

## STATE EMPLOYEE BONUS PROGRAMS IN SELECTED STATES

This memorandum summarizes:

- North Dakota Century Code provisions relating to state employee salary administration.
- Statutes and rules relating to the payment of bonuses to state employees in North Carolina, South Carolina, Idaho, Maryland, Colorado, Wyoming, Vermont, and Nebraska.

### NORTH DAKOTA STATUTORY PROVISIONS - SALARY ADMINISTRATION

North Dakota Century Code Section 54-44.3-12 establishes the duties of the director of the Central Personnel Division, which include:

- To establish general policies, rules, and regulations that apply to the employees in the classified services. The rules must provide for establishing and maintaining a compensation plan.
- To develop procedures to ensure that all salaries are paid in a manner consistent with the state's compensation, classification, and salary administration policies.
- To consult with state agencies and institutions in the development of salary administration procedures.
- To recognize knowledge, skills, complexity, accountability, and working condition hazards as compensable factors of the state's classification plan.
- To develop guidelines for allowing exceptions to the rules of the classification and compensation plans for use when the market salaries of specific positions are not consistent with the state's compensation policy.

North Dakota Century Code Section 54-44.3-12.1 provides that revisions to the state compensation plan may only be made to the extent the Legislative Assembly appropriates funds to implement the revised plan. "Compensation plan" is defined in North Dakota Administrative Code Section 4-07-04-02 to mean the listing of all pay grades in the classified service and the pay ranges assigned to each grade.

North Dakota Century Code Section 54-14-03.1 defines a fiscal irregularity to include the use of state funds to provide bonuses, cash incentive awards, and temporary salary adjustments for state employees. If a "bonus" plan is established, this section should be amended to remove bonuses, cash incentive awards, and temporary salary adjustments from the definition of fiscal irregularity.

### STATES WITH A STATE EMPLOYEE BONUS PROGRAM ESTABLISHED BY STATUTE OR SESSION LAW

#### North Carolina

North Carolina statutes provide that the state's compensation system combines salary increases and awards to further the recruitment, retention, career service, and outstanding performance of state employees. The following types of increases are defined in statute:

- **Career growth recognition award** - This salary adjustment is an annual salary increase awarded to a state employee whose annual performance appraisal indicates that job performance meets or exceeds expectations. This is the primary method by which an employee progresses through the salary range.
- **Cost-of-living adjustment** - This salary adjustment is a general salary increase given to state employees to reflect inflation and labor market factors.
- **Performance bonus** - This award is paid in a lump sum to state employees whose annual performance appraisal indicates job performance exceeds expectations.

To be eligible to distribute any of the above salary adjustments or bonuses, a department, agency, or institution must implement a performance appraisal system approved by the State Personnel Commission. The performance appraisal system must use a rating scale of one to five (one being the lowest rating). Ratings of four or five qualify an employee for a performance bonus, ratings of three or better qualify an employee for a career growth recognition award, and ratings of two or better qualify an employee for a cost-of-living adjustment. Based on job performance, an employee may receive all three salary increases or awards during a 12-month period.

The North Carolina General Assembly has recognized that funds may not be available to provide all three salary adjustments each year. Consequently, the following prioritization is provided in statute:

- The career growth recognition award component shall be fully funded each year.
- To the extent funds are available, an appropriation shall be provided to fund cost-of-living adjustments.
- Any remaining funds available shall be appropriated for performance bonuses. The performance bonus appropriation shall not exceed two percent of the total state employee payroll.

For fiscal year 1998, the North Carolina General Assembly provided appropriations for two percent career growth recognition awards, one percent cost-of-living adjustments, and bonuses equal to one percent of statewide payroll. For fiscal year 1999, appropriations were provided for two percent career growth recognition awards, one percent cost-of-living adjustments, and bonuses equal to .5 percent of statewide payroll.

The state personnel manual provides guidelines for state agencies to follow in distributing salary increases and awards. The guidelines specify that career growth recognition awards and cost-of-living adjustments become part of employee base pay while performance bonuses are not added to base pay. A state performance rating scale is also provided in the policy manual, which provides the following five rating categories and definitions for each: outstanding, very good, good, below good, and unsatisfactory.

