NORTH DAKOTA LEGISLATIVE COUNCIL

Minutes of the

EMPLOYEE BENEFITS PROGRAMS COMMITTEE

Wednesday, February 22, 2006
Harvest Room, State Capitol
Bismarck, North Dakota

Representative Matthew M. Klein, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Matthew M. Klein, Al Carlson, Joe Kroeber, Ken Svedjan, Francis J. Wald; Senators Ray Holmberg, Ralph L. Kilzer, Karen K. Krebsbach, Carolyn Nelson

Others present: Merle Boucher, State Representative, Rolette

See attached appendix for additional persons present.

It was moved by Senator Nelson, seconded by Representative Carlson, and carried on a voice vote that the minutes of the previous meeting be approved as distributed.

RETIREMENT PROGRAMS

Mr. Sparb Collins, Executive Director, Public Employees Retirement System, presented information on the number of state employees currently eligible for retirement and projections for the next five years and on the number of actual retirements for each of the last five years. Mr. Collins presented the following schedule showing actual and projected retirements for members of the main retirement system:

	7/1/01	7/1/02	7/1/03	7/1/04	7/1/05	7/1/06	7/1/07	7/1/08	7/1/09	7/1/10
Retirements						**Projected**	**Projected**	**Projected**	**Projected**	**Projected**
Normal	92	89	114	110	91	117	127	132	155	188
Rule of 85	95	92	145	122	143	168	192	216	236	238
Early	109	100	106	82	116	118	122	133	143	153
Disability	23	24	34	25	24	27	27	26	26	25
Total	319	305	399	339	374	430	468	507	560	604
	7/1/01	**7/1/02**	**7/1/03**	**7/1/04**	**7/1/05**	**1/1/06**	**1/1/07**	**1/1/08**	**1/1/09**	**1/1/10**
Active Members							**Projected**	**Projected**	**Projected**	**Projected**
Normal	336	426	466	442	481	523	542	637	772	922
Rule of 85	361	470	484	532	619	708	797	870	879	894
Early	1,945	2,281	2,452	2,511	2,662	2,745	3,000	3,228	3,456	3,431
Vested	9,599	9,441	9,527	9,840	9,850	9,795	10,198	10,763	11,493	10,793
Nonvested	4,453	4,421	4,172	4,197	4,133	4,234	3,468	2,507	1,405	1,965
Total	16,694	17,039	17,101	17,522	17,745	18,005	18,005	18,005	18,005	18,005
Eligible retired	11.54%	12.56%	9.96%	10.73%	11.20%					
Normal	26.49%	26.76%	23.61%	20.59%	24.36%					
Rule of 85	25.48%	30.85%	25.21%	26.88%	27.11%					
Early	5.14%	4.65%	3.34%	4.62%	4.44%					
Disability	0.17%	0.25%	0.18%	0.17%	0.19%					

Mr. Collins said the employees included in the main retirement system are state employees, employees of political subdivisions, and higher education employees, excluding teachers eligible to participate in the TIAA-CREF retirement system. A copy of the report is on file in the Legislative Council office.

Mr. Collins presented the following information on projected active members and retirements for only the state employee group:

Retirements		State Employees Only 7/1/06 Projected	7/1/07 Projected	7/1/08 Projected	7/1/09 Projected	7/1/10 Projected
Normal		39	47	54	67	87
Rule of 85		118	144	156	165	169
Early		61	65	70	74	77
Disability		15	15	14	14	13
Total		233	271	294	320	346
Active Members		**1/1/06**	**1/1/07 Projected**	**1/1/08 Projected**	**1/1/09 Projected**	**1/1/10 Projected**
Normal	162	194	221	277	358	448
Rule of 85	437	533	574	610	625	635
Early	1,374	1,464	1,586	1,670	1,741	1,705
Vested	5,655	5,666	5,733	5,938	6,210	5,826
Nonvested	2,104	1,875	1,618	1,237	798	1,118
Total	9,732	9,732	9,732	9,732	9,732	9,732

Mr. Collins presented information on loss ratios of the Public Employees Retirement System (PERS) health insurance plan compared to other health insurance groups. Mr. Collins said a higher loss ratio is beneficial because it indicates that more of the plan's premium dollars are being spent on claims rather than administrative costs. For the 2003-05 biennium, he said, the PERS health insurance plan experienced a 94.3 percent incurred claim loss ratio. Mr. Collins said for the 2005-07 biennium, PERS is projecting a loss ratio of 94.2 percent which includes the $3 per employee per month PERS administrative fee.

