

# STUDY OF THE PROCESS OF APPROPRIATING SALARIES AND WAGES AND THE STATE'S EMPLOYEE CLASSIFICATION SYSTEM

## STUDY RESPONSIBILITIES

Section 38 ([Appendix A](#)) of House Bill No. 1015 provides for a study of the process of appropriating funds for salaries and wages for the state's classification system, including the feasibility and desirability of appropriating a lump sum amount to each agency without identifying the specific purposes of the funding and allowing the agency head the flexibility to use the funding as necessary to accomplish the duties and responsibilities of the agency, the effect of this change on the state's classification and benefits system, and how agencies may report the use of the funds to the Legislative Assembly. The Legislative Management assigned the responsibility for this study to the Government Finance Committee.

## CURRENT BUDGET PROCESS FOR SALARIES AND WAGES

### State Agency Budget Requests

The budgeting process for state employee salaries and wages begins during the spring and summer of even numbered years. State agencies submit their budget requests to the Office of Management and Budget (OMB). The budget requests include a specific number of full-time equivalent (FTE) positions and the projected salaries of existing employees on July 1 of the following year. The requests may include additions or deletions of FTE positions and related funding changes. The requests are reviewed and adjusted for inclusion in the executive budget recommendation. When the executive budget recommendation is prepared, funding is added to agency budgets for recommended salary and fringe benefit increases. The executive budget may also recommend the addition or deletion of agency FTE positions and related funding.

### Appropriations Bills and Line Items

The executive budget recommendation is presented to the Legislative Assembly through the introduction of appropriations bills. The appropriations bills contain line items that provide funding for specific purposes including salaries and wages. The appropriations bills also contain the number of FTE positions an agency is authorized. Most agency appropriations bills include a salaries and wages line item that provides funding for salaries and fringe benefits such as health insurance premiums, retirement contributions, social security taxes, workers compensation premiums, and unemployment taxes. Funding may also be included in the salaries and wages line item for temporary employee salaries and overtime. Certain agency appropriations bills have line items that are program-based and provide all funding for a program including salaries and benefits, operating expenses, and capital expenses. An example of a program-based appropriations bill is the Department of Corrections and Rehabilitation bill which has line items for adult services and youth services. An example of a salaries and wages line item appropriations bill is attached as [Appendix B](#), and an example of a program-based line item appropriations bill is attached as [Appendix C](#).

After the appropriations bills are introduced, the Legislative Assembly reviews the bills and makes adjustments as desired. Adjustments may be made to the level of salary increases, the number of FTE positions authorized, and any other funding item. Once approved by both chambers of the Legislative Assembly each bill is delivered to the Governor for signature and becomes effective July 1 following the legislative session unless the bill includes an emergency clause which may provide the certain items or the entire bill becomes effective earlier.

When an agency's appropriations bill becomes effective, the state agency is allowed to expend funds as provided in each line item of the bill for purposes designated by the line item. An agency may also adjust the number of FTE employees under its control up to the number authorized in the bill. An agency may request approval from the Emergency Commission to transfer funds between line items. An agency may also request approval from the Emergency Commission to expend additional federal or other funds received by the agency. Budget Section approval is required for any line item transfer exceeding \$50,000 or for an agency to accept federal or other funds in excess of \$50,000. Upon recommendation of the Emergency Commission and approval of the Budget Section, an agency may also add FTE positions. However, the approval to add FTE positions is only effective for the remainder of the biennium during which the positions were approved.

### Salaries and Wages Appropriations for North Dakota University System Institutions

The appropriations for the North Dakota University System institutions are made in a block grant format. All funding for the operations of an institution, including salaries and benefits, operating expenses, utilities, and other expenses, are appropriated in an operations line item. Each institution has the flexibility to use the operations funding as desired. The State Board of Higher Education also has the authority to adjust the number of authorized FTE positions at each institution as needed subject to the availability of funds.

