and be increased, regardless of changing industry or economic conditions. Under the performance-oriented philosophy, no one is guaranteed a compensation increase each year. Instead, pay and incentives are based on performance differences among employees. Employees who perform well get larger increases and those who do not perform satisfactorily receive little or no increase in compensation.

The committee received information on options for the development of a pay-for-performance compensation system for state employees. Two models were reviewed. Under the first model, performance increases are provided as a percentage of salary followed by a flat equity dollar increase. Under the second model, a percentage equity increase is provided followed by a flat dollar amount for a performance increase.

The committee reviewed a bill draft requiring a state employee to contribute \$75 per month toward the cost of health insurance premiums but allowing the employee to be reimbursed up to \$75 per month for living a healthy lifestyle, providing that the state, for employees hired after June 30, 2007, pay for only the cost of a single health insurance premium less any employee contributions; providing the state contribution toward health insurance premiums for part-time employees be proportional to their full-time equivalent percentage; providing employees eligible to receive health insurance but declining coverage to receive up to \$100 per month of additional compensation; and precluding agencies from requesting funding for health insurance premiums as part of their budget requests for employees not enrolled in the health insurance program. The bill was withdrawn from further consideration by the sponsor.

### **2007-09 Compensation Adjustment Suggestions**

The committee received a report of the State Board of Higher Education Committee on Employee Compensation. The committee learned the higher education compensation committee recommended:

1. A total combined salary increase of at least 7.4 percent for faculty and 5.4 percent for staff at higher education institutions for each year of the 2007-09 biennium.
2. The state continue to fund 100 percent of the employee health insurance premiums with no changes to deductibles or copayments.
3. The state increase the retirement plan contribution from 10 percent to 12.5 percent and the employee contribution from 2 percent to 2.5 percent for employees with over 15 years of service.

The committee learned the State Board of Higher Education, in considering these recommendations, was recommending a salary increase of 5 percent for each year of the 2007-09 biennium.

The committee received a report from the State Employee Compensation Commission regarding its recommendations for state employee compensation for the 2007-09 biennium. The committee learned the commission was recommending the 2007 Legislative Assembly provide a state employee salary increase of 5 percent on July 1, 2007, and 4 percent on July 1, 2008; funding for an \$8 million salary equity pool for classified state employees, \$4 million of which was from the general fund and \$4 million of special funds; and continuing the full state payment of the single or family health insurance premium with no plan changes. The estimated cost of the State Employee Compensation Commission's recommended increases was \$40.2 million from the general fund, \$25 million of which relates to the 5 percent and 4 percent salary increases, \$4 million for the salary equity increases, and \$11.2 million for health insurance premium increases.

### **Recommendations**

The committee made no recommendations regarding its study of state employee compensation.

### **1997-98 Interim**

#### **State Employee Compensation Report**

The Legislative Council's Budget Committee on Government Services, pursuant to Section 17 of 1997 House Bill No. 1015, was assigned to receive a report from the Office of Management and Budget on state employee compensation issues. The report was to focus on compression problems, market comparisons, and other compensation issues and include the effects of all benefits, including health insurance, on the employment relationship. The report was to include detailed information on the impact of salary compression and estimates of the dollar amount to correct salary compression problems. In addition, the Office of Management and Budget was to develop and present a plan to compensate state employees in a fair and adequate manner.

The committee reviewed state employee pay schedules, average salary information, and fringe benefits provided to state employees in North Dakota, Minnesota, Montana, South Dakota, and Wyoming. The committee learned that North Dakota and Wyoming utilize 1 pay schedule for classified employees, Montana utilizes 2 range structures, South Dakota uses 5 range structures, and Minnesota utilizes 24 range structures.

The committee received the state employee compensation report of the Central Personnel Division. The committee learned that "compression" occurs when long-term employees and new employees in the same salary range are both paid salaries in the low end of the range. It results from agencies being unable to provide salary increases to

their long-term employees in excess of the across-the-board increases provided by the Legislative Assembly. As a result, the salary range increases at the same rate as the employee's salary so the employee never moves up in the salary range. As new employees are hired and paid in the same salary range their pay begins at a similar level to the employee with a number of years of service. The report identified "compression" among state employees as a continuing problem; however, the situation is improving. In 1994, 38.1 percent of employees were paid within the first quartile of their salary range, while in 1998, 26 percent of employees were paid within the first quartile of their range.

The report included a comparison of state employee salaries to market salaries. North Dakota state employees in grades 5 through 20 were paid from 7 percent to 13 percent less than market pay in North Dakota. In grades 21 through 42, North Dakota state employees' salaries range from 19 percent behind the market to 2 percent ahead of market compared to the average salaries in 10 midwestern state governments. Currently, North Dakota's salary range midpoints are as much as 12.5 percent behind market pay.