Mr. Collins said Blue Cross Blue Shield of North Dakota reported a November 2005 year to date incurred loss ratio of 89.6 percent for all businesses and a June 2005 year to date incurred loss ratio of 87 percent for all of its plans.

Mr. Collins said the North Dakota Insurance Department reported the following loss ratios for the calendar year ending December 2004 for Blue Cross Blue Shield of North Dakota:

1. Large group - 91.1 percent.
2. Small group - 84.1 percent.
3. Individual - 88.2 percent.

A copy of the report is on file in the Legislative Council office.

Mr. Collins provided information prepared by The Segal Company--the retirement system's actuary--of the estimated fiscal effect to the retiree health insurance credit fund of the possible transfer of 18 employees of the Board for Career and Technical Education from the Teachers' Fund for Retirement (TFFR) to the Public Employees Retirement System. Mr. Collins said the actuarial report estimates a present value of the benefits for these employees transferring into the retiree health insurance credit fund of $114,621. He said to generate this additional amount for the fund, the actuary has calculated that a 1.85 percent increase (1 to 2.85 percent) in the required employer contribution to the retiree health insurance credit fund would be necessary for these employees for a period of eight years. A copy of the report is on file in the Legislative Council office.

Mr. Collins commented on the status of the implementation of the Medicare Part D prescription drug program. Mr. Collins said beginning January 1, 2006, prescription drug coverage for retirees is provided through the Blue Cross Blue Shield prescription drug plan. As a result, he said, retiree health insurance premiums decreased by $98 per month for a family of two and $49 for a single plan.

Mr. Collins said the prescription drug formulary is more restrictive under the new prescription drug plan than it was previously when provided as part of the health insurance contract. Previously, he said, approximately 78 percent of prescription drugs were on the formulary. Under the new prescription drug plan, he said, approximately 67 percent are on the formulary.

Mr. Collins provided a chart indicating that in December 2005, under the previous contract, 10 percent of the prescription drugs purchased were not on the formulary compared to 14 percent in January 2006 under the new prescription drug plan. A copy of the report is on file in the Legislative Council office.

Ms. Fay Kopp, Deputy Executive Director, Retirement and Investment Office, provided information regarding the current number of school district employees receiving retirement benefits from the Teachers' Fund for Retirement. Ms. Kopp said North Dakota Century Code Section 15-39.1-19.1 allows retirees of the Teachers' Fund for Retirement to return to teach and continue receiving their TFFR retirement benefits under one of the following options:

1. General rule - After a 30-day waiting period, a retiree may return to TFFR-covered employment for the following maximum number of hours in a fiscal year:

Nine-month contract	700 hours
Ten-month contract	800 hours
Eleven-month contract	900 hours
Twelve-month contract	1,000 hours

   Substitute teaching, extracurricular duties, and continuing professional development do not apply to the annual hour limit.
2. Exception A - Critical shortage area - A retiree may return to teaching in an approved critical

shortage area and exceed the annual hour limitation without losing retirement benefits. If the retiree retired on or before January 1, 2001, no waiting period is required; however, if a retiree retired after January 1, 2001, a one-year waiting period is required. Critical shortage areas are determined each year by the Education Standards and Practices Board. For the 2005-06 school year, the board has designated all teaching areas, except elementary education and physical education, as critical shortage areas in the state.

3. Exception B - Benefit suspension and recalculation - After a 30-day waiting period, a retiree may return to TFFR-covered employment and exceed the annual hour limitation; however, retirement benefits will be suspended the first of the month following the month the retiree reaches the annual hour limit. At that time, the employer and employee contributions must be paid on any salary earned after the annual hour limit based on the employer's TFFR payment model. Once the retiree again retires, monthly benefits are recalculated.

Ms. Kopp presented the following schedule showing the number of retirees who have returned to work for the 1999-2000 school year compared to the 2005-06 school year.

	1999-2000	2005-06
Number of retirees returning to teaching	26	160
Superintendents/administrators	9	48
Teachers	17	112
General rule	24	151
Critical shortage area	0	6
Suspend and recalculate	2	3
Average age	62	60
Average salary	$13,000	$22,000

Ms. Kopp presented a schedule identifying the number of school districts employing the retirees in 2005-06. A copy of the report is on file in the Legislative Council office.

