

October 19, 2010

Representative Al Carlson
Chairman- Legislative Management Committee
Legislative Council- State Capitol
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Dear Representative Carlson:

Thank you for the opportunity to partner with the Legislative Council staff and the Government Services Committee on the important review of selected components of the Classified Employee Compensation Plan. The purpose of this letter is to provide a response to your request that Hay Group provide you with a proposal to turn the recommendations contained in the September 30, 2010 report and presented to the Committee into actions.

To ensure consistency, we have taken the format as set out in the Recommendations section of that report and have added columns which show as follows: Resources, Timing and Fees. Each of the components are set out in the attachment to this letter.

The timing is based on your request and desire to have these actions completed by the end of April 2011 so that they can be implemented with effect July 2011 rather than wait until the next biennium which would mean implementation with effect July 2013. We agree with your assessment that 2 and ½ years would be too long a time gap to wait for the impact of these recommendations. More importantly, the work to be done can be completed by the time target you have set, based on the assumption that work can start by the end of November 2010. The three key components that need to be commenced and are the foundation on which a number of other actions will be based are as follows:

1. Component #1 - Finalization of the Compensation Philosophy, which is currently being developed
2. Component #2 – Methods to Minimize the Salary Inequities – the primary work that needs to be done here is the Job Evaluation work
3. Component #3 – the Conduct of a Customized Salary Survey

Items #2 and #3 above will take the most time and therefore a greater priority with regards to a start date. However, they can be done concurrently. The work to be done in the other components can be done concurrently in the February – March time period so all the work can be completed by the end of April 2011.

With respect to the format for each of the attached pages, the fees shown are for all the work to be done in that component, not just the first line item. This is due to the fact that there is an interrelationship and concurrency between the various items *within* a component. For the Custom Salary Survey, you will recall that there was discussion on whether that should also include Benefits. While we believe it will be important to have benefits data to include in the

analysis, it is our opinion that we have sufficient Benefits data in our existing databases that we will not need to collect Benefits data. However, if Benefits is to be added as an Option, that would add \$45,000 to the fee estimate for that component.

As you can see, the overall fee estimate, excluding the Benefits option, is \$198,000. Rather than view this as a cost, we would ask that you and your Council view this from two perspectives:

1. The investment to make sure the enhancements to the plan get actioned and implemented; and
2. This amount as a percentage of the total payroll of the Classified Employee population. Based on our calculations, this investment in consulting fees that we request is less than *one day's* direct salary payroll of classified employee population.

What we request is the investment of less than one days payroll for enhancements to the plan that will last for a number of years so that both Legislative and Executive Branch leadership can be assured that the plan in which their largest investment is managed is sound, defensible, fair, equitable and is being administered in a manner that is consistent with the State's compensation philosophy.

Representative Carlson, thank you for the opportunity to partner with the State of North Dakota on the continuation of this important initiative. I look forward to discussing the content of this letter with you next week when I am on site in Bismarck. In the meantime, if you have any questions, please do not hesitate to contact me at Neville.Kenning@haygroup.com or (949) 251-5427.

Kind regards,



Neville Kenning
Vice President, State Government Consulting Practice

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – A State compensation philosophy statement					
Develop a Compensation Philosophy that serves as an umbrella statement, linking compensation to the State’s Mission, Vision, Values and its human resources objectives The Compensation Philosophy statement should include: <ul style="list-style-type: none">• Definition of the market• Definition of compensation• Definition of how pay ranges will be established• Definition of how pay will move• Definition of roles and accountabilities• Definition of what will be stated in code, policy, procedure, etc. Involve key leadership from the Legislative and Executive Branches in the development of the Compensation Philosophy	<ul style="list-style-type: none">• Sets the Legislative intent for the State’s compensation system and program• Increased consistency across the State, as all compensation decisions will be made according to the philosophy statement• Creation of a more balanced approach to compensation by ensuring budgeting and pay administration decisions take into consideration both an external (market) and internal (internal equity and performance) factors• Establishes the appropriate balance between centralization and decentralization of compensation plan administration• Creates a framework within which to consider total reward• Clearly states the roles and accountabilities of the Legislative and Executive Branches of government	X	X	Immediate. Adopt into law	\$0