## **STATE EMPLOYEE CLASSIFICATION SYSTEM**

### **Central Personnel Division/Human Resource Management Services**

The Central Personnel System Act was approved by the Legislative Assembly in 1975. The Act created the Central Personnel Division of OMB and the State Personnel Board which are provided for in North Dakota Century Code Chapter 54-44.3 ([Appendix D](#)). The purpose of the Central Personnel Division is to establish a unified personnel administration system for classified employees of the state. The purpose of the State Personnel Board is to oversee the development and administration of the classification system. The Central Personnel Division was changed to North Dakota Human Resource Management Services in August 2003 pursuant to 2003 Senate Bill No. 2092.

The Human Resource Management Services Division of OMB has authority to adopt policies, rules, and procedures regarding:

- Classification and compensation plans.
- Salary administration.
- Personnel administration actions.
- Compliance with state or federal law or rule pertaining to merit personnel systems. (In 1995 the administration of the merit system was decentralized, and those agencies required to have a merit system of personnel administration become responsible for their merit systems.)

### **State Employees Excluded From the Classified System**

Section 54-44.3-20 provides that all positions within the state are included in the classification system except for the following positions:

1. Each official elected by popular vote and each person appointed to fill vacancies in an elective office, one principal assistant, and one private secretary.
2. Members of boards and commissions required by law.
3. Administrative heads of departments required by law, other than the Superintendent of North Dakota Vision Services - School for the Blind, the Superintendent of the School for the Deaf, and the State Librarian.
4. Officers and employees of the legislative branch of government.
5. Members of the judicial branch of government of the state of North Dakota and their employees and jurors.
6. Persons temporarily employed in a professional or scientific capacity as consultants or to conduct a temporary and special inquiry, investigation, or examination for the legislative branch of government or a department of the state government.
7. Positions deemed to be inappropriate to the classified service due to the special nature of the position as determined by the division and approved by the board.
8. Employees of the institutions of higher education under the control of the State Board of Higher Education.
9. Members and employees of occupational and professional boards.
10. Officers and employees of the Mill and Elevator.
11. The Director of the Committee on Employment of People with Disabilities of the Department of Human Services.
12. Positions referred to under law as serving at the pleasure of or at the will of the appointing authority.
13. Licensed teachers engaged in teaching at the Youth Correctional Center, North Dakota Vision Services - School for the Blind, and the School for the Deaf.
14. Officers of Workforce Safety and Insurance.
15. Officers and employees of the Department of Commerce.
16. Attorneys employed by the Insurance Commissioner.
17. Engineers and geologists employed by the Director of Mineral Resources.

As of December 2012, state agencies employed 7,167 classified employees with an average employee age of 46.4 years, average years of service of 13.1, and an average annual salary of \$48,554. As of December 2012, there were a total of 770 unclassified employees excluding employees of the University System.

### **Class Evaluation System**

To fulfill the purpose of the Central Personnel Division, the North Dakota class evaluation system was developed in 1982. Human Resource Management Services, as part of the class evaluation system, quantifies the factors used for valuing a job in the classification system. Effective July 1, 2012, Human Resource Management Services adopted the Hay System to evaluate position classifications by:

- Objectively measuring the content of each job compared to other jobs based on classification factors applied to all jobs.
- Determining its relative worth.
- Establishing equitable pay relationships among all jobs.

Classification factors include knowledge, problem-solving, and accountability. When a job is evaluated, points are assigned to each factor based on the degree or level each factor is presented and a total point value is derived. The total points assigned to the position determine the grade the position is assigned and corresponding salary range. A list of the job classes and corresponding grade ranges is attached as [Appendix E](#).

### **Compensation Philosophy Statement**

Section 54-44.3-01.1, as enacted by 2011 House Bill No. 1031, creates a compensation philosophy statement for the classified state employee system as follows:

#### **Compensation philosophy statement.**

The compensation program for classified state employees must be designed to recruit, retain, and motivate a quality workforce for the purpose of providing efficient and effective services to the citizens of North Dakota. For purposes of this section, "compensation" is defined as base salary and related fringe benefits.