Mr. Tom Decker, Director, School Finance and Organization, Department of Public Instruction, presented information on the number of first-year teachers currently employed by school districts. Mr. Decker said North Dakota school districts employed 181 first-year teachers for the 2003-04 school year, 200 for the 2004-05 school year, and 190 for the 2005-06 school year. A copy of the report is on file in the Legislative Council office.

Ms. Kopp presented a report regarding Teachers' Fund for Retirement proposals for addressing the fund's unfunded liability.

Ms. Kopp said the Teachers' Fund for Retirement was informed by its actuary in July 2005 that its funded ratio is approximately 75 percent and that it has an unfunded liability of approximately $495 million. Ms. Kopp said while the board has not yet formally approved a legislative proposal for the committee to consider, the board is studying possible changes that, along with positive investment returns, should improve the funding level and overall financial condition of the fund. She presented the following proposals under consideration by the board:

1. Increase the employer contribution rate from 7.75 to 8.75 percent;
2. Collect employer contributions at a rate of 8.75 percent on reemployed retirees;
3. Change early retirement eligibility from the Rule of 85 to a Rule of 90 for new hires;
4. Increase vesting requirements for retirement benefits from three to five years for new hires; and
5. Change the final average salary calculation from the high three years to the high five years of salary for new hires.

A copy of the report is on file in the Legislative Council office.

Mr. Scott Miller, Assistant Attorney General, Attorney General's office, presented information on legal issues relating to retirement benefit changes for current employees and retirees. Mr. Miller said both the federal and state constitution include a contract clause providing that a state cannot pass a law impairing a contractual obligation. Mr. Miller said public pension obligations in North Dakota are contractual obligations. In addition, he said, North Dakota Century Code Section 54-52-14.3 provides that any provision of law relating to the use and investment of public employee retirement funds must be deemed a part of the employment contracts of the employees participating in any public employee retirement system.

Mr. Miller cited court cases in other states relating to issues of changes being made to public pension plans. Mr. Miller said he believes the North Dakota Supreme Court would follow the "California Rule" which provided that a governing body may make plan changes but any changes that disadvantage an employee must be accompanied by comparable advantageous changes.

Mr. Miller said there are four membership designations in public pension plans--retirees, inactives, actives, and future actives. Based on his legal research, Mr. Miller said for retirees, no plan changes may be made affecting current retirees' pension benefits. For inactive members, he said, the benefits that the inactives have already accrued cannot be detrimentally changed; however, he said, since the employment contract has been terminated, there is no restriction on the state's ability to make modifications to the benefit structure available to vested inactives upon their future reemployment. Once they have been reemployed, he said, the employment contract in effect on that date would control how future benefits accrue.

For active employees, Mr. Miller said under the "California Rule," the member's commencement of employment creates a contract that the state cannot unilaterally change to the member's detriment without a corresponding benefit. Therefore, he said, the state cannot detrimentally modify any provision of an active member's benefit structure without a corresponding benefit, including the Rule of 85, the vesting schedule, interest accrued to the member's account, the multiplier, and the amount of employee contribution.

For future active employees, Mr. Miller said, because there is no employment contract in place, the state may modify the plan to whatever extent it would like. A copy of the report is on file in the Legislative Council office.

Mr. Wayne Kutzer, Director, Board for Career and Technical Education, said the board, at its January 17, 2006, meeting, endorsed pursuing the option for staff of the Board for Career and Technical Education to switch from the Teachers' Fund for Retirement to the Public Employees Retirement System. Mr. Kutzer said 16 of the 27 employees of the department would be affected by this change. He said these employees, although teachers, are not actively teaching as other groups that might be considered affected, including employees of the Division of Independent Study, Youth Correctional Center, School for the Deaf, and North Dakota Vision Services - School for the Blind. Mr. Kutzer said that even considering the additional employer contribution for the retiree health insurance credit that would be required for these employees, the state contribution, as a result of this change, would be .78 percent less for the first eight years and 2.63 percent less after eight years than the current state contribution for these employees.

Ms. Bev Nielson, North Dakota School Boards Association, said employer contributions to the Teachers' Fund for Retirement is part of the compensation package for teachers; however, she said, these contributions made by school districts are generally not considered compensation when teacher pay negotiations occur. She said the Teachers' Fund for Retirement Board proposal to increase employer contributions to address the fund's unfunded liability will result in less funding being available for increasing teacher salaries.

