EXHIBIT 5
DATE 1.17.13
HB

PERSONAL SERVICES ANALYSIS

A Report Prepared for the
Legislative Finance Committee

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September 28, 2012

LFD
MONTANA LEGISLATIVE FISCAL DIVISION

INTRODUCTION

Montana has almost 15,000 state employees who perform a number of public policy functions. The public policy role of the legislature regarding the cost of state government personnel includes:

- Establishing the compensation system the state uses to attract and retain employees
- Providing for the costs related to the employment of personnel within the state's budget

The costs of employment, referred to in the state's budget as personal services, are a large part of the state's budget and for many state agencies a significant part of the agency's overall budget. Personal services include the costs of salary and benefits provided to the employees. The number and types of positions within the state government vary significantly and are driven by the variety of the functions that make up state government.

The purpose of this report is to provide the legislature with information on personal services including a discussion on:

- Who state workers are generally
  - What are the workforce demographics
- The types of positions that are hired
- How salaries are generally set
  - The variation and leeway granted to agencies within the general framework of the pay plans
  - How state government compares with other employers in Montana and in the surrounding states
  - The general parameters that determine pay
- How the state is doing at recruiting and retaining employees
- The impacts of retirements
- Current actions in relation to pay increases
- Budgetary implications for the 2015 biennium

This report discusses the employees hired by state agencies; it does not address those employed by the Montana University System.

WHO MAKES UP THE STATE WORKFORCE

Maintaining a vital, active, and engaged workforce is a challenge for any employer. The variety of positions and responsibilities of the Montana state workforce presents additional challenges as pay plans need to address differences in employee duties, responsibilities, and skills for all types of employment.

Workforce Demographics

Who are the workers that make up the workforce? In FY 2011 the average worker:

- Was 48 years old
- Worked for state government for an average of 12 years
- Earned $42,483 annually

While the average age of the employee has increased slightly over the last four years, the years of service have remained relatively the same.

Over half of the employees hold positions requiring a bachelor's degree or equivalent education and experience. In contrast, only about 17 percent of Montana's jobs require a bachelor's degree or higher level of education.

HOW ARE SALARIES GENERALLY SET

The following section details the general parameters in which state employee salaries are determined, including the types of pay plans, how compensation is compared to private sector employers and other states, and where agencies and types of positions compare to market.

Pay Plans

To address the number and variety of positions needed to conduct the work of state government, a number of compensation plans, also known as pay plans, have been approved. By statute, the pay program is to be based on competency, internal equity, and competiveness when within the state's fiscal resources. As of August 27, 2012 the employees included in each pay plan were:

1) Broadband pay plan – 11,920 employees;
2) Judicial pay plan – 384 employees;
3) Commissioner of Higher Education pay plan – 90 employees;
4) Exempt (non-classified) pay plan – 1,437 employees;
5) Blue Collar pay plan – 732 employees;
6) Legislative Branch pay plan – 152 employees; and
7) State Fund pay plan – 270 employees.

It should be noted that the number of employees includes all employees, regular, seasonal, temporary, short-term workers, and student interns. The largest of the compensation plans, the broadband pay plan, is discussed further.

Broadband Pay Plan

Figure 1

State of Montana Broadband Pay Schedule 2013 Biennium		
Pay Band	Minimum Base Salary	Maximum Base Salary
1	$16,400	$27,945
2	$15,912	$38,949
3	$19,536	$49,003
4	$23,710	$64,495
5	$23,948	$79,582
6	$27,240	$120,665
7	$39,269	$120,803
8	$57,750	$146,391
9	$78,260	$286,454

The broadband classification and pay plan became the state's primary compensation system July 1, 2007. As shown above, 79.5% of the 14,985 state employees were included in the broadband pay plan as of August 27, 2012. The broadband pay plan is an enterprise-wide plan that allows state agencies flexibility in developing pay plan rules. Thus, each agency operating under the broadband pay plan has its own pay plan rules. The plans must be based on statutory and state policy requirements within authorized funding levels.

The broadband pay schedule establishes the minimum and maximum base salary for employees within nine pay bands. Figure 1 shows the pay bands and related base salaries for the 2013 biennium.

