

June 2001

MONITORING THE STATUS OF STATE AGENCY RECRUITMENT AND RETENTION PILOT BONUS PROGRAMS

North Dakota Century Code (NDCC) Section 54-06-30 created by Section 1 of 2001 House Bill No. 1120 directs the Central Personnel Division to report periodically to a legislative committee designated by the Legislative Council on the implementation, progress, and bonuses provided under agency recruitment and retention bonus pilot programs. A copy of the bill is attached as an appendix. The Budget Committee on Government Services has been assigned this responsibility for the 2001-02 interim.

The bonus pilot programs may be established by state agencies to recruit or retain classified state employees in hard-to-fill occupations. The pilot program is effective from March 15, 2001, through June 30, 2003. In order to participate in this pilot program an agency must:

- Have a written policy in place identifying the eligible positions or occupations that may receive the bonuses and provisions in place for providing the bonuses;
- File the written policy with and report each bonus provided to an employee under the program to the Central Personnel Division; and
- Fund bonus pilot programs within the agency's salaries and wages budget.

The bonuses provided under this pilot program are not considered a fiscal irregularity under NDCC Section 54-14-03.1.

RELATED LEGISLATION - PERFORMANCE BONUSES

The 2001 Legislative Assembly also passed House Bill No. 1119, which establishes the criteria and limitations for state agencies to provide monetary bonuses to classified state employees based upon performance. This program is effective from August 1, 2001, through June 30, 2005. The bill provides that state agencies may pay bonuses if a written performance evaluation policy has been in place for at least one year, the policy must have at least three levels of performance criteria, and the performance bonus program must be a written policy which is communicated to each classified employee in the agency. Development of the written policy must include input from employees.

The performance bonus program is only available to state employees who have held a **classified** position in state government for at least one year, the employee's overall evaluation satisfies the agency's performance program criteria for receiving a bonus, and the

employee is a full-time or part-time regular nonprobationary employee. Employees may not receive more than one performance bonus per fiscal year and may not receive more than \$1,000 in bonuses per biennium. The performance bonuses must be funded within the agency's budget for salaries and wages and is limited annually to no more than 25 percent of the agency's classified employees. The bonuses paid under this section are not a fiscal irregularity under NDCC Section 54-14-03.1.

PREVIOUS STUDIES

The 1999-2000 interim Budget Section Committee received reports on irregular salary payments and bonus programs for state employees. The Budget Section received a report on the following related sections of law:

1. Section 54-06-24 establishes a state employee suggestion incentive program that allows one-time bonus payments to state employees for approved cost-saving ideas.
2. Section 54-14-04.3 allows severance pay or financial incentives to encourage employee retirement or resignation in certain circumstances.
3. Section 54-14-03.1 provides that fiscal irregularities, including the use of state funds to provide bonuses, cash incentive awards, and temporary salary adjustments discovered by the Office of Management and Budget must be reported to the Budget Section.

The Central Personnel Division presented information to the Budget Section on the establishment of guidelines to be used by state agencies when providing bonuses to state employees. The recommended guidelines include the following characteristics:

1. Uniform applicability.
2. Systematic distribution of nonbase building adjustments (bonuses).
3. Flexibility of administration based upon agency needs.
4. The establishment of guidelines for use.
5. Prohibition against impulse adjustments used in order to spend agency general fund turnback.

The Budget Section reviewed employee bonus programs in selected states, including North Carolina, Idaho, South Carolina, and Maryland. North Carolina distributes salary adjustments and bonuses based

upon a standard three-grade performance appraisal system. Idaho provides that all pay raises and bonuses are to be based on performance, determined by evaluations established by each agency. South Carolina gives the authority to approve one-time lump sum bonuses to each state agency director. Maryland determines the maximum amount that can be paid to an employee as a bonus and a rating scale for providing bonuses; however, each agency administrator establishes criteria for administering the program.

Bonus payment programs in Colorado, Wyoming, Vermont, and Nebraska include the following concepts:

- Team-based bonus - A team-based bonus may be given to each member of a team of employees established to accomplish a predetermined goal.
- Performance bonus - A performance bonus is based on a written performance evaluation and may be included or excluded from base pay.
- Signon bonus - A signon bonus may be used to attract employees in high demand occupations.
- Retention bonus - A retention bonus may be used to retain key employees.
- Referral bonus - A referral bonus may be used to attract employees in high demand occupations. A referral bonus is paid to an existing

employee who refers a job candidate who is subsequently hired.

- Special recognition bonus - A special recognition bonus may be used to recognize exceptional performance on a special project or other short-term activity of major importance to the department.

STUDY PLAN

The committee may wish to carry out this responsibility as follows:

1. Receive periodic reports from the Central Personnel Division on the implementation, progress, and bonuses provided under state agency recruitment and retention pilot programs.
2. Receive testimony from other interested persons, including representatives of state agencies, on the implementation of pilot bonus programs.
3. Develop committee recommendations and any related bill drafts, including whether the bill should be extended beyond June 30, 2003.
4. Prepare a final report for submission to the Legislative Council.

ATTACH:1