Representative Klein asked for the School Boards Association's position on retired teachers returning to work. Ms. Nielson said each school board needs to make hiring decisions based on the effect it has on the particular school district. She said it is very difficult to hire new teachers in certain school districts across the state. She said these school districts are hiring retired teachers out of necessity rather than choice in some cases.

The committee recessed for lunch at 12:05 p.m. and reconvened at 12:35 p.m.

STATE EMPLOYEE COMPENSATION STUDY

Mr. Ken Purdy, Compensation Manager, Human Resource Management Services, provided an overview of the class evaluation system; updated information on the 10-state salary comparison survey; and issues relating to recruiting and retaining state employees, including a comparison of current employee turnover rates to previous years.

Mr. Purdy said the class evaluation system provides a structured and consistent method of evaluating jobs. He said Human Resource Management Services, as part of its 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. He said the division then conducts market surveys to determine the appropriate pay for a particular job. He said these surveys are periodically updated. Prior to the 2003-05 biennium, Mr. Purdy said North Dakota updated its midpoint salaries biennially to 95 percent of the previous year's market level. He said market comparisons for jobs are made to Job Service North Dakota labor market information for grades 1 through 10 and to a 10-state market sample for grades 11 through 20.

Mr. Purdy said based on the latest market comparisons, North Dakota classified employees' salaries in grades 4 through 15 are lagging the market by 12 to 25 percent. Last year, he said, North Dakota salaries were 13 to 30 percent less than the market salaries.

Mr. Purdy provided information on state employee turnover. He said the turnover rate for 2005 was 9.2 percent which is the highest turnover rate since 1997; however, Mr. Purdy said North Dakota's turnover rate is less than the 10-state average of 11.3 percent. Mr. Purdy said of the 9.2 percent turnover rate, 11.6 percent was due to involuntary reasons, 19.9 percent due to retirements, 64.1 percent due to other employment or personal reasons, and 4.4 percent due to health or no reason.

Mr. Purdy provided information on North Dakota's health insurance premium compared to the 10-state average. Mr. Purdy said North Dakota provides 100 percent of a single or family health insurance premium for its employees. Although the state budgets $554 per contract regardless of whether single or family coverage is requested by the employee, he said, the Public Employees Retirement System estimates the single premium to cost $261 and the family premium to cost $643 per month. Compared to the 10-state average, he said, North Dakota's single premium of $261 is less than the average employer portion of single health insurance premiums paid by other states of $324 to $371 per month. For the family premium, he said, North Dakota pays $643 per month which is less than the $704 to $758 employer contribution paid by other states for family health insurance premiums. A copy of the report is on file in the Legislative Council office.

Representative Svedjan suggested the division gather information on the types of jobs and agencies experiencing the most employee turnover during the first year of service.

Representative Carlson asked whether there is a formal process of evaluating the need for a position when it becomes vacant. Mr. Purdy said although a formal process is not in place, he believes each agency conducts this evaluation when a vacancy occurs.

Ms. Laurie Sterioti Hammeren, Director, Human Resource Management Services, said by executive order, the Governor has established a hiring council that reviews the need for positions that become vacant within the executive branch before the positions are refilled.

Ms. Sterioti Hammeren provided information on state agency efforts to recruit and retain employees using nontraditional or nonmonetary benefits. Ms. Sterioti Hammeren said the most common nontraditional or nonmonetary benefits used to recruit and retain employees reported by state agencies include compensatory time, flexible work schedules, tuition assistance, casual days, allowing infants to be brought to work by the employee, and recruiting and retention bonuses. A copy of the report is on file in the Legislative Council office.

Mr. Tom Freier, Deputy Director, Department of Transportation, commented on the department's efforts to recruit and retain employees. Mr. Freier said the department is currently projecting the number of retirements within the department to increase by 50 percent, from 30 per year to 60 per year. He said the department has approximately 1,000 employees.

Mr. Freier said the department is experiencing more competition from other employers for its employees. He said the department needs more flexibility to reward its top performers and to respond to the hiring environment. Mr. Freier said the methods used by the department to attract and retain employees include early contacts with potential employees through internships, scholarships, and meetings while the individuals are still in school, providing recruitment bonuses, allowing flexible work schedules, a mentoring program, flexible placement, tuition reimbursement, and offering a wide variety of training opportunities. A copy of the Department of Transportation's report is on file in the Legislative Council office.