### **South Carolina**

South Carolina statutes authorize bonus payments to state employees, subject to appropriations provided for that purpose. Bonuses must be distributed based on performance ratings defined in statute. However, in recent years, appropriations have not been provided to fund the bonus program. In lieu of the statutory bonus program, the General Assembly established a separate bonus program through enactment of the 1998-99 General Appropriations Act (temporary law), which authorizes state agencies and institutions to provide employees a one-time lump sum bonus, subject to the following provisions:

1. State agencies must fund the bonus payments from general fund carryover from the previous fiscal year or from federal or other funds.
2. The bonus may not exceed \$1,000 per employee.
3. The bonus is not part of the employee's base salary and is not earned compensation for purposes of contributions to the retirement system.
4. If federal funds are used, the agency must show that the use of the funds is in compliance with federal law and that the funds were made available through increased efficiency in the agency's operations.
5. The bonuses must be distributed pursuant to the following guidelines issued by the state Budget and Control Board:
  - a. Each agency director has the authority to approve employee bonuses.
  - b. Agency directors are not eligible to receive a bonus.
  - c. Agencies must develop a written plan identifying the criteria for awarding bonuses and must make the plan available to employees.

- d. Bonuses may be awarded to recognize special accomplishments (rather than being based on a specified performance rating obtained through an annual performance review).

### **Idaho**

Idaho statutes provide that all pay increases must be based solely on employee performance. In addition to base pay increases, state employees may be given lump sum bonuses of up to \$1,000 per year. A bonus may only be given to recognize excellent performance as indicated by a completed performance evaluation that identifies such things as productivity, reliability, effectiveness, and the ability to achieve the goals and objectives of the position. The performance rating scale and the criteria to be used in administering the plan are determined individually by each agency.

The Idaho Legislature does not provide a specific appropriation for bonus payments but allows agencies to use funds appropriated for salaries and wages to distribute base pay increases and bonuses in whatever combination is determined most appropriate by each agency. The amount of bonuses distributed varies based on agency administrative policies and funds made available through turnover and other factors. For fiscal years 1999 and 2000, the legislature provided appropriations for increases of five percent and three percent, respectively.

### **Maryland**

Maryland statutes provide for an incentive performance awards program for state employees. The amount of the awards and the performance rating system are specified in statute. Employees must receive performance appraisals at six-month intervals and performance must be rated on a five-level scale as follows: outstanding, exceeds standards, meets standards, needs improvement, and unsatisfactory.

The law provides that for "extraordinary service," employees may be awarded a cash bonus of up to \$300, not more than once per year. For "outstanding service," an employee may receive a cash award of up to \$3,000, not more than once every two years. "Extraordinary service" and "outstanding service" are not defined in statute.

Although the maximum bonus amounts and the performance rating scale are provided in statute, the criteria to be used in administering the bonus program are not. The law provides that before making an award under the program, each agency administrator will establish criteria for administering the program, including standards of eligibility.

In fiscal year 1999, the Maryland General Assembly provided an appropriation to the Department of Budget and Management to be allocated to state agencies and institutions for performance awards for state employees. The appropriation

amount was based on the assumption that 20 percent of the state's employees would be eligible to receive a bonus payment based on performance.

### **STATES WITH A STATE EMPLOYEE BONUS PROGRAM NOT SPECIFICALLY AUTHORIZED BY STATUTE OR SESSION LAW**

The states of Colorado, Wyoming, Vermont, and Nebraska are among the states with statutes that do not specifically address the issue of bonus payments to state employees. In these states, broad authority is provided to the state personnel officer to develop a state compensation plan and issue rules to provide for its administration. The compensation plan is subsequently submitted to the legislature for funding.

