North Dakota Legislative Council
Prepared for the Government Finance Committee
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CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM STUDY - BACKGROUND MEMORANDUM

STUDY OVERVIEW

Section 44 of House Bill No. 1015 (2021) provides for a Legislative Management study of the classified state employee compensation system during the 2021-22 interim. The study must include a review of the development and determination of pay grades and classifications. The Legislative Management assigned the study to the Government Finance Committee, and the Legislative Management shall report its findings and recommendations, together with any legislation required to implement the recommendations to the 68th Legislative Assembly.

STATUTES AND RULES

The Human Resource Management Services (HRMS) Division of the Office of Management and Budget (OMB) is responsible for establishing a unified system for state employee job classifications pursuant to North Dakota Century Code Chapter 54-44.3. North Dakota Administrative Code Article 4-07 contains the rules relating to the classified state employee compensation system. The policies, rules, and procedures developed by HRMS address the classification and compensation plans, salary administration, personnel administration actions, and compliance with federal laws for merit personnel 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.)

PREVIOUS STUDIES

During the 1997-98 interim, the Budget Committee on Government Services received a report from OMB regarding state employee compensation issues. The committee recommended the Legislative Assembly provide salary increases to state employees based on performance and consider options to increase the salary level for lower-paid employees while lowering health insurance deductibles and coinsurance percentages in the state health insurance contract.

The Employee Benefits Programs Committee studied issues related to state employee compensation during the 2005-06 interim. The committee learned the judicial branch, Department of Career and Technical Education, Workforce Safety and Insurance, Highway Patrol, and Adjutant General used their own system for providing salary increases separate from the legislatively authorized increases. The committee made no recommendation regarding its study of state employee compensation.

Pursuant to Senate Bill No. 2001 (2009) and House Bill No. 1005 (2009), the Government Services Committee studied the classified state employee compensation system and salaries of state elected officials during the 2009-10 interim. The committee contracted with the Hay Group for $100,000 to evaluate the classified state employee compensation system, including the methods used to develop the job classifications and pay grades, options to minimize salary inequities within agencies and state government, processes to provide consistent practices for salary increases, fringe benefits, recruitment and retention tools, and a state compensation philosophy statement. The Hay Group's major recommendations include:

- Simplify the process for classifying and reclassifying positions;
- Redesign the pay grade structure to reduce compression and provide consistency across agencies;
- Use relevant labor markets to determine the midpoints for salary grades;
- Group similar jobs into job families and occupational groups, but separately identify unique jobs;
- Decrease the width of salary ranges to enable competent employees to reach market targets in a reasonable time frame;
- Include performance and equity components in salary adjustments;

- Identify funding for accrued annual and sick leave;
- Increase the basic life insurance benefit; and
- Develop a state compensation philosophy statement to establish clear guidelines for the classified state employee compensation system.

Based on the Hay Group's study, the Government Services Committee recommended the Legislative Management contract with the Hay Group for $198,000 to start implementing the recommended changes to the classified state employee compensation system during the 2009-11 biennium. The committee also recommended House Bill No. 1031 (2011) to codify a compensation philosophy statement (Appendix A), to direct OMB to implement the recommendations of the Hay Group study, and to require periodic reports from OMB during the 2011-13 biennium regarding the status of the implementation of the recommendations.

RECENT STATE EMPLOYEE SALARY INCREASES

The schedule below provides information on state employee salary increases approved by the Legislative Assembly since the 2009-11 biennium.

Biennium	General Salary Increases
2009-11[1]	5 percent with a minimum of $100 per month for fiscal years 2009 and 2010 (salary increases were to be based on merit and equity and were not to be given across the board)
2011-13[2]	3 percent for fiscal years 2011 and 2012 (Salary increases for nonclassified employees were to be based on merit and equity and were not to be given across the board. Salary increases for classified employees were to be based on guidelines developed by OMB.)
2013-15[3]	From 3 to 5 percent based on performance for fiscal year 2013, from 2 to 4 percent based on performance for fiscal year 2014, and up to 2 percent for classified employees in the first quartile of their salary range and up to 1 percent for classified employees in the second quartile of their salary range for market equity for fiscal years 2013 and 2014
2015-17[4]	From 2 to 4 percent based on performance for fiscal years 2015 and 2016
2017-19	0 percent for fiscal years 2017 and 2018
2019-21	2 percent with a minimum monthly increase of $120 and a maximum monthly increase of $200 for fiscal year 2019 and 2.5 percent for fiscal year 2020
2021-23	1.5 percent with a minimum monthly increase of $100 for fiscal year 2021 and 2 percent for fiscal year 2022

[1]In addition the 2009 Legislative Assembly provided an appropriation of $15,984,000 to OMB to address salary equity issues. The market equity increases were to be prioritized based on a statewide plan with priority given to employees who were employed by the state for the greatest length of time and were furthest below their salary range midpoint.