Chairman Klein suggested that agencies, when providing information to the committee, make specific recommendations regarding legislative action that may assist with recruiting and retaining employees.

Mr. Dean Mattern, Director, Human Resources Division, Department of Human Services, presented information regarding issues of recruiting and retaining employees of the Department of Human Services.

Mr. Mattern said the department recruits employees for various locations across the state. He said the department has identified the following recruitment and retention issues:

1. Certain positions, including psychologists, addiction counselors, and psychiatrists, are extremely difficult to recruit and retain because of shortages based on training programs and licensing requirements.
2. Some positions are difficult to recruit and retain based on cyclical shortages, including nurses, social workers, and occupational therapists.
3. It is at times difficult to recruit and retain employees based on geographic preference. It is more difficult to recruit employees to rural areas of the state compared to the urban areas.
4. Some positions require more experience because of their duties which results in a smaller pool of candidates from which to recruit.
5. The compensation package the department is able to provide is often not competitive to other employers in the area, especially in the eastern part of the state.

Mr. Mattern provided the following examples of recruitment and retention methods used by the department:

1. The recruitment and retention bonus program.
2. Paying employees a referral bonus.
3. Tuition payments to students in return for contracted employment.
4. Providing stipends and financial assistance during internships.
5. Making equity salary adjustments to specific positions.

Mr. Mattern reviewed a number of trends that he believes will make it more difficult to recruit and retain employees, including:

1. State salaries are significantly below local and regional market salaries.
2. Although the state has historically had a better benefit package than other employers, many large employers are now offering better benefits with more flexibility than the state.
3. The department's turnover rate has been increasing in recent years.
4. The average number of applicants for job openings is decreasing.
5. An increasing number of job offers are being refused primarily due to the salary level being offered.

Mr. Mattern provided the following recommendations for the committee to consider as it develops a compensation system for North Dakota state government:

1. Allow the state to become more competitive in both salary and benefits offered.
2. Develop a salary program which allows employees to move through the salary range to address compression problems between new and existing employees.
3. Allow more flexibility for using benefits, such as annual leave, to customize compensation packages for each employee.
4. As the national trend of older workers working longer and returning to work after and during

retirement increases, the state should design programs to allow this trend to benefit the state.

A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Klein, Mr. Mattern said the department supports the concept of "pay for performance." He said the department has used it on a limited basis but would need additional resources to use it effectively.

Ms. Linda Houfek, Director, Human Resources Division, Department of Corrections and Rehabilitation, presented information regarding issues of recruiting and retaining employees of the Department of Corrections and Rehabilitation. Ms. Houfek said the department recruits approximately 90 employees each year. She expressed concern regarding the trend of a decreasing number of applicants for many job openings. Ms. Houfek said in an attempt to attract more applicants for some positions, the department has lowered minimum qualifications.

Ms. Houfek said recruiting concerns of the department include:

1. Salaries are not competitive compared to market.
2. Salaries of existing employees have not been increased adequately compared to the salaries the department is required to pay to attract new employees resulting in compression concerns and inequities.
3. The need to hire additional temporary staff without benefits as a result of the increased number of inmates.
4. Increased competition from other employers for the limited number of applicants available.

Regarding retention, Ms. Houfek said, positions experiencing very high turnover rates include correctional officers that have an average turnover rate of 17 percent, treatment staff with an average turnover rate of 20 percent, and juvenile institutional resident specialists with a turnover rate of 16 percent.

Ms. Houfek said the department's concerns regarding turnover include:

1. The high cost of replacing employees relating to advertising and training costs.
2. Increasing workload on remaining staff affected by vacancies.
3. Employees with less experience affect the department's ability to achieve its mission and objectives.
4. An increasing amount of competition for the department's employees and an increasing number of retirements.

Ms. Houfek said the department, in an attempt to improve its recruitment and retention of employees, has provided recruiting and referral bonuses for difficult-to-fill positions, provided salary adjustments for additional workload and responsibility, increased promotional opportunities, expanded training opportunities, and provided funding for tuition reimbursement.

Ms. Houfek suggested the committee, as it develops a compensation system for the state, consider continuing to allow agencies to utilize existing employment enhancement tools available, increasing the number of internships, providing more promotional opportunities, providing more public education and public relations efforts, and addressing the need for equitable and competitive salaries for state employees. A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Klein regarding the Department of Corrections and Rehabilitation response to a "pay for performance" compensation system, Ms. Houfek said that "pay for performance" would be beneficial for the long term, but more immediately, she said, the department has concerns with equity issues and moving employees up in their salary range.

