NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

GOVERNMENT SERVICES COMMITTEE

Tuesday, August 17, 2010
Roughrider Room, State Capitol
Bismarck, North Dakota

Representative Ken Svedjan, Chairman, called the meeting to order at 9:00 a.m.

Members present: Representatives Ken Svedjan, Larry Bellew, Randy Boehning, Kari L. Conrad, Glen Froseth, Bette B. Grande, Karen Karls, Ralph Metcalf, Michael R. Nathe, Louise Potter, David S. Rust, Blair Thoreson, Dave Weiler, Alon C. Wieland; Senators Dick Dever, Robert M. Horne, Carolyn Nelson

Members absent: Senators Elroy N. Lindaas, Richard Marcellais

Others present: Sara E. Chamberlin, Legislative Council, Bismarck

See Appendix A for additional persons present.

It was moved by Senator Nelson, seconded by Representative Rust, and carried on a voice vote that the minutes of the April 22, 2010, meeting be approved as distributed.

CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM STUDY

Ms. Sara E. Chamberlin, fiscal analyst, Legislative Council, presented a memorandum entitled *Components of a State Compensation Philosophy Statement*. She said the summary provides information from six states that have incorporated their pay philosophies into statute, including Colorado, Idaho, Kansas, North Carolina, Oklahoma, and Wyoming. She said two states--Kansas and Wyoming--were assisted by Hay Group in developing their pay philosophies. Key components identified in other states' compensation philosophy statements include a summary, categories of employees for which the philosophy statement applies, definitions of terms, goals of the compensation system, compensation ideology, compensation methodology, designation of responsibilities, and legislative intent.

Chairman Svedjan proposed a plan for the development of a state compensation philosophy statement. He said committee members will be asked to provide input on the key items to include in a state compensation philosophy statement. He said the Legislative Council staff considering committee member input and in consultation with the chairman will prepare a rough draft compensation philosophy statement for the committee to review and discuss at the next Government Services Committee meeting. He said employees and representatives of the executive branch, employee groups, Hay Group, and others will be invited to provide input on the development of a philosophy statement at the next Government Services Committee meeting. He said based on this input and the committee review, the committee may choose to revise the statement and review it again at the committee's last meeting.

Mr. Neville Kenning, Vice President, and Ms. Brenda Danenhauer, Consultant, Hay Group, Los Angeles, California, presented Hay Group's preliminary findings of the classified state employee compensation system study (Appendix B). Hay Group representatives provided an analysis of preliminary findings, highlighting its analysis and findings for each of the following components:

- State compensation philosophy statement.
- Methods of classification.
- Salary inequities.
- Appropriate market comparisons.
- Methods used to establish pay grades.
- Fringe benefits.
- Recruitment and retention tools.
- Budget appropriation process.
- Salary increase administration policy.
- Savings from vacant positions and employee turnover.

Hay Group's analysis and major findings for each component are listed below.

State Compensation Philosophy Statement

Hay Group reviewed current compensation philosophy documentation to determine if a compensation philosophy exists and, if so, the extent to which it includes component statements typically found in a compensation philosophy. Hay Group found that within North Dakota Century Code Chapter 54, the roles and responsibilities of Human Resource Management Services and the State Employee Compensation Commission are established and a statement is provided about compensation relationships. Hay Group reported that North Dakota does not have a specific section that states its compensation philosophy.

Methods of Classification

Hay Group reviewed the overall classification process, including the position information questionnaire, classification specifications, leveling decisions, and classification process. This review analyzed the extent to which job documentation accurately describes job content, the methods and processes by which position classification decisions are made, and the extent to which employees are appropriately classified. Regarding the classification and reclassification processes, Hay Group determined:

- The process includes potential steps that could be modified or eliminated (Appendix C).
- The forms to collect job content information are typical and consistent with sound practice but may need improvement.
- Some methods to assess job content and make classification or reclassification decisions are not consistent with sound practice.

Hay Group noted some negative agency and employee perceptions exist with the classification process. From agency interviews, Hay Group concluded agencies:

- Perceive the classification and reclassification process as taking too much time and being too rigid.
- Believe the ranking of classifications are, at times, not appropriate.

Hay Group found that Human Resource Management Services is following guidelines established for requests, but the reconsideration process is an area for improvement. The Hay Group analysis found that 87 percent of requests are completed within 60 days of request receipt, but 69 percent of reconsiderations take over 121 days to complete from date of reconsideration receipt.