Pay bands are used to categorize positions and related salaries into groupings of similar job responsibilities and salaries. The following lists the individual bands with samples of the types of positions within each:

- Pay Band 1 – Delivery service drivers
- Pay Band 2 – Word processors, administrative clerks, cashiers, pharmacy, social service, and psychiatric aides, cooks, food service workers, institutional attendant
- Pay Band 3 – Livestock inspectors, medical records technicians, tax technicians, logistics technicians, LPN, drill instructor, drafter, computer operator, court clerk
- Pay Band 4 – Environmental science specialist, customer service specialist, heavy equipment operator, computer systems analyst, carpenter, human resource assistant, legal secretary
- Pay Band 5 – Data control specialist, crime investigator, records management specialist, clinical lab technologist, water conservation specialist, maintenance workers, tax appraiser, FWP warden, auditor, insurance claims examiner, park ranger, highway patrol officer, chemist
- Pay Band 6 – Crime analyst, occupational therapist, facility surveyor, land agent, hydrologist, registered nurse, FPW biologist, health sanitarian, recreation therapist, fire inspector, budget analyst, architect, law enforcement manager, librarian, fish culture specialist, forensic scientist, substance abuse counselor, medical social worker, cartographer
- Pay Band 7 – Transportation planner, lawyer, business development specialist, computer security specialist, tax policy analyst, utility rate specialist, law enforcement manager, economist, nursing services manager, financial analyst, architect, medical health services manager

- Pay Band 8 – Operations manager, lawyer, program manager, education program administrator, computer systems information manager, environmental program manager, engineering manager, epidemiologist, veterinarian
- Pay Band 9 – Operations manager, medical examiner, physician primary care, psychiatrist, dentist

It should be noted that the reason that the minimum base salary for pay band 1 is higher than the minimum for pay grade 2 is related to the market influences for the jobs evaluated in the pay bands. One of the market rates for positions within pay band 2 was significantly lower than the other jobs in pay band 1 or 2.

Statute outlines the intent of the legislature in relation to compensation plan for state employees. Included is a requirement that compensation be based, in part, on an analysis of the labor market provided through a biennial salary survey conducted by the Department of Administration.

State agencies determine:
- Pay plan rules
- Job descriptions for the positions within the agency
- Pay bands for the positions

This report relies on the state agency job descriptions and pay bands as correct and appropriate. Classifying positions correctly and appropriately placing the positions onto the pay grades drives the pay system, costs of personal services, and measurement of the competiveness of salaries. While the division may randomly review the job descriptions and pay band placement, it should be noted that an audit to review the classification of occupations and pay grades has not been done since prior to 2007 when the broadband pay plan became the state's predominate pay system. The legislature may wish to consider requesting an audit of the classification of occupations and pay grades to ensure consistency and accuracy of the state's primary pay system.

Comparing State Salaries

A central question for Montana as an employer is what compensation should be offered to attract and retain qualified employees in the employment marketplace of Montana and the surrounding region. Compensation includes both employee salaries and benefits. The state addresses compensation from several standpoints including examining the difference in salaries between the state and other employers in Montana and in the surrounding states. The examinations, referred to as salary surveys, are completed using only base salaries provided by either public or private employers. Benefits such as health insurance and retirement are not part of the cost comparisons used to establish the salary comparisons and competiveness of state workforce pay but are discussed later in this report.

The state uses the median salary for employees in any given position in the salary comparisons meaning that half of the salaries are above the midpoint and half are below. Using the midpoint as 100% of market in the salary survey can mean some employees are paid at a higher rate than the midpoint. However, there are reasons for paying a salary that is higher than the average, including
- Longevity, or the length of time an employee has worked for the state and gained experience in their field, can result in increased salary for employees
- Salary adjustments that state agencies use to retain trained and experienced employees that may put the employee above the midpoint for their position

Consequently, the relative length of service for employees can have a bearing on their placement within a salary range, among both professions and agencies. A discussion of retention issues is provided later in the report.

How the State Determines Salary Comparisons

The State Human Resources Division (division) completed the most recent salary survey for employees compensated through the broadband pay plan in June 2012. The data in the salary survey is used to report market rates. The market analysis is conducted through a two tiered survey approach. For the most part, salary

information from Montana and the surrounding states of Idaho, North Dakota, South Dakota, and Wyoming are used. According to the division staff, these states were identified as the relevant labor market because of their proximity, comparable demographics, and comparable economies.