Chief Justice Gerald VandeWalle, Supreme Court, introduced the state court administrator for the judicial branch--Ms. Sally Holewa--who provided information on the judicial branch's system of providing salary increases for its employees.

Ms. Holewa said 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, Ms. Holewa said the judicial branch uses a step system to move employees through their assigned salary range. She said the step increases are provided to employees initially upon the completion of their probationary period and then every other year thereafter.

Ms. Holewa said employees are eligible to receive a step increase only if the employee's performance is acceptable. She said 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.

Ms. Holewa said the judicial branch's compensation system and recruitment processes are working well. She said other than a few positions, most salaries are competitive and she believes the system has reduced employee turnover. Ms. Holewa said the key components of the judicial branch being able to recruit and retain employees is the competitive salary and the competitiveness of the state's benefits package. A copy of the report is on file in the Legislative Council office.

Mr. Kutzer presented information regarding the department's system of providing salary increases for its employees. Mr. Kutzer said the department has been using its performance-based salary increase policy since 2003. He said 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, he said, employees receive "shares" which convert into an additional salary increase. In recent years, he said, 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.

Mr. Kutzer said the performance-based salary increases cost approximately .9 percent of the total salaries appropriation of the department. A copy of the report is on file in the Legislative Council office.

In response to a question from Representative Klein, Mr. Kutzer said the funding for providing these additional salary increases is made available from salary savings resulting from employee turnover.

In response to a question from Representative Boucher, Mr. Kutzer said during the first year of the program, 0 employees received one share, 11 employees received two shares, and 10 employees received three shares. During the second year of the program, 1 employee received one share, 13 employees received two shares, and 8 employees received three shares.

Mr. Jim Long, Chief of Support Services, Workforce Safety and Insurance, provided information on the agency's system of providing salary increases for its employees.

Mr. Long said Workforce Safety and Insurance was authorized by the 1995 Legislative Assembly to establish its own personnel system. As a result, Mr. Long said the agency has developed a pay for performance system which ties the employees' goals to the organization's goals and objectives and establishes clear expectations for employees.

Mr. Long said 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. Mr. Long said 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.

A copy of the report is on file in the Legislative Council office.

Representative Carlson asked whether the agency has its own salary schedule. Mr. Long said the agency has 14 salary grades, the salary levels of which are based on a six-state survey.

In response to a question from Representative Kroeber, Mr. Long said the agency's midpoint salary levels, compared to the other six states involved in the survey, are toward the bottom of the range.

Colonel Bryan Klipfel, Superintendent, Highway Patrol, presented information regarding the Highway Patrol's system of providing salary increases for its employees.

Colonel Klipfel said the Highway Patrol has administered a step system for providing salary increases to its troopers for 30 years. He said these step increases are in addition to the general increases authorized by the Legislative Assembly and are based on the employee's performance. Colonel Klipfel said the Highway Patrol compensation system provides step increases through the first 10 years of service. A trooper serving in the trooper's 10th year, he said, receives a salary at 45.5 percent of the pay grade. He said two additional steps are available. At the beginning of a trooper's 13th year of service, he said, the salary will increase to 50.4 percent of the pay grade and at the start of the 16th year the trooper's salary will be 55.5 percent of the pay grade. He said the maximum base pay for a trooper under the current pay structure is attained in the trooper's 16th year.

Colonel Klipfel said the Highway Patrol spends approximately $40,000 to recruit and train a trooper. He said the Highway Patrol cannot afford to hire and train a trooper and have the employee leave shortly thereafter. He said the salary increase system used by the Highway Patrol is very important in its ability to recruit and retain employees. A copy of the report is on file in the Legislative Council office.

Mr. Jerry Engelman, Adjutant General, presented information on the Adjutant General's system of providing salary increases for its employees. Mr. Engelman said the Adjutant General has administered a step program for providing salary increases in addition to the legislatively authorized increases since the 1999-2001 biennium. He said the step increases are based on longevity and satisfactory performance by the employee.

Mr. Engelman said 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. He said the additional general fund money needed for these increases is provided from savings resulting from employee turnover. A copy of the report is on file in the Legislative Council office.

