

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

STATE EMPLOYEE COMPENSATION SYSTEM OVERSIGHT COMMITTEE

Thursday, April 7, 2011
Brynhild Haugland Room, State Capitol
Bismarck, North Dakota

Senator Dick Dever, Chairman, called the meeting to order at 4:05 p.m.

Members present: Senators Dick Dever, Karen K. Krebsbach, Richard Marcellais, Carolyn C. Nelson, Rich Wardner; Representatives Randy Boehning, Glen Froseth, Bette Grande, Karen Karls, Jim Kasper, Ralph Metcalf, Shirley Meyer, Mike Nathe, Dan Ruby, David S. Rust, Alon Wieland

Members absent: Representatives Larry Bellew, Blair Thoreson, Dave Weiler

Others present: See Appendix A for additional persons present.

Chairman Dever informed the committee that 2011 House Bill No. 1031 to implement recommendations from Hay Group's classified state employee compensation system study has been approved by both chambers. He said the bill as approved creates a new section to North Dakota Century Code Chapter 54-44.3 to place a compensation philosophy statement into statute, provides directives to the Office of Management and Budget (OMB) for the implementation of Hay Group's recommendations, and requires OMB to provide status reports on the implementation of the recommendations to the State Employee Compensation System Oversight Committee during the legislative session and to the Budget Section during the 2011-12 interim.

IMPLEMENTATION OF CLASSIFIED STATE EMPLOYEE COMPENSATION SYSTEM STUDY RECOMMENDATIONS - HAY GROUP PRELIMINARY FINAL REPORT

Chairman Dever said the State Employee Compensation System Oversight Committee would hear preliminary final report information prepared by Hay Group related to recommendation items involving a potential fiscal impact requiring consideration prior to the end of session. This includes proposed adjustments to classified state employees' salaries to be competitive with market salaries. He said the Legislative Council contract with Hay Group is through June 30, 2011, and prior to that time, a final report would be heard regarding the implementation of all recommendations resulting from Hay Group's study of the classified state employee's compensation system as outlined in 2011 House Bill No. 1031.

Hay Group

Chairman Dever called on Mr. Neville Kenning, Vice President, Hay Group, Los Angeles, California, to provide information on recommendations with potential fiscal impact. Mr. Kenning provided a handout outlining these recommendations (Appendix B). He explained the focus of the recommendations relate to market competitiveness of salary, benefits, and total compensation.

Mr. Kenning said determining market competitiveness to establish new salary ranges involved defining the market and creating a more comprehensive market database. The definition of the market as stated in the compensation philosophy statement is 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. He said based on this definition, data was gathered from a number of sources for a benchmark sample of 162 jobs. Sources of data included:

- A custom survey of 53 public and private sector organizations representing approximately 6,500 employees.
Central states' salary survey data, including Colorado, Iowa, Kansas, Minnesota, Missouri, Montana, Nebraska, Oklahoma, South Dakota, and Wyoming.
The Hay Group database, including North Dakota participants representing over 7,000 employees in 123 organizations.
North Dakota Job Service salary data for over 4,500 North Dakota organizations.
The North Dakota Healthcare Foundation representing 42 health care organizations.

Mr. Kenning said current salaries were compared to the defined market data, and on average current actual state employee pay is 7 percent below the market average. He provided an analysis of the comparison to market by occupational group and by agency as follows:

Table with 2 columns: Occupational Group, Average Pay Percentage From Market Average. Rows include Clerical, fiscal, and administrative (information technology only) at 0%, Custodial, food service, and laundry at (2%), and Medical and public health (pharmacist II) at (4%).

Clerical, fiscal, and administrative	(5%)
Labor, labor supervision, equipment operator, and trades	(5%)
Medical and public health (nursing only)	(6%)
Natural resources, conservation, and agriculture	(6%)
Medical and public health	(8%)
Public safety, corrections, regulatory, and allied	(8%)
Engineering, planning, and allied	(11%)
Social service, mental health, and rehabilitation	(13%)
Clerical, fiscal, and administrative (legal only)	(14%)
Education, recreation, museum, library, and allied	(14%)
Overall	(7%)

Agency	Average Pay Percentage From Market Average
Public Employees Retirement System	(8%)
Department of Veterans' Affairs	(8%)
Council on the Arts	(9%)
Public Service Commission	(10%)
State Water Commission	(10%)
Parks and Recreation Department	(10%)
School for the Deaf	(11%)
State Department of Health	(12%)
Racing Commission	(15%)
Indian Affairs Commission	(16%)
Department of Labor	(16%)
Retirement and Investment Office	(17%)
Commission on Legal Counsel for Indigents	(19%)
Department of Public Instruction	(19%)
State Library	(19%)
North Dakota Vision Services - School for the Blind	(20%)
Center for Tobacco Prevention and Control Policy	(20%)
Protection and Advocacy Project	(25%)
Overall	(7%)

Agency	Average Pay Percentage From Market Average
Aeronautics Commission	N/A
Workforce Safety and Insurance	5%
Land Department	3%
Highway Patrol	3%
Department of Financial Institutions	3%
Securities Department	1%
Bank of North Dakota	1%
State Auditor's office	1%
Information Technology Department	1%
Industrial Commission	0%
Insurance Department	0%
Game and Fish Department	0%
OMB	(1%)
Department of Transportation	(1%)
Secretary of State	(2%)
Tax Department	(2%)
Adjutant General	(3%)
State Treasurer	(4%)
State Seed Department	(4%)
Veterans' Home	(4%)
Office of Administrative Hearings	(4%)
Department of Agriculture	(5%)
Housing Finance Agency	(6%)
Attorney General's office	(6%)
Job Service North Dakota	(6%)
State Historical Society	(7%)
Department of Corrections and Rehabilitation	(7%)
Department of Career and Technical Education	(7%)
Department of Human Services	(8%)

Mr. Kenning explained that the market competitiveness of benefits was determined by considering both a benefits valuation and prevalence of practice. He said market data referenced for this comparison was from the Hay Group benefits database and included state governments of the 10 central states and private and public sector organizations. For analysis purposes, the chart below compares benefits provided by the state of North Dakota to Hay Group market data and ranked as P75 if state benefits are in the upper 75 percent quartile, P25 if in the lower 25 percent quartile, and P50 if in the median mid-market measure. He explained that the analysis indicates, on an overall basis, the current benefits program is approximately 5 percent to 7 percent above the market, and that the primary driver of this competitiveness is the retirement plan and all other components are either at or below the median of market.