The report included a comparison of the cost of fringe benefits provided to state employees to other markets. North Dakota state employee fringe benefits were calculated at 42.2 percent of payroll compared to fringe benefits costing 39.9 percent of payroll for other North Dakota employers with more than 15 employees and costing 42.9 percent of payroll for fringe benefits provided to employees within the 10 midwestern state governments.

The report included a proposed compensation system to correct "compression" problems. The proposal provided that employees would be paid at the midpoint of their assigned salary range after 10 years of service. The proposal would result in over 46 percent of state classified employees requiring a salary increase to reach their respective target position in the salary range and the cost of the proposal would be approximately \$400,000 per month. Due to its high cost, the Central Personnel Division did not recommend this proposal.

The report indicated that the current pay system does not require major changes in order to provide fair and adequate compensation. The Central Personnel Division is proposing that the state continue and enhance a number of practices currently in place. The division's recommendations include:

1. Recalculating all salary ranges to place the midpoint at 95 percent of the market rate.
2. Expanding the ranges from the current level of 53 percent to 63 percent to 66 percent.
3. Reducing the number of ranges from 39 to 20, but increase the space between each range to improve the differentiation between grade levels.
4. Continuing to split appropriations by directing some general salary increases across the



board with additional appropriations focusing on equity and performance.

The estimated cost of implementing the recommendation would be approximately \$25,000 per month based on current salaries.

Other testimony received from representatives of employee organizations expressed concern regarding the lack of employee input into salary policy and that some state employees in lower-paying jobs are eligible for and receiving food stamps and fuel assistance.

### Recommendations

The committee recommended that the Legislative Assembly provide, to the extent possible, that a portion of salary increase funding approved by the Legislative Assembly be distributed to employees based on performance and that the Legislative Assembly, through its standing committees during the legislative session, consider options for increasing the salary levels for lower-paid employees and lowering health insurance deductibles and coinsurance percentages in the state health insurance contract.

### Survey of Elected and Appointed Positions

In 1998 the Office of Management and Budget contracted with Fox Lawson and Associates to conduct a survey of elected and appointed positions in other states. Nine states, which North Dakota compares itself to for determining the market for classified jobs, were surveyed to obtain salary information for positions similar to those in North Dakota. The cost of living for each capital city was also compared. The salary data was adjusted, using a wage geographical adjustment, to Bismarck's labor market and wage scales.

As a result of the survey, equity adjustments were provided to all state elected officials except the Governor and Lieutenant Governor effective January 1, 2001, and to all elected officials except the Governor, Lieutenant Governor, and State Treasurer effective January 1, 2002. The equity increases were in addition to legislative increases effective on July 1 of each year. The following schedule presents information on salary increases for elected officials for the 1999-2001 and 2001-03 bienniums:

	Effective Date					
	July 1, 1999	July 1, 2000	January 1, 2001	July 1, 2001	January 1, 2002	July 1, 2002
Governor	\$76,879	\$78,417	\$83,013	\$85,506	\$85,506	\$87,216
Lieutenant Governor	\$63,183	\$64,447	\$64,447	\$66,380	\$66,380	\$67,708
Secretary of State	\$58,262	\$59,428	\$61,142	\$64,742	\$66,684	\$68,018
Attorney General	\$65,753	\$67,068	\$69,002	\$71,072	\$73,204	\$74,668
Superintendent of Public Instruction	\$59,437	\$60,626	\$67,619	\$69,648	\$75,916	\$77,434
Tax Commissioner	\$58,262	\$59,428	\$66,282	\$68,277	\$72,374	\$76,821
Insurance Commissioner	\$58,262	\$59,428	\$62,855	\$64,742	\$66,684	\$68,018
Public Service Commissioners	\$58,262	\$59,428	\$64,569	\$66,509	\$68,504	\$69,874
Agriculture Commissioner	\$58,262	\$59,428	\$64,569	\$66,509	\$68,504	\$69,874
State Auditor	\$58,262	\$59,428	\$62,855	\$64,742	\$66,684	\$68,018
Treasurer	\$58,262	\$59,428	\$61,142	\$62,974	\$62,974	\$64,233

### Performance Audit

The State Auditor's office, at the request of the Legislative Audit and Fiscal Review Committee, conducted a performance audit of the state of North Dakota's personnel system. The audit was completed and the report was presented to the Legislative Audit and Fiscal Review Committee in October 1998. The audit report included information on the Central Personnel Division and state agencies. A separate report was issued on the North Dakota University System. The audit included a review of the structure of the Central Personnel Division to determine if the structure meets the needs of the state; a limited review of state agencies to determine if state agencies have adequate personnel systems in place to provide for compliance with significant laws, rules, and regulations; and a review of the classification system to determine if the Central Personnel Division efficiently and effectively operated the employee classification system.

