

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

STATE EMPLOYEE COMPENSATION SYSTEM OVERSIGHT COMMITTEE

Thursday, April 14, 2011
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Dick Dever, Chairman, called the meeting to order at 4:00 p.m.

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

Members absent: Senator Rich Wardner; Representatives Larry Bellew, Glen Froseth, Shirley Meyer, Dan Ruby, Blair Thoreson, Dave Weiler

Others present: See [Appendix A](#) for additional persons present.

It was moved by Representative Boehning, seconded by Senator Krebsbach, and carried on a voice vote that the minutes of the March 3, 2011, and April 7, 2011, meetings be approved as distributed.

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

Chairman Dever said the State Employee Compensation System Oversight Committee will receive information from Hay Group resulting from committee questions regarding preliminary final report information ([Appendix B](#)) that was presented by Hay Group at the last committee meeting.

Hay Group

Chairman Dever called on Mr. Neville Kenning, Vice President, Hay Group, Los Angeles, California, to present the report.

Mr. Kenning provided additional information ([Appendix C](#)) on the market comparison of health insurance benefits that was conducted to determine the market average. He 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 Hay Group benefits database and included state governments of the 10 central states and private and public sector organizations. He explained that although the employer-paid health insurance benefit is above market, the health care provisions of office and prescription copayments,

deductibles, out-of-pocket limits, and dental coverage are below market average.

In response to a question from Representative Boehning, Mr. Kenning said the analysis applies the same weight to the employer-paid benefit as the other health care provisions--all components are considered equally in the overall market ranking.

Senator Dever asked how to quantify the value of the employer-paid health insurance benefit. Mr. Kenning said Hay Group establishes a value of the benefit to an employee based on the provisions of the plan, including employer and employee contributions and employee out-of-pocket costs. He said the value does not change based on premium rate changes or employee demographics.

Mr. Kenning provided additional information on the market comparison that was conducted to determine average market salaries included in the proposed adjustments to classified state employees' salaries. He said 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. He provided the committee with a list ([Appendix D](#)) of benchmark jobs that were matched from the following data sources:

- 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 presented the committee with a list ([Appendix E](#)) of the number of positions matched to a benchmark position by agency. He said that a total of 1,520 classified positions were identified, and of this total, 558 were matched to a benchmark position. He said that 3,842 full-time equivalent (FTE) positions of

7,193 total FTE positions were matched to a benchmark position. He explained that the average market salaries of positions not matched to a benchmark position were calculated considering the job points that were assigned to each position through the job evaluation process. He said an analysis is performed by position to determine how nonbenchmark positions align to benchmark positions with similar job points.

Mr. Kenning said the width of the proposed salary range--80 percent to 125 percent--allows agencies to compensate employees for performance which is a component of the compensation philosophy statement. As an example, he said, the range allows a long-term, high-performing employee to be compensated up to 125 percent more than the determined market policy position. He said under the proposed salary structure, the salary of a current employee may be above the new maximum salary of the range because it was overvalued in the current salary structure.

Mr. Kenning said Hay Group's analysis identified that current classified state employee salaries are

approximately 7 percent less than market while benefits are 5 percent to 7 percent more than market. He said Hay Group prepared the following options to consider when determining the level of competitiveness of the classified state employees compensation system:

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.
3. Market policy position set at 96 percent of the average of the salary market ([Appendix F](#)).
4. Market policy position set at 95 percent of the average of the salary market ([Appendix G](#)).

A summary of the cost of Hay Group's proposed adjustments for the 2011-13 biennium is provided in the chart below. Mr. Kenning said the amounts shown as "Adjust to Minimum of Salary Range" are the estimated cost of increasing the salaries of those employees whose salaries would be less than the salary range minimums under the new salary structure.

Option 1							
Market Policy Position Set at Average of Market							
Adjust to Minimum of Salary Range				Adjust to Market Policy Position			
General Fund	Federal Funds	Special Funds	Total	General Fund	Federal Funds	Special Funds	Total
\$8,095,284	\$3,606,586	\$1,072,768	\$12,774,638	\$45,995,880	\$19,325,552	\$13,013,686	\$78,335,118
Option 2							
Market Policy Position Set at 98% of Average of Market							
Adjust to Minimum of Salary Range				Adjust to Market Policy Position			
General Fund	Federal Funds	Special Funds	Total	General Fund	Federal Funds	Special Funds	Total
\$6,223,702	\$2,794,078	\$808,694	\$9,826,474	\$41,715,228	\$17,606,326	\$10,780,704	\$70,102,258
Option 3							
Market Policy Position Set at 96% of Average of Market							
Adjust to Minimum of Salary Range				Adjust to Market Policy Position			
General Fund	Federal Funds	Special Funds	Total	General Fund	Federal Funds	Special Funds	Total
\$4,695,146	\$2,093,672	\$594,776	\$7,383,594	\$37,391,610	\$15,872,384	\$8,794,092	\$62,058,086
Option 4							
Market Policy Position Set at 95% of Average of Market							
Adjust to Minimum of Salary Range				Adjust to Market Policy Position			
General Fund	Federal Funds	Special Funds	Total	General Fund	Federal Funds	Special Funds	Total
\$4,085,684	\$1,812,664	\$512,650	\$6,410,998	\$35,282,072	\$15,032,448	\$7,959,440	\$58,273,960

Mr. Kenning recommended that the Legislative Assembly consider funding Hay Group's proposed salary adjustments with a separate appropriation rather than within the funding provided in the executive budget for classified state employee salary increases equal to 3 percent of salaries in each year of the biennium. He said the Legislative Assembly's determination of market policy position would be

reflected in the analysis included in Hay Group's final report regarding the expected outcomes of recommendations implemented. He said the final report will be provided to a legislative committee prior to June 30, 2011.

Office of Management and Budget

Ms. Pam Sharp, Director, Office of Management and Budget (OMB), commented on the report. She said OMB purchased Hay Group's job evaluation management software to assist in the implementation of Hay Group's recommendations. She said the software has allowed Human Resource Management Services to complete the job evaluation component of the recommendation implementation timely and will continue to be used in the future. Ms. Sharp said Hay Group's report is intended to provide information to assist the Legislative Assembly in making funding determinations regarding classified employee pay. She said although the committee asked OMB for a recommendation relating to the appropriate market policy position level for the classified state employee compensation system, OMB does not have a recommendation but will rely on legislative direction regarding the establishment of the market policy position.

**COMMITTEE DISCUSSION
AND STAFF DIRECTIVES**

Chairman Dever said he would communicate with legislative leadership regarding the information received by the committee.

No further business appearing, Chairman Dever adjourned the meeting at 5:07 p.m.

Sara E. Chamberlin
Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:7