The compensation program must:

1. Provide a competitive employee compensation package based on job content evaluation, internal equity, and external competitiveness balanced by the state's fiscal conditions.
2. Be based on principles of fairness and equity.
3. Include a consistent compensation policy which allows for multiple pay structures to address varying occupational specialties.
4. Set the external competitiveness target for salary range midpoints at a competitive level of relevant labor markets. For purposes of this section, "relevant labor markets" is defined as the labor markets from which the state attracts employees in similar positions and the labor markets to which the state loses employees in similar positions.
5. Include a process for providing compensation adjustments that considers a combination of factors, including achievement of performance objectives or results, competency determinations, recognition of changes in job content, and acquisition and application of advanced skills or knowledge.
6. Provide funding for compensation adjustments based on the dollar amounts determined necessary to provide competitive compensation in accordance with the state's compensation philosophy. Funding for compensation adjustments may not be provided as a statewide percentage increase attributable to all employees nor as part of a statewide pool of funds designated for addressing equity issues.
7. Consider the needs of the state as an employer and the tax effect on North Dakota citizens.

The office of management and budget shall develop and consistently administer the compensation program for classified state employees and ensure that state agencies adhere to the components of the state's compensation philosophy. The office of management and budget shall regularly conduct compensation comparisons to ensure that the state's compensation levels are competitive with relevant labor markets.

The legislative assembly recognizes the importance of providing annual compensation adjustments to employees based on performance and equity to maintain the market competitiveness of the compensation system.

### Compensation Grades

As part of the implementation of the Hay System a new set of salary grades was established. The grades range from A to V, and all job classes were reevaluated for placement into the new grades. For each grade, the minimum salary level represents 75 percent of the market policy point, and the maximum salary amount represents 125 percent of the market policy point. House Bill No. 1015 (2013) provides the goal of the classified state employee compensation program is for a compensation ratio of 95 percent of the market policy points used during state fiscal year 2013.

Market adjustments to the grades are determined based on Job Service North Dakota data, regional state government data, Hay Group compensation database information, and information from a custom survey of 103 benchmark job classes to a broad range of North Dakota employers. The previous compensation system used data from Job Service North Dakota and 10 regional state governments. Ranges under the new system are established at 100 percent of market. A copy of the grade ranges for the 2013-15 biennium is attached as [Appendix F](#). The salary ranges are being increased by 3 percent for each year of the 2013-15 biennium.

### Salary Increase History

The following summary provides a history of state employee salary increases and the cost of providing salary increases for the 1997-99 through 2013-15 bienniums:

State Employee Salary Increases				
Biennium	Percentage Increase	General Fund	Special Funds	Total
1997-99	3 percent on July 1, 1997 (includes 1.5 percent for merit) and 3 percent on July 1, 1998 (includes 1.5 percent for merit)	\$24,304,117	\$12,520,861	\$36,824,978
1999-2001	2 percent with a \$35 per month minimum on July 1, 1999, and 2 percent with a \$35 per month minimum on July 1, 2000	\$17,681,836	\$9,633,401	\$27,315,237
2001-03	3 percent with a \$35 per month minimum on July 1, 2001, and 2 percent with a \$35 per month minimum on July 1, 2002	\$27,043,178	\$12,493,632	\$39,536,810
2003-05	Up to 1 percent on January 1, 2004, and up to 2 percent on January 1, 2005 (based on the elimination of positions and savings from vacant positions)			\$0
2005-07	4 percent on July 1, 2005, and 4 percent on July 1, 2006	\$19,778,486	\$21,746,666	\$41,525,152
2007-09	4 percent with a \$75 per month minimum on July 1, 2007, and 4 percent with a \$75 per month minimum on July 1, 2008 (Salary increases were to be based on merit and equity and were not to be given across the board.)	\$23,372,817	\$22,505,911	\$45,878,728
2009-11	5 percent with a \$100 per month minimum on July 1, 2009, and 5 percent with a \$100 per month minimum on July 1, 2010 (Salary increases are to be based on merit and equity and are not to be given across the board.)	\$36,821,006	\$31,667,339	\$68,488,345
2011-13	3 percent on July 1, 2011, and 3 percent on July 1, 2012	\$23,920,117	\$20,892,142	\$44,812,259
2013-15	From 3 to 5 percent on July 1, 2013, and from 2 to 4 percent on July 1, 2014, for performance 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 in July 2013 and July 2014 for market equity	\$41,268,879	\$34,551,738	\$75,820,617