Hay Group found that overall classification decisions are appropriate; however, Hay Group stated that the practice of comparing individual positions within a classification for internal comparisons results in subjectivity and is not appropriate for determining classification.

Hay Group presented information on the number of employees per pay grade (Appendix D). The Hay Group analysis indicates:

- Of the 20 pay grades, only 14 are primarily in use.
- Some heavily populated job families tend to have the majority of their positions within a cluster of four grades to five grades.
- The more heavily populated grades consist of entry level to mid-level professional positions (Grades 10 to 12).
- Compression exists when comparing individual contributor jobs to management jobs.

Salary Inequities

Hay Group reviewed salary inequity issues, including the current leveling method, job evaluation, and internal equity to determine the:

- Extent to which there is an objective, fair, and defensible means by which to measure and differentiate job content.
- Extent to which pay is aligned internally as based on the job evaluation methodology.
- Amount of horizontal and/or vertical dispersion from an appropriate internal alignment of positions within an agency or among agencies.

Hay Group noted the current leveling method is a strength of the state's classification process. This method utilizes a point factor method to evaluate and level classifications focusing on complexity, accountability, knowledge, and skill.

Hay Group conducted a sample and quality review of existing job evaluations consisting of 160 classifications across the majority of grade levels and job families. Hay Group concluded that several job evaluation concepts are not well understood by Human Resource Management Services job evaluators and that over 33 percent of the 160 classifications evaluated had a significant difference in weighting from the current Human Resource Management Services evaluations. Hay Group said these findings indicate that inequities do exist in the current ranking of positions.

Statewide internal equity was analyzed by Hay Group comparing employee pay based on a comparison of job content. Hay Group concluded that, overall, internal equity is positive, as job contribution increases, so does pay. Items noted as inequities by Hay Group (Appendix E) include the:

- Wide range of pay for classifications of similar types of jobs.
- Pay for approximately 5 percent of total classified employees is below the current salary range minimums.
- Overall compa-ratio is 93 percent, indicating overall salaries are 7 percent below the midpoint, which is set by the state at 5 percent below market. Therefore, state employee salaries are approximately 12 percent below current market comparisons.

Hay Group also reviewed internal equity by job family and agency. Regarding internal equity by job family, Hay Group determined that although the state has one salary structure that fits all classifications, actual pay analysis reveals that the state does recognize pay differences for some job families. There is a wide range of pay within approximately half of the job families for positions of the same job type indicating potential job evaluation, grade assignment, or pay administration issues. To determine internal equity by agency, Hay Group compared the salary spread of seven classifications across the state. Salary spread within the examined classifications ranged from a 33 percent to 65 percent difference between the highest and lowest salary. The classification with the greatest difference of 65 percent was the administrative assistant classification, ranging from $36,384 in the Department of Agriculture to $22,020 in the State Library (Appendix F). Hay Group noted that the more common the classification among agencies, the greater the range of pay.

Appropriate Market Comparisons

Hay Group representatives said North Dakota's current market definition is not appropriate. Currently, the state compares its salary levels in Grades 1 through 20 to the Job Service North Dakota labor market information report and Grades 11 through 20 to the central states 10-state market. Hay Group indicated the market definition should consider what markets agencies compete for and lose employees to, stating that most state agencies compete for talent within the state and against other private and public employers. Hay Group noted that the use of the Job Service North Dakota labor market information report may result in salary comparisons that are not relevant. The focus of the Job Service North Dakota report is labor reporting, and it includes as many employers as possible, including employers that should not be part of the state's definition of its market. Hay Group representatives said some job families may require a different market definition from the general pay positions. Hay Group representatives said by recognizing the importance of local market data for specific job families, the state may more effectively compete for and retain employees.

Methods to Establish Pay Grades

To analyze the methods used to set pay grade minimums, maximums, and midpoints, the Hay Group reviewed the market target level, external market comparisons, and salary structure.

Hay Group representatives stated that the current market target is not consistent with best practices. Hay Group representatives said the state has established an informal policy to set salary ranges at 5 percent below the average of the market; however, Hay Group representatives said the midpoint for salaries ranges from 10 percent below to 3 percent above market. Hay Group noted the best practice to establish a market target is to balance internal pay practices with external market competitiveness.