In Colorado, Wyoming, Vermont, and Nebraska, compensation plans have been developed that include bonus payments to state employees. Administrative rules and policies have been issued to provide for the administration of those programs. In some states, the bonuses are based on job performance evaluations; in others the bonuses are given based on the completion of special projects or goals or for other purposes. The types of bonuses provided by the various programs in these states include:

- **Team-based bonus** - A team-based bonus may be given to each member of a team of employees established to accomplish a predetermined goal.
- **Performance bonus** - A performance bonus is based on a written performance evaluation and may be included or excluded from base pay.
- **Sign-on bonus** - A sign-on bonus may be used to attract employees in high demand occupations.
- **Retention bonus** - A retention bonus may be used to retain a key employee.
- **Referral bonus** - A referral bonus may be used to attract employees in high demand occupations. A referral bonus is paid to an existing employee who refers a job candidate who is subsequently hired.
- **Special recognition bonus** - A special recognition bonus may be used to recognize exceptional performance on a special project or other short-term activity of major importance to the department.

### **SUMMARY**

A variety of programs have been implemented to provide bonus payments to state employees in other states, each program unique in the amount of detail included in the legislative authorization and the amount of flexibility allowed executive branch agencies in designing and administering the program. The various bonus programs included in this memorandum may be summarized as follows:

#### **Comprehensive Compensation Plan**

In North Carolina, the General Assembly established in statute a comprehensive compensation plan, which includes the distribution of bonus payments to state employees. The statutory provisions relating to the plan include:

- Definitions of the types of increases available to state employees (career growth recognition award, cost-of-living adjustment, and performance bonus).
- The criteria for receiving each type of increase.
- The requirement that bonuses are contingent upon favorable performance evaluations (ratings of four or five on a five-level rating scale).
- The minimum requirements of the performance evaluation system, including the rating scale to be used (five-level rating scale).
- Prioritization for the use of appropriated funds for salary increases and bonuses (career growth recognition awards are the highest priority; performance bonuses are the lowest priority).
- Statewide limitation on the amount of appropriated funds that can be used for bonuses (two percent of payroll).

#### **Temporary Bonus Plan Using General Fund Carryover and Non-General Fund Sources**

In South Carolina, the General Assembly adopted a temporary law to provide one-time bonuses from agency general fund carryover or non-general fund sources. The provisions of law include:

- A per employee limitation on the amount of bonus that may be given (\$1,000).
- A requirement for documentation regarding why the funds are available for distribution as bonuses if federal or other funds are used.
- The provision that a bonus is not part of an employee's base salary.

Agencies are allowed flexibility in determining what criteria to use in distributing the bonuses. Consequently, bonuses may be distributed based on evaluated job performance, the accomplishment of specific goals, or other criteria determined by each agency.

### **Performance Bonus Plan With Limited Legislative Criteria**

In Idaho, the legislature established a bonus program for state employees. The statutory provisions relating to the plan include:

- A limitation on the maximum bonus amount per employee per year (\$1,000).
- The requirement that bonuses are distributed based on favorable performance evaluations.
- Certain criteria to be considered in the performance evaluations (productivity, reliability, effectiveness, ability to achieve goals and objectives).

Agencies are allowed flexibility in determining the performance evaluation rating scale and the criteria to be used in administering the plan and awarding bonuses.

In Maryland, the General Assembly established a bonus program for state employees. The statutory provisions relating to the plan include:

- Bonuses limited to a maximum amount per employee based on performance (\$300 per

year for extraordinary service, \$3,000 every two years for outstanding service).

- The rating scale to be used in the performance evaluations (five-level rating scale).

Agencies are allowed flexibility in determining the criteria to be used in administering the program and awarding bonuses.

### **Bonus Plan Included in States' Compensation Plan Prepared by the State Personnel Agency and Submitted to the Legislature**

The states of Colorado, Wyoming, Vermont, and Nebraska are among the states with statutes that do not specifically authorize or prohibit bonus payments to state employees. In these states, broad authority is statutorily provided to the state personnel officer to develop a state compensation plan. The compensation plan is subsequently submitted to the legislature for approval and funding.

In Colorado, Wyoming, Vermont, and Nebraska, compensation plans have been developed and administrative rules have been issued to provide for bonus programs for state employees. In some states, the bonuses are based on job performance evaluations; in others the bonuses are given based on the completion of special projects or goals or for other purposes.