Tier 1 – Collection of Salary Data

Occupation descriptions are used to identify the duties and tasks assigned to each job. The information in the job description is used to assign the position to an occupation and pay band. The division uses the Standard Occupational Classification (SOC) system to place jobs into occupations. The SOC is a national job classification system developed by the federal government, and allows the state to compare its occupations to similar occupations employed outside of Montana state government for pay purposes.

The market survey uses three different salary sources to make comparisons using the SOC. Salary data is collected from:

- Central States Compensation Association (CSCA) – Compensation units from state governments that exchange salary information
- Occupational Employment Statistics (OES) - U.S. Bureau of Labor Statistics produces employment and wage estimates for over 700 occupations. The survey includes both private and public sector employers
- Kenexa – Private company that centralizes third party benchmark job surveys online

Since not all survey sources cover the same time period, the data is aged using the current employment cost index issued by the U.S. Department of Labor.

The salary data is used to determine the market rate of 750 occupations at corresponding band levels within state government. The division identifies market midpoints or anchor points for the 750 occupations within the various occupations. The purpose of the market analysis is to gauge the competiveness of state pay against the relevant external labor market, in Montana and the surrounding areas.

Figure 2

State of Montana Competitive Pay Zone Spreads 2012 Market Analysis		
Pay Band	Band Spread	Spread on Either Side of Midpoint
1	30%	13.0%
2	40%	16.7%
3	40%	16.7%
4	40%	16.7%
5	50%	20.0%
6	50%	20.0%
7	55%	21.9%
8	60%	23.1%
9	60%	23.1%

The division then determines the market rate for similar jobs in other pay bands. For example, the market rate for accountants is anchored for accountant positions in pay band 6. The 2012 market midpoints rates for accountants in pay band 5 and pay band 7 were then determined by the division by extending the market rate based on a variable slope between levels. The division then uses the midpoints to identify competitive pay zones. The range spread for each competitive pay zone in the nine pay bands is shown in Figure 2.

The band spread is the distance from the lowest to the highest salary in the pay band. The percentage on either side of the midpoint is determined by taking the difference between the midpoint and the minimum or maximum salary and dividing the difference by the midpoint to get the percentage on either side of the midpoint.

Once the market survey data has been completed it is reviewed by the various human resource specialists and state agency directors and management to determine if it meets the need of the state agencies. Their responses are the next step in the finalization of the market survey.

Tier 2 – Customization of Market Analysis

According to the division, at the request and consensus of employing state agencies, the market analysis is customized for job occupations that are difficult to fill. For the 2012 salary survey the following market rates were adjusted:

- Mediators and workers' compensation dispute resolution coordinators
- Environmental science specialists
- Tax appraisers

- Transportation planners

According to the division, the adjustments to the market salary for these positions was used to address retention and recruitment issues at the Departments of Environmental Quality, Revenue, and Transportation and to establish a market midpoint for mediators and workers' compensation dispute resolution coordinators, as no data points were available for these positions with the Tier 1 approach.

2012 Market Salary Survey and Pay Tool – What It Shows

The State Human Resources Division developed a pay tool using the 2012 market survey data and pay information from June 5, 2012. The data can be used to compare agency pay information by agency, position, or pay band.

How Salaries in Each Pay Band Compare to the 2012 Market Midpoint

A review of the average of the positions within each pay band is shown in Figure 3.

Figure 3

State Agencies
Average Hourly Base Pay
Compared to 2012 Market Midpoints
within Pay Bands

Pay Band	Number of Jobs	Average Hourly Base Pay	% of 2012 Market Midpoint
1	1	$10.30	87.27%
2	326	10.52	97.79%
3	1,857	13.29	86.05%
4	1,218	16.19	85.44%
5	2,426	19.36	88.67%
6	3,350	23.27	89.38%
7	1,415	31.05	82.18%
8	226	40.29	65.95%
9	26	68.38	81.10%
Total	10,845	$20.99	86.71%

As shown, the positions that are closest to the market rate are the 326 jobs in pay band 2, one of the lowest paid pay bands with a range of $15,961 to $39,309 for the 2015 biennium. A review of the positions within the band that are closest to market shows that cooks, custodians, food preparation workers, groundskeepers, and secretaries that have held their positions for a number of years are increasing the average for the band. The band had 62 positions within the band that are above the market midpoint as of June 5, 2012. However, within the band are also a number of positions that are significantly below the market midpoint with 68 positions below 75% of the 2012 market midpoint as of June 5, 2012. The majority of the positions below the midpoint are administrative clerks.