Hay Group analyzed external market comparisons. Hay Group representatives said the analysis revealed different pay practices among various job families, but the majority of the state's current pay grade exceptions are consistent with market practices. Hay Group representatives said over 45 classifications are more than 15 percent less than the Job Service North Dakota market, and 23 classifications are more than 15 percent less than the central states market comparison.

Hay Group representatives said because the state of North Dakota hires employees from many professions, it is difficult to have one salary structure that is appropriate for all. Hay Group representatives said that having only one salary structure with only 14 grades of 20 grades primarily being used significantly limits the state's ability to respond to salary market pressures.

Fringe Benefits

Hay Group analyzed noncash benefits provided to employees of the state to determine the level of competitiveness compared to public sector organizations (central states 10-state market) and general market companies (650 general market organizations' information provided by a separate Hay Group study) (Appendix G). Hay Group determined that the state provides a comprehensive benefits program with a competitive health care and retirement program; however, the state's life insurance and disability insurance programs are less competitive.

Recruitment and Retention Tools

Hay Group identified the availability of recruitment and retention bonuses as a positive aspect to the state's compensation program. Recruitment and retention bonuses are tools that may be used to attract, hire, and retain talented employees. Hay Group noted the effectiveness of these tools may be limited by available agency funds. Hay Group provided the following analysis of recruitment and retention bonus payments made during fiscal years 2008 and 2009:

Bonus	Recruitment		Retention	
	Fiscal Year		Fiscal Year	
	2008	2009	2008	2009
Number of employees	270	180	170	132
High	$6,500	$4,188	$22,299	$19,686
Low	$50	$100	$50	$1,200
Most common amount	$250	$250	$250 and $1,200	$2,000

Hay Group reviewed a sample of evaluation forms from nine state agencies to assess the performance methods being utilized to award performance bonuses. Overall, Hay Group concluded that the methods used by most of the sample agencies were above average compared to methods used by other states. Hay Group noted that the methods being used focus on the key job duties required for the upcoming year and behavioral-related competencies that are important for successful performance. A common positive theme Hay Group identified in agency interviews was a focus on employee and agency performance. Hay Group representatives said that agencies may be limited in their ability to recognize and reward performance due to limited funding. Hay Group representatives said that because the administration of performance bonuses is not centralized, it may be necessary for Human Resource Management Services to provide guidelines.

Budget and Appropriation Process

To assess the budget and appropriation process for providing funds to agencies to administer the state's salary increase policy, Hay Group reviewed the budget request, appropriation, and budget administration process. Hay Group representatives said the budgeting process for salaries is effective.

Hay Group representatives expressed concern that the current budgeting process does not include funding for annual and sick leave payouts to resigning or retiring employees.

Salary Increase Administration Policy

Hay Group evaluated the state's methods of developing and sustaining a consistent long-term salary increase administration policy by reviewing the current process and analyzing salary funding and salary adjustment mechanisms. The legislative general increase was identified by Hay Group as the primary mechanism by which employees move through the pay ranges, with a focus on performance being the primary form of distribution within the agency. Hay Group noted the legislatively approved general salary increase is the primary mechanism for making salary adjustments; therefore, Hay Group stated how this funding is determined, communicated, and distributed is critical to the success of the compensation system. Market equity funding was identified by Hay Group as the second most common mechanism by which employees move through the salary ranges. Hay Group representatives said this funding is not provided on a consistent basis. Hay Group stated while addressing equity is important, a significant emphasis on equity adjustments in the absence of performance pay does not create a performance-based system. Hay Group commended the state for having performance and equity as the two key components of salary adjustments. Hay Group provided charts listing methods of adjusting salaries for the period 2003-10 (Appendix H).

Vacancy Savings

Hay Group reviewed the appropriate use of funding available within agency budgets from accumulated savings resulting from vacant positions and employee turnover. Hay Group reviewed the current process and rules and current practice and trends. Hay Group found that the primary use of vacancy savings was for the purpose of paying accumulated annual and sick leave balances for employees who resign or retire. Hay Group representatives said that the state does limit the accrual of annual leave, but it does not limit sick leave accumulation. Hay Group representatives stated agencies may also be using vacancy savings for the following items:

- Operational costs relating to travel, contract workers, and overtime.
- Recruiting, retention, and performance bonuses.
- Market equity adjustments.