The amounts shown for the 2013-15 biennium do not include and potential salary adjustment funding that may be provided from the state agency energy impact funding pool to state employees located in areas affected by energy development.

### STATE EMPLOYEE BENEFITS

The state of North Dakota offers a comprehensive benefit package to its employees which includes the following:

- Paid single or family health insurance premium.
- Life insurance - \$1,300 coverage.
- Deferred compensation.
- Flexcomp plan.
- Retirement plan.

- Annual leave.
- Sick leave.
- Family and medical leave.
- Ten paid holidays per year.
- Leave sharing.
- Funeral leave.
- Military leave.
- Voluntary group insurance plans, including vision, dental, and long-term care paid for by the employee.
- Certain state agencies may also offer the following benefits:
  - Training opportunities.
  - State-of-the-art technology.
  - Employee recognition programs and service awards.
  - Flexible work schedules.
  - Tuition reimbursement.
  - Telecommuting options.

Based on information available from Human Resource Management Services, the following schedule provides information on the fiscal year 2012 value of one year of benefits for a classified employee with one year of service earning \$48,554 annually:

	Benefit	Employer Cost	Employee Cost
Annual leave	12 days	\$2,240.64	
Sick leave	12 days	2,240.64	
Holidays	10 days	1,867.20	
Health insurance	Family coverage	10,639.44	
Life insurance	\$3,500 coverage	3.36	
Retirement	12.12 percent <sup>1</sup>	4,913.66	\$971.08
Retiree health credit	1.14 percent employer health insurance credit	553.52	
Employee assistance program	Employee and dependent coverage	18.48	
<b>Total</b>		<b>\$22,476.94</b>	<b>\$971.08</b>
Percentage of salary		46.3%	

<sup>1</sup>Includes the employer's share of 6.12 percent, the 4 percent employee share paid by the employer, and the 2 percent employee share.

### 2013 LEGISLATIVE SESSION - RELATED LEGISLATION

House Bill No. 1015 (2013), as approved by the Legislative Assembly, provided OMB may adjust the market policy point based on an estimated inflationary factor during the 2013-15 biennium subject to Budget Section approval; however, the Governor subsequently vetoed this provision.

House Bill No. 1015 also included guidelines for the use of an accrued leave payments line item which was added to each agency appropriation bill. The funding in the accrued leave payments line is available for paying accrued annual leave and sick leave for eligible employees resigning, retiring, or otherwise discontinuing employment with an agency. The Governor subsequently vetoed the guidelines for the use of funding in agency accrued leave payments line items. However, each agency appropriation bill still contains funding in an accrued leave payments line item.

### STUDY PLAN

The following is a proposed study plan for the committee's consideration in its study of the process of appropriating salaries and wages and the state's classification system:

1. Receive and review information from the Legislative Council regarding the current state employee classification system, the current process of appropriating funds for state agency salaries and wages, and the current process to authorize employee positions.
2. Receive and review information from the Legislative Council regarding total funding appropriated for salaries and wages for the 2013-15 biennium and FTE positions authorized.

3. Receive information from the Legislative Council regarding the number of temporary positions currently employed by state agencies and the process used by agencies for determining when temporary employees are used rather than FTE positions.
4. Receive and review information from the Legislative Council regarding the use of lump sum appropriations for salaries and wages in other states, including the process of authorizing the number of employees for each agency.
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:6