The positions that are furthest from the 2012 market midpoint are those included in pay band 8, a pay band with a salary range of $61,048 to $172,681. A review of the positions shows that 201 positions within the band are below 75% of the 2012 market midpoint and are made up almost entirely of lawyers, operation managers, and computer information system managers.

Types of positions that are furthest and closest to market

Review of the positions within state government shows that as of June 5, 2012 the base salaries of 1,090 employees in the broadband pay plan were below 75% of the 2012 market midpoint. The positions with greater than five employees in occupations are presented in Figure 4 below.

Figure 4

State of Montana
Positions Furthest from 2012 Market Midpoint
Compared to Pay as of 6/5/2012

Position	Agency with Majority of Positions	Pay Band	Average Annual Salary	Number of Employees	% of 2012 Market Midpoint
Data Control Specialist	OPI, DEQ, Revenue, DPHHS	5	$40,435	31	64.85%
Crime Investigator	DOJ, Public Defender	5,6,7	47,029	83	64.96%
Operations Manager	FWP, DOT, Revenue, DOA, Corrections, DPHHS	7,8,9	85,218	141	65.09%
Lawyer	DOJ, Public Defender, DEQ, DOLI, DPHHS	6,7,8	66,394	258	66.03%
Right Of Way Specialist	DOT	5,6	49,733	29	66.87%
Science Program Sup/Mgr	DEQ	6,7	65,104	33	67.51%
Administrative Clerk	DOJ, DPHHS	2	21,674	61	68.62%
Statistical Assistant	FWP	3,4	30,285	8	68.95%
Livestock Inspector	Livestock	3	23,109	14	69.14%
Livestock Crime Investigator	Livestock	5	39,042	21	69.24%
Lottery Sales Representative	DOA	5	35,984	8	70.89%
Data Control Tech	DOA, FWP	2,3,4	32,490	30	70.95%
Agricultural Program Mgr	Agriculture	7	66,622	6	72.34%
Social Community Svc Mgr	Corrections, DPHHS	6,7,8	61,194	32	72.58%
Education Program Adm	OPI	7,8	67,683	6	72.72%
Construction Manager	DOA, Military Affairs	6,7	63,627	9	73.37%
Benefits Technician	PERS	3,4	30,784	16	73.45%
Construction Trades SupMgr	DOT	5,6	47,008	118	73.50%
Drill Operator	DOT	4,5	39,229	8	74.02%
Computer Support Specialist	DOA, DOT, DPHHS	5,6	45,531	73	74.21%
Compliance Technician	Livestock, DNRC, DOLI	3,4	29,723	35	74.86%
Firefighter	Military Affairs	3,4	35,922	27	74.92%
License Examiner Specialist	SAO, DOJ	5,6	35,131	17	74.99%
Total				1,064	

Adjustments to pay for some the occupations made since June 5, 2012 is discussed further in the section "What the 2012 Market Survey Does Not Show". Examining positions that are furthest from the 2012 market midpoint can inform both the executive and legislative decision makers on the positions within state government that may have recruitment and retention issues due to salary constraints. This is discussed further in the report section on retention and recruitment issues.

Figure 5 shows those positions that are above the 2012 market midpoint as of June 5, 2012. The positions with greater than five employees in the position are shown below.

Figure 5

State of Montana
Positions Above 2012 Market Midpoint
Compared to Pay as of 6/5/2012