Work to be Done	Outcomes	Resources		Timing	Fees
		Hay Group	State of ND		
Methods used to develop and determine classifications					
Simplify/Modify the overall Classification/Reclassification Process (e.g., how decisions are made, constituency of decision-makers, accountability and responsibility of the State Personnel Board) <ul style="list-style-type: none">Creation of a classification/reclassification committee that includes agency and HRMS staff. Agency representatives would be comprised of both HR and non-HR staff	<ul style="list-style-type: none">Less complicatedQuicker decisionsIncreased fairnessEnhanced partnership between agencies and HRMSClassification/Reclassification decisions will have a stronger link the job evaluation methodology (i.e., sound decision making) rather than subjective whole job comparisons	X	X	Feb – Mar 2011	\$15,000
Revise/Modify Classification/Reclassification Forms	<ul style="list-style-type: none">Streamlined forms depending on the “type” of review requestStronger link to the information required for a decisionGreater input from the employee versus the supervisor				
Revise Classification Specifications: <ul style="list-style-type: none">Duties/responsibilities should increase in complexity within a series. “Duties Performed At All Levels” is at times inaccurate as some of these duties are performed at higher levelsReview minimum qualifications for appropriatenessRemove “Class Evaluation” section	<ul style="list-style-type: none">Greater clarity of the duties/responsibilities performed at the first level within a seriesStronger link between minimum qualifications and actual responsibilities performed<ul style="list-style-type: none">Employees or Agency Authorities can no longer misinterpret or use the “Class Evaluation” to influence a reclassification decision				
Communication/education on the new process	Positive perceptions of the process – perceived as sound and fair				

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – Methods to minimize salary inequities both within an agency and within State government					
Job Evaluation training for HRMS job evaluators and classification/reclassification committee members	<ul style="list-style-type: none">Authorized users of the Hay Guide Chart-Profile Method of Job EvaluationConsistency and calibration of methodology and application	X	X	Nov 2010 – April 2011	\$64,000
Benchmark job evaluation review and refinement	<ul style="list-style-type: none">Defined benchmark framework of classified positions to serve as internal equity comparisons for non-benchmark jobs				
Review of non-benchmark classifications & develop a revised classification schema	<ul style="list-style-type: none">All classifications are appropriately evaluated and leveled to ensure internal equity across the StateDecrease in the number of classification requestsClassification schema is used to support or assist in classification/reclassification decisions and to ensure integrity of the system is maintained overtime				
Identify “catch all” classifications to assess appropriateness	<ul style="list-style-type: none">Broad classifications represent a similar level of work performedTruly different jobs are reclassified to ensure levels of complexity are recognized in the classification system				
Identify jobs that are unique to an agency (a core part of the service they provide) to assess appropriateness of state-wide classifications	<ul style="list-style-type: none">Core service jobs for an agency are appropriately classifiedIncreased Agency capability to recruit and retain key agency jobs				

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – Methods used to set pay grade minimums, maximums, and midpoints AND Appropriate market comparisons					
Grade structure redesign & grade re-assignment of benchmark and non-benchmark classifications	<ul style="list-style-type: none">• Reduce compression and create more “distance” between levels of work (analogy: the current compressed, accordion-like structure will be expanded)• Enhanced internal equity (jobs that require the same level of knowledge, complexity, and accountability are in the same grade)• Grade structure in which all the grades are available for use	X	X	Nov 2010 – April 2011	\$105,000
Custom salary survey & market analyses for the “local” market <ul style="list-style-type: none">• Discontinue or limit use of the Job Service ND Labor Market Survey	<ul style="list-style-type: none">• Appropriate “local” comparator market to establish the foundation (in addition to other state comparisons) for the pay strategies• Increased number and/or quality of job matches to salary survey data				
Identify Job Family/Occupational groups that require different pay strategies from “general” pay classifications	<ul style="list-style-type: none">• Discontinued use of a “one size fits all” salary structure to one that recognizes different pay markets for certain Job Family/Occupational groups• Increased ability to identify and address internal equity issues				
Develop salary ranges for the “general” pay structure and the Job Family/Occupational group structure(s)	<ul style="list-style-type: none">• Enhanced recruitment and retention efforts• Increased market competitiveness				