Benefit Area	State of North Dakota Versus		Above Market Provisions	Below Market Provisions
	Private Sector	Central States		
Total benefits	Above P50	P50	The retirement plan is the sole driver of the state's above-market position. All other benefits are at or below market median.	
Health care	P50	P50	No employee contributions for single or family coverage - Common in public sector; however, 15 percent to 29 percent typical contribution range for employee and family coverage Low medical annual out-of-pocket maximums	Eighty percent coinsurance - Ninety percent and/or 100 percent more typical in market Separate prescription maximum - Not common, increases employee out of pocket by \$1,000 per person Employee-paid dental - Coverage is typically cost-shared or 100 percent employer-paid.
Retirement	P75	P50	Competitive benefit formula and vesting provisions No employee contributions required - Is above market when compared to other states; however, this is typical of general market pension plans	No match on 457 plan - Fifty percent of states and 85 percent of general market that have a pension plan also make matching contributions.
Time off	P50	P50	Paid time off provisions are in line with typical market practice.	
Death	Below P25	Below P25		Low life insurance benefit of \$1,300
Disability	P25	P25	No maximum placed on number of sick days that can be accrued	Reliance on sick leave only for short-term disability benefit. It is more prevalent to provide sick leave and an insured short-term disability benefit. Long-term disability benefit provided through pension plan. Pension disability common in public sector; however, 90 percent provide separate long-term disability benefit. Ninety-nine percent of general market provide separate employer paid long-term disability.
Other	Below P25	Below P25		Example - No statewide tuition reimbursement program Lack of employer contributions on other miscellaneous benefits

In response to a question from Representative Grande, Mr. Kenning said the overall competitiveness is calculated by weighing components of benefits and that items such as tuition reimbursement do not have as significant a weight as retirement, health care, and time off.

As stated in the compensation philosophy statement, the state of North Dakota is to consider the competitiveness of both salary and benefits in establishing the appropriate salary ranges. Mr. Kenning said Hay Group's analysis shows salaries lag the market by approximately 7 percent while benefits are 5 percent to 7 percent above the market. However, he said, the increased level of contribution to the retirement plan that will be required by employees beginning in the 2011-13 biennium as a result of provisions of Senate Bill No. 2108 will reduce the level of competitiveness of the benefits program. He said in light of the determined competitiveness of salary and benefits, the following two salary structures were developed for consideration:

1. Market policy position set at the average of the salary market.
2. Market policy position set at 98 percent of the average of the salary market.

Mr. Kenning said under both options, the range minimum is set at 80 percent of the market policy position, and the range maximum is set at 125 percent of the market policy position. He said movement through the ranges would be accomplished as stated in the compensation philosophy statement through 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.

Mr. Kenning said the two salary structure options include a minimum and maximum fiscal impact upon implementation. He said the minimum impact is the cost to bring employees currently below the minimum to the minimum of the salary range, and the maximum impact includes the cost to bring employees who are below the market policy position to the market policy

position. He explained between the minimum and maximum impact is the cost of placing employees at the appropriate position in the range. To avoid salary compression, he suggested agency managers would determine by employee appropriate placements within the range.

Mr. Kenning provided the annual fiscal impact of the two proposed salary structures as outlined in the chart below:

Option	Annual Cost to Meet Minimum Range	Number of Full-Time Equivalent Positions Below Minimum	Annual Cost to Meet Market Policy Position	Number of Full-Time Equivalent Positions Affected
Market policy position set at the average of the salary market	\$6,387,319, of which \$4,047,642 is from the general fund	1,911	\$39,167,559, of which \$22,997,939 is from the general fund	7,194
Market policy position set at 98 percent of the average of the salary market	\$4,913,237, of which \$3,111,851 is from the general fund	1,608	\$35,051,128, of which \$20,857,614 is from the general fund	7,194

Mr. Kenning said the Legislative Assembly's determination of appropriate market policy position would affect the remaining recommendation implementation work to be accomplished prior to June 30, 2011, specifically the work being done on a new grade structure.

Office of Management and Budget

Mr. Ken Purdy, Compensation Manager, Human Resource Management Services (HRMS), Office of Management and Budget, commented on the fiscal

impact of the proposed salary structures presented by Hay Group. He said in prior legislative sessions, HRMS has been asked to provide the Legislative Assembly with an estimate to bring classified employee salaries to market. He said compared to the prior estimates, the proposed adjustment presented by Hay Group is the lowest. He said this may be attributed to a combination of factors, including prior biennium salary increases and equity adjustments provided by the Legislative Assembly, as well as economic conditions affecting external comparative market pay.

COMMITTEE DISCUSSION AND STAFF DIRECTIVES

Chairman Dever said the next meeting of the committee is scheduled for Thursday, April 14, 2011. He asked that committee members review the information presented and consider any questions that may need to be asked of Hay Group prior to the next meeting to assist in their review of Hay Group's recommendations.

No further business appearing, Chairman Dever adjourned the meeting at 5:40 p.m.

Sara E. Chamberlin
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:2