Position	Agencies with the Majority of the Positions	Pay Band	Average Annual Salary	Number of Employees	% of 2012 Market Midpoint
Environmental Engineering Spc	DEQ	6,7	$63,544	19	101.06%
Park Ranger	FWP	4,5	41,683	17	102.05%
Groundskeeper	DOA	2,3,4	28,205	10	102.06%
Food Preparation Worker	DPHHS	2	20,134	30	102.12%
Computer Supervisor	DOA, DOT, DPHHS	5,6,7	68,286	52	102.62%
Corrections&Social Svc Sup/Mgr	Corrections, DPHHS	5,6,7	45,635	107	103.06%
Health Program Representative	DPHHS	6,7	47,112	42	103.24%
Business Operations Sup	DOJ, DOT, DPHHS	5,6	48,651	17	103.49%
Medical Health Services Mgr	DPHHS, Corrections, DOLI	7,8	82,285	24	103.81%
Program Specialist	FWP, DNRC	5,6,7	46,550	57	103.91%
Highway Patrol Officer	DOJ	5	48,818	169	105.96%
Communications Technologist	DOT	5,6	53,602	12	106.58%
WC DisputeResolutionCoord	DOLI	6	57,096	6	107.94%
Rehabilitation Counselor	DPHHS	4,5,6	38,459	106	108.93%
Environmental Engineer PE	FWP	6,7	75,587	23	108.93%
Forestry Technician	DNRC	3,4	31,408	8	108.96%
Utility Engineering Spc	DOT	6,7	55,702	13	109.82%
Computer Systems Engineer	DOA	6,7	62,982	28	113.29%
Institution Attendant	MSDB	3	23,982	20	115.05%
Fish Wildlife Park Warden Cpt	FWP	6	67,891	7	115.89%
Substance Abuse Counselor	Corrections, DPHHS	5,6	41,434	17	120.79%
Total				784	

Among the reasons pay may be higher on average than the midpoint for some positions include length of service such for the institutional attendants at the Montana School for the Deaf and Blind (see below), specific pay plan actions such as those developed to retain highway patrol officers, or agency specific actions to ensure essential employees within a specific program.

Comparison by Agency

Figure 6 shows the average hourly base pay for broadband pay employees compared to the average 2012 market midpoint for each agency. The differences in the averages reflect the different functions conducted by each agency, the resources available to the agencies to allocate to personal services, and other factors.

Figure 6

State Agencies
Average of Hourly Base Pay
As of 6/5/2012
Compared to 2012 Market Midpoints

Agency	Average of Hourly Base Pay	% of 2012 Market Midpoint
Governor's Office	$26.31	93.11%
Secretary of State	17.59	85.64%
Commissioner of Political Practices	15.90	84.67%
State Auditor's Office	21.78	88.00%
Office of Public Instruction	22.15	82.38%
Department of Justice	21.56	86.57%
Public Service Commission	24.15	86.74%
Board of Public Education	15.87	82.87%
School for the Deaf and Blind	12.23	99.49%
Montana Arts Council	26.77	93.27%
Montana State Library	22.43	84.97%
Montana Historical Society	18.26	84.63%
Department of Fish, Wildlife, & Parks	22.15	87.79%
Department of Environmental Quality	25.89	85.67%
Department of Transportation	25.00	89.18%
Department of Livestock	17.13	77.68%
Department of Natural Resources	21.91	83.59%
Department of Revenue	19.86	81.24%
Department of Administration	24.88	84.68%
Office of the Public Defender	21.21	67.29%
Department of Agriculture	22.12	86.39%
Department of Corrections	18.16	89.39%
Department of Commerce	21.96	82.31%
Department of Labor and Industry	20.83	92.25%
Department of Military Affairs	19.33	84.49%
Department of Public Health and Human Services	18.65	87.09%
Total	$20.99	86.71%

As shown, the average hourly base pay for employees under the broadband pay plan at the Montana School for the Deaf and Blind is closest to the average 2012 market midpoint salary while the Office of the Public Defender is the farthest. Examination of the positions within the Montana School for the Deaf and Blind shows that a number of institutional attendants that care for children living at the school are above the market midpoint for their occupations, driving the average closer to the average of the 2012 market midpoint of pay for band 3, primarily due to length of service. It should also be noted that a large number of the teachers and outreach workers at the school are not part of the broadband pay plan.

The low attainment of market salaries within the Office of the Public Defender is primarily driven by two positions: criminal investigators and attorneys. The Office of the Public Defender has a number of criminal investigators included in pay band 6 that have an average annual salary of $42, 848. The 2012 market midpoint for their position is $65,592, meaning that the average annual salary is 65.34% of the market for the position. In addition, the largest group of employees at the agency is attorneys within pay band 7. The average salary is 59.38% of the market at $53,965 compared to the 2012 market midpoint of $90,930. Recruitment and retention

within the office has been an issue since the agency was started in July 2006. Impacts of recruitment and retention issues are discussed further later in this report.

Where is the State Most Vulnerable?

The majority of the positions within the broadband pay plan have a base pay below the 2012 market midpoint. Figure 7 shows those positions within state government that have more than 100 employees working in the occupation and the average salary compared to the average 2012 market midpoint for the occupation.