Decrease width of the salary ranges and perform cost-to-implement analyses	<ul style="list-style-type: none"> Enhanced recruitment efforts Enable competent employees to reach market target within a reasonable timeframe Inform the budgeting process 				
Perform an State-wide, Agency, and Job Family/Occupational group internal equity analyses against the new pay strategies to develop a more detailed implementation plan	Enable HRMS staff to provide direct advice and guidance to the agencies on ways to address implementation and internal equity issues				

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – Fringe benefits					
Increase basic life insurance benefit from current level of \$1,300 to 1 times pay (or a flat dollar benefit of at least \$25,000)	More competitive benefit will provide adequate coverage for basic expenses.		X	To be determined based on outcomes of Benefits Committee review	\$0
Consider implementing a separate long term disability benefit outside the pension plan.	If defined benefit plan is modified in the future, a separate LTD program will be easier to administer and communicate to employees.				
Consider introducing premium contributions toward health care	Rather than using plan design elements (copayments, deductibles, etc.) exclusively to increase employee cost share, a balanced approach of using plan design and premiums provides more flexibility to the State and is more in line with market practice.				

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – Recruitment and retention tools					
Develop more detailed guidelines and amounts for the Recruitment and Retention Bonuses	Consistent application of the use of recruitment and retention bonuses across Agencies	X	X	Feb – April 2011	\$5,000
Define the “type” of performance (e.g., performance of core job responsibilities or achievement of specific goals or areas of desired discretionary effort) to be recognized and rewarded through a Performance Bonus	The same “type” of performance is being recognized and rewarded across the State				
Review the dollar cap for the Performance Bonus and consider performance amounts that are commensurate with the job level (classifications with higher requirements for knowledge, complexity and accountability might receive a larger amount than those with lower requirements)	<ul style="list-style-type: none">To help create a performance based culture there needs to be performance goals that are aligned with the level of contribution a job provides to State, Department, etc objectives. The achievement of these goals also need to be rewarded according to the level of contributionSupport internal equity. A smaller job with lower level contribution receives a different payout than a larger job with a higher level of contribution. Currently, every job could receives the same amount				
HRMS to continue to consult with agencies on the utilization of non-monetary rewards for retention efforts	Increase retention				
Develop a targeted retention program for those employees that have between 3-5 years of service	Increase retention and lower costs associated with recruiting, hiring and training new employees				

Work to be Done	Outcomes	Resources		Timing	Fees
		Hay Group	State of ND		
Project Component – Methods of development and sustaining a consistent long-term salary increase administration policy for state government, including cost-of-living increases, across-the-board increases, merit increases, equity increases, and performance increases					
Continue to utilize two key components: performance and equity for movement of pay. However, going forward, fund pay movement through one pot of money rather than two separate allocations of funds. This will allow a greater linkage between relativity to market and performance, it is recommended that the following principles be applied: <ul style="list-style-type: none">for positions which are below market target, both a market adjustment and a performance payment be made;for positions where the incumbent is above market target, a performance payment be made; andfor positions which are high in their salary range, the performance payment may be made with a mix of base salary and lump sum payment	Agencies will be better able to administer pay in a way that recognizes both equity and performance The Legislature will know that the salary dollars appropriated are being distributed in accordance with its philosophy and within the fiscal parameters it has established	X	X	Feb – April 2011	\$9,000

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – A budget and appropriation process for providing funds to agencies to administer the state’s salary increase policy					
Communicate appropriated funds as a dollar amount rather than a percentage	<ul style="list-style-type: none">Agencies will no longer have to “battle” the expectation that every employee will receive the appropriated % increaseAgencies will have an easier time in adopting the Performance to Equity Matrix		X	To Be Determined	\$0
Fund employee salary increases at the beginning of the budget and appropriation process	Sends a strong message regarding the State’s commitment to its largest investment, being its employees				

		Resources			
Work to be Done	Outcomes	Hay Group	State of ND	Timing	Fees
Project Component – The appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover. Focus is only on Salary Savings during the year					
Fund annual/sick leave	Funding for what is a known commitment of the State		X	Feb-April 2011	\$0
Define “vacancy” positions. It is Hay Group’s opinion that the period between one employee leaving a position and another employee filling that position constitutes genuine vacancy savings and the Agency should have the flexibility to utilize those salary dollars	Clarifies what is a genuine vacancy saving and continues the practices of allowing Agencies to be accountable for managing their resources				