The 2009-11 legislative appropriation for the North Dakota University System included funding for parity to provide for inflationary costs, including the general fund share of 5 percent per year salary increases and health insurance increases.

[2]In addition the 2011 Legislative Assembly provided additional salary equity-related funding for the Attorney General's office ($125,000), Industrial Commission ($502,832), State Treasurer ($24,000), and Department of Transportation ($600,000).

The 2011-13 legislative appropriation for the University System included funding for parity to provide for inflationary costs, including the general fund share of 3 percent per year salary increases and health insurance premium increases.

The 2011 Legislative Assembly provided funding for an increase in contributions to the retirement system of 2 percent on January 1, 2012, and another 2 percent increase on January 1, 2013. For each increase, employees would pay 1 percent of the increased contribution and the state would pay the remaining 1 percent.

[3]The Legislative Assembly also provided funding for an increase in contributions to the retirement system of 2 percent on January 1, 2014. For the increase, employees paid 1 percent of the increased contribution and the state paid the remaining 1 percent.

[4]The 2015 Legislative Assembly also provided targeted market equity funds of $4.49 million to address occupational market disparities, economic growth areas, recruitment and retention challenges, and external pay inequities for employees who are critical to the mission of the agency. Agencies that received a targeted market equity salary adjustment include the Adjutant General ($71,323), Veterans' Home ($468,954), State Department of Health ($724,558), Department of Human Services ($3,039,616), and Protection and Advocacy Project ($185,549).

The 2015 Legislative Assembly also provided additional salary market equity-related funding for the Attorney General's office ($1,546,301), Office of Administrative Hearings ($38,110), Retirement and Investment Office ($50,000), Department of Public Instruction ($100,000), Department of Corrections and Rehabilitation ($2,126,442), and Adjutant General ($192,621).

RECENT CLASSIFICATION SYSTEM CHANGES

The classification system was developed in 1982 by HRMS. The factors used to determine the job classes include knowledge and skills required, complexity, responsibilities, and working condition hazards. Pursuant to Section 54-44.3-20, certain positions are exempt from the classification system, including elected officials and employees of boards and commissions, the legislative and judicial branches, institutions of higher education, the Mill and Elevator Association, and the Bank of North Dakota.

Prior to the 2009-11 biennium, the pay grades for the job classification were based labor market information from Job Service North Dakota and periodic surveys using a 10-state market sample. The 10-state survey included Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming. The midpoint for each pay grade was set using 95 percent of the market level pay. During the 2009-11 biennium, the salary ranges for the pay grades were recalculated annually to ensure the midpoint was within 5 percent of the market level. Beginning with the 2011-13 biennium, the pay grades were based on a midpoint equal to 100 percent of the market level reflecting local and regional jobs from private and public employers in all industry types. Based on recommendations from the 2009-10 interim Government Services Committee and House Bill No. 1031 (2011), HRMS restructured the classification system replacing a numeric grading system based on 20 grades (1 through 20) with an alpha grading system based on 22 grades (A through V).

Effective July 1, 2020, HRMS changed the job classification system for classified state employees. Prior to the change the job classification system established a standard salary range for classified employees with similar job titles in multiple state agencies. For example, during fiscal year 2020, an employee with a grade D position had an allowable monthly salary range of $2,085 to $3,474 while an employee with a grade E position had an allowable monthly salary range of $2,277 to $3,794. The current job classification system replaced the 22 letter grades with 10 number grades. For example, employees with a letter grade of D and E were combined into a new grade 102 with an allowable monthly salary range of $2,318 to $4,172. The reduction of salary grades from 22 to 10 is intended to provide agencies additional salary flexibility for high-performing state employees without needing to reclassify the employee's salary grade and position. The current job classification system combined more than 850 job titles into 100 standardized job titles within 16 job families, such as administrative and office services, education services, human services, and trade services. A summary of the changes, as prepared by HRMS, is attached as Appendix B.

STUDY PLAN

The following is a proposed study plan for the committee's consideration of its study of the classified state employee compensation system:

1. Receive information from HRMS regarding the current state employee job classification system and any recent changes to job classifications, including the pay grades, other employee compensation benefits, and market comparisons, including the external competitiveness target.
2. Receive information from Job Service North Dakota regarding labor market information, including any data available regarding job classifications in other state governments.
3. Receive information from state agencies regarding the state employee job classification system, including any concerns with the current classifications.
4. Receive information regarding job classification structure in other states.
5. Receive testimony from interested persons regarding the study.
6. Develop recommendations and any bill drafts necessary to implement the recommendations.
7. Prepare a final report for submission to the Legislative Management.

ATTACH:2