Hay Group representatives said that salary savings occurring in the period between one employee leaving a position and another employee filling that position are vacancy savings and the agency should have the flexibility to use this salary funding at its discretion. Hay Group representatives said that authorized positions that have been vacant for a number of years should not continue to be authorized nor should funding be provided for these positions.

Representative Conrad requested Hay Group provide information by department on the number of classification/reclassification requests, reconsideration of classification requests, and appeals filed.

Representative Grande requested Hay Group provide additional information relating to the fringe benefits analysis, including market comparisons.

Representative Svedjan said one of his concerns that has not yet been addressed is the method used to appropriate funding for salary increases. He suggested salary increase funding be provided based on the dollars needed to provide appropriate salary increases for employees rather than being based on a percentage increase for all employees.

STATE ELECTED OFFICIALS' SALARY STUDY

Mr. Ken Purdy, Classification and Compensation Manager, Human Resource Management Services, Office of Management and Budget, presented information (Appendix I) regarding elected officials' salaries. He said Human Resource Management Services reviewed information included in the Legislative Council's December 2009 memorandum entitled *Comparison of Elected Officials Among Selected States.* He said the selected states included Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming. Based on the review, he said, the various offices appeared quite similar with a few exceptions. He said North Dakota has the second smallest population of the states and is generally among the smallest in number of employees for each of the elected officials' offices. He said North Dakota's elected officials' salaries on July 1, 2009, rank 5th for the Lieutenant Governor to 11th for the Agriculture and Tax Commissioners, when compared to the other states.

Mr. Purdy provided the following suggestions to make elected officials' salaries more equitable:

- Set salaries for North Dakota's elected officials at the median of the 10 states;
- Update the salary data to include any fiscal year 2010 increases in North Dakota and the other 10 states; and
- Adjust salaries to the 10-state median during the first year of each biennium with a second-year adjustment equal to the general increase for state employees.

Mr. Purdy said if elected officials' salaries were adjusted to the 10-state median, all elected officials would receive an increase except the Lieutenant Governor. He said the increases would range from 5.5 percent for the Secretary of State to 43.5 percent for the Superintendent of Public Instruction. He said the Lieutenant Governor is 3.1 percent above the 10-state median.

CAPITOL COMPLEX AND STATE FACILITIES STUDY

Mr. John Boyle, Director, Facility Management Division, Office of Management and Budget, presented information relating to the Capitol complex and state facilities study (Appendix J). He reviewed a list of all state agencies that leased office space throughout the state in fiscal year 2010. He said agencies leased a total of 709,673 square feet of space at an average cost of $11.19 per square foot. He said the total cost for leasing the space was $7,940,291. He said 20 space leases comprise over 59 percent of the total leased space and account for 61 percent of the total lease costs.

Mr. Boyle reviewed information regarding the populations of North Dakota and Bismarck and the corresponding number of state employees in 10-year increments from 1980 through 2009. He said from 1980 to 2009, North Dakota's population increased by 4.7 percent, Bismarck's population increased by 76.54 percent, and the number of authorized state employees increased by 22.45 percent.

Mr. Jeff Engleson, Deputy State Land Commissioner, Land Department, presented information regarding mineral lease agreements for lands held by the Capitol building fund (Appendix K). He said the Land Department uses a standard lease form for all oil and gas leases issued by the department, regardless of which trust fund owns the mineral rights. He said the leases are issued for a term of five years and will continue in effect as long as oil and gas are produced in commercial quantities. He said all oil and gas leases are subject to the public auction process at the department's quarterly oil and gas lease sales. He said the state retains a royalty of one-sixth of the value of oil and gas produced and sold from the leases.

Mr. Curt Zimmerman, Facility Management Director, Workforce Safety and Insurance, presented information regarding maintenance and operating costs for the Workforce Safety and Insurance building and the cost-benefit analysis of owning the building versus leasing (Appendix L). He said Workforce Safety and Insurance moved its agency location to a newly constructed 116,000 square-foot building in May 2003. He said the agency occupies the top two floors of the building, utilizing approximately 54,144 square feet of office space and 1,340 square feet of storage space on the first floor. He said other state agencies lease approximately 32,816 square feet of office space and 2,878 square feet of storage space at an annual lease rate of $13.50 per square foot for office space and $5 per square foot for storage space.