Mr. Purdy presented the following schedule regarding the implementation, progress, and bonuses provided under agency recruitment and retention bonus programs, pursuant to North Dakota Century Code Section 54-06-31.

Recruitment and Retention Bonuses Distributed to State Employees				
	July 1, 2003, to June 30, 2005		July 1, 2005, to January 31, 2006	
Agency	Recruitment (148 Total)	Retention (31 Total)	Recruitment (62 Total)	Retention (0 Total)
Bank of North Dakota	$2,404.00	$41,400.34		
Department of Commerce			$2,000.00	
Department of Corrections and Rehabilitation	4,225.00			
Highway Patrol	2,250.00			
Department of Human Services	22,365.50	10,800.00	14,492.50	
Information Technology Department	15,550.00		9,150.00	
Job Service North Dakota	2,000.00			
Industrial Commission		20,000.00		
Department of Transportation	222,777.58		21,447.57	
Veterans Home	4,000.00			
Total	$275,572.08	$72,200.34	$47,090.07	

In response to a question from Representative Carlson, Mr. Purdy said that agencies utilize savings from employee turnover to provide these bonuses.

Mr. Purdy said the Workforce Safety and Insurance compensation system is very similar to the state system. He said allowing agencies to provide performance increases in addition to the general salary increases is what Human Resource Management Services is recommending for the state system.

Representative Klein asked how the committee could begin the process of considering implementation of this kind of system for the state. Mr. Purdy said the division can develop models and adjust salary range midpoints to a percentage of market and identify where employees are in relation to that midpoint. Mr. Purdy offered to provide additional information to the committee at the next meeting relating to proposed ranges to address the state's compensation issues. Chairman Klein asked that this information be provided to the committee at its next meeting.

Representative Svedjan said a state compensation system needs to provide justification for the funds spent on state employees. He said it is important for the state's compensation system to include performance goals for each employee and that the system is consistent and standardized to allow the same opportunities for advancement for employees of all state agencies.

Ms. Ardyth Pfaff, Human Resources Director, Information Technology Department, offered to gather input and provide suggestions to the committee for solutions to address North Dakota's state government compensation issues.

Representative Carlson suggested that Human Resource Management Services identify all agencies with human resources departments and human resources directors and that the division, along with the human resources directors of these agencies, identify the personnel needs of the state and suggest solutions to address these needs for the committee at its next meeting. Chairman Klein asked Human Resource Management Services to arrange for this for the next committee meeting.

Representative Svedjan suggested the committee consider receiving input from a private consulting group, such as the organization involved in the development of the system used by Workforce Safety and Insurance to identify the potential assistance that a private consultant could provide in developing a compensation system for state government.

Ms. Sterioti Hammeren said the agencies that provided information on their salary increase systems to the committee today have utilized savings from employee turnover to provide these additional salary increases. She said other agencies could develop similar systems if they were authorized to use salary savings available.

Representative Kroeber said Workforce Safety and Insurance is allowed more funding flexibility than most state agencies which allows them the ability to provide the performance increases.

Senator Nelson suggested the committee receive information from representatives of the Education Standards and Practices Board at its next committee meeting regarding the process it uses to determine critical shortage areas for teachers in the state. Chairman Klein asked the Legislative Council staff to arrange for this presentation for the next committee meeting.

Chairman Klein asked the Legislative Council staff to prepare a bill draft for the committee's next meeting requiring contributions to the Teachers' Fund for Retirement for retired teachers returning to work if the Teachers' Fund for Retirement does not submit a similar bill.

Representative Carlson distributed a proposed bill draft requiring state employees to contribute $75 per month toward the cost of health insurance premiums and allowing the employee to be reimbursed up to $75 per month by living a healthy lifestyle; providing that the state, effective for employees hired after June 30, 2007, pay for only the cost of a single health insurance premium less any employee contributions; that the state contribution toward health insurance premiums for part-time employees be proportional to their full-time equivalent percentage; that employees eligible to participate in the health insurance program but who choose not to would be eligible to receive up to $100 per month of additional compensation; and that state agencies may not request funding as part of their budget requests for employees not enrolled in the health insurance program. A copy of the bill draft is on file in the Legislative Council office. Chairman Klein said the committee would discuss the bill draft further at its next meeting.

The committee adjourned subject to the call of the chair at 4:05 p.m.

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Allen H. Knudson
Assistant Legislative Budget Analyst and Auditor

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Jim W. Smith
Legislative Budget Analyst and Auditor

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