The audit report contained 15 recommendations. Based on the performance audit, the State Auditor's office determined:

- The role of the Central Personnel Division should be redefined.
- The Central Personnel Division should take a more proactive role in providing advice and counsel to state agencies.
- The Central Personnel Division should delegate additional classification authority to state agencies.
- The Central Personnel Division should develop a strategic plan with significant input from stakeholders.

### 2009 RELATED LEGISLATION

As previously stated, Section 7 of Senate Bill No. 2001 directs a study of the classified state employee compensation system, including a review of the development and determination of pay grades and classifications. In addition, Section 4 of House Bill No. 1005 directs a study of the salaries of state elected officials. The study is to include a comparison of salaries, the number of full-time equivalent and temporary employees supervised by each elected official, and the complexity of each elected official's



responsibilities. The study is also to include a comparison to similar positions in other states.

Section 11 of House Bill No. 1015 provides legislative intent regarding state employee compensation adjustments. It is the intent of the 61<sup>st</sup> Legislative Assembly that 2009-11 compensation adjustments for regular state employees are to vary based on documented performance and equity and are not necessarily to be 5 percent annual increases for each employee. General increases based on legislative appropriations are to be given beginning with the month of July 2009 to be paid in August 2009 and beginning with the month of July 2010 to be paid in August 2010. Each agency appropriation is increased by 5 percent for the first year of the 2009-11 biennium and 5 percent for the second year of the 2009-11 biennium.

Employees whose overall documented performance level does not meet standards are not eligible for any salary increase. Each employee whose documented performance meets all standards is to receive a minimum increase of \$100 on July 1, 2009, and \$100 on July 1, 2010.

Probationary employees are not entitled to the general increases. However, probationary employees may be given all or a portion of the increases effective in July paid in August or upon completion of probation, at the discretion of the appointing authority.

During the biennium no salary increase other than the \$100 minimum increase or a temporary increase may be given to an employee whose salary exceeds or would exceed the salary range maximum.

Sections 18 and 19 of House Bill No. 1015 provide for an appropriation of \$9 million from the general fund and \$6.984 million from other funds to the Office of Management and Budget for a statewide salary equity pool for executive branch state employees, excluding entities under the control of the State Board of Higher Education. The market equity adjustments are independent of any general salary increase provided by the Legislative Assembly. The market equity increases are to be prioritized based on a statewide plan to address occupational market disparities, economic growth areas, recruitment and retention challenges, and internal and external pay inequities for employees who are critical to the mission of the agency. The plan must give priority to employees who have been employed by the state for the greatest length of time and are furthest below their salary range midpoint. The Office of Management and Budget, in developing the plan, shall consider employee pay comparisons to similar occupational classifications of other North Dakota employers and employers in Montana, South Dakota, and Wyoming. Probationary employees are eligible for the market equity increases. Employees whose documented

performance levels do not meet standards are not eligible for the market equity increases.

Human Resource Management Services shall provide a model base plan to each agency. Agencies may adopt the model plan, adopt the model plan with exceptions, or offer an alternative plan that meets the intent of the equity pool. Notwithstanding any other provisions of law relating to the allocation of funds from this statewide salary equity pool, the Office of Management and Budget shall transfer appropriation authority from the statewide salary equity pool appropriation to eligible agencies based on each agency's submission and approval by the Office of Management and Budget of a salary equity plan for the 2009-11 biennium.

Attached as [Appendix F](#) is a schedule comparing the executive recommendation for salary equity adjustments to the distribution calculated by the Office of Management and Budget for the 2009-11 biennium.

## STUDY PLAN

The following is a proposed study plan for the committee's consideration in its studies of the classified state employee compensation system and salaries of state elected officials:

1. Receive and review information regarding the classified state employee compensation system, including pay grades and classification system and the history of development and changes to the system.
2. Receive and review information regarding 2009-11 biennium salary equity pool allocations.
3. Receive and review information regarding salaries of state elected officials.
4. Receive and review information regarding the number of full-time equivalent and temporary employees supervised by the elected official, and the complexity of each elected official's responsibilities.
5. Receive and review information from other states regarding similar state employee and elected officials positions.
6. Receive testimony from other interested persons regarding the committee's study of the classified state employee compensation system and salaries of state elected officials.
7. Develop recommendations and any bill drafts necessary to implement the recommendations.
8. Prepare a final report for submission to the Legislative Council.

ATTACH:6