Mr. Zimmerman said the largest portion of the operating expenses for the Workforce Safety and Insurance building is allocated to payments in lieu of property taxes. He said payment in lieu of property taxes was $200,735 for 2009, annual cleaning service costs are approximately $130,000, and annual utility costs are approximately $120,000.

Mr. Zimmerman said the total cost of construction of the Workforce Safety and Insurance building was $11,975,310 in 2003. He said Workforce Safety and Insurance would pay $785,088 for office space and $6,700 for storage space per year if the agency had to lease the space at $14.50 per square foot, the same rate other agencies pay for leased space at the Workforce Safety and Insurance building. Based on the cost of leasing space, he said, it is more beneficial for Workforce Safety and Insurance to own its building.

In response to a question from Representative Conrad, Mr. Zimmerman said Workforce Safety and Insurance's payment in lieu of property taxes is calculated at the same tax rate as commercial properties in Bismarck.

OTHER COMMITTEE RESPONSIBILITIES

Ms. Maggie Anderson, Director, Medical Services Division, Department of Human Services, presented information regarding the possibility of Medicaid paying for eligible veterans' prescription drug costs not paid by the federal Department of Veterans' Affairs (Appendix M). She said Medicaid, which provides prescription coverage, is available to veterans who qualify for one of the various Medicaid categories--veterans who are disabled, pregnant, a caretaker relative of a deprived child, or age 65 or older. She said there is no distinct category for veterans. She said a veteran who does not qualify for Medicaid coverage is not eligible for Medicaid coverage of prescriptions.

Mr. Lonnie Wangen, Commissioner, Department of Veterans' Affairs, Fargo, presented information (Appendix N) regarding:

- The status of accreditation for county veterans' service officers.
- The uses of funding from the hardship assistance (emergency grant) program.
- Comparison of the North Dakota and federal government definitions of veteran.

Mr. Wangen said 5 of the 50 county veterans' service officers have not been accredited through the National Association of County Veterans Service Officers. He said one of the five officers recently retired, and the remaining four have an opportunity to obtain accreditation training in June 2011 in Biloxi, Mississippi.

Mr. Wangen said $177,503 in hardship grants were awarded from July 2008 to June 2009, and $82,300 in grants have been approved since July 2009. He said grants are provided for dental, optical, and hearing services; housing deposits; transportation; and special medical needs. He said the Administrative Committee on Veterans' Affairs has reduced hardship grant awards because income available from the veterans' postwar trust fund has declined in recent years.

In response to a question from Representative Grande, Mr. Wangen said the Impact Foundation has agreed to administer a charitable fund for veterans' emergency needs. He said the department's website includes information on how to donate to the charitable fund. He said the Impact Foundation is also assisting the department with selling yellow ribbon "Support Our Troops" license plates as a fundraiser for the charitable fund.

Mr. Wangen reviewed the state and federal definitions of a veteran. He said the state definition requires an individual to serve on continuous federalized active military duty for 180 days or the full period for which the individual was called or ordered to active duty while the federal definition does not address the number of days served.

Representative Metcalf expressed concern with the state definition of veteran because it appears to be more restrictive than the federal definition.

Senator Dever said the National Guard was involved when the state definition of veteran was developed in 2003.

Ms. Carlee McLeod, Deputy State Treasurer, State Treasurer's office, presented information regarding the status of the veterans' postwar trust fund (Appendix O). She said the value of the veterans' postwar trust fund was $4,171,535 at July 1, 2009, and $4,197,508 as of June 30, 2010. She said income from the fund is paid to the Administrative Committee on Veterans' Affairs for grants benefiting veterans. She said Chapter 59-04.2 provides for a Uniform Principal and Income Act that defines income as interest income, dividends, and realized gains less management fees, taxes, and realized losses. She said the net income earned from the veterans' postwar trust fund for fiscal year 2010 was $137,107. She said the State Treasurer estimates that approximately $200,000 of income will be available to the Administrative Committee on Veterans' Affairs during the 2009-11 biennium.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Chairman Svedjan said the next meeting of the Government Services Committee is tentatively scheduled for September 30, 2010.

No further business appearing, Chairman Svedjan adjourned the meeting at 3:25 p.m.

Becky Keller
Senior Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:15