Figure 7

State of Montana
Positions with Greater than 100 Employees
At Less than the Average of the 2012
Market Midpoint for their Positions

Occupation	Number of Employees	Pay Band	% of 2012 Market Midpoint
Public Safety			
Correctional Officer	466	3,4	90.19%
Probation Parole Officer	156	6	92.78%
Health and Human Services			
Child Family Social Worker	301	5,6	93.09%
Social Service Specialist	295	5	82.28%
Psychiatric Aide	259	2,3	82.07%
Registered Nurse	139	6,7	79.96%
Nursing Aides	112	2,3	86.84%
Human Services Specialist	105	6	94.15%
Environmental or Wildlife			
Environmental Science Specialist	206	4,5,6,7	90.05%
Highways and Construction			
Civil Engineering Technician	187	2,3,4,5	84.67%
Civil Engineering Specialist	179	5,6,7	92.69%
Engineering Supervisor/Manager	120	6,7	93.82%
Construction Trades Supervisor/Manager	118	5,6	73.50%
Revenue and Taxation			
Tax Appraiser	158	4,5,6	78.01%
Tax Technician	101	3,4	89.01%
State and Civil Rights			
Lawyer	258	6,7,8	66.03%
Unemployment			
Employment Specialist	202	5	92.45%
Program Administration			
Administrative Assistant	445	3,4	81.04%
Program Manager	247	6,7,8	82.72%
Compliance Specialist	207	5,6	79.30%
Administrative Specialist	204	5,6,7	91.57%
Computer Systems Analyst	163	4,5,6	87.66%
License Permit Technician	143	2,3,4,5	83.30%
Operations Manager	141	7,8,9	65.09%
Accounting Technican	126	3,4	77.99%
Total	5,038		

The positions shown above represent 46% of the 10,845 positions included in the broadband pay tool. Examination of this data shows that the state is most vulnerable to pay-related recruitment and retention issues for the lawyers that work within state government, driven especially by those within the Department of Justice and the Office of the Public Defender. Also, right of way specialists within the Department of Transportation, science program supervisors/managers at the Department of Fish Wildlife and Parks, and operations managers throughout state government are paid significantly below the 2012 market midpoint for their positions.

In addition, the positions of registered nurses, social service specialists, and psychiatric aides within the Department of Public Health and Human Services represent a large workforce with difficult duties and working conditions that can result in significant turnover. As shown above, this group is about 20% below the 2012 market midpoint for their jobs.

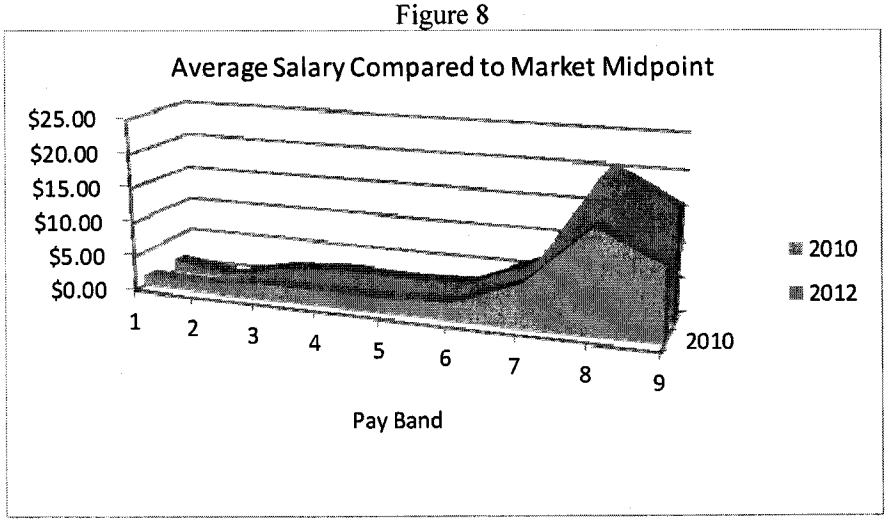
Examining the jobs data in this manner can assist the legislature with development of targeted resources to address the state's vulnerabilities with a workforce that is responsible for ensuring the health and safety of Montanans, the rights of both the citizens and the state, or the health of its wildlife.

Other factors such as the difference in the cost of living between areas of the state, and the impacts of retaining state workers in the Bakken oil fields due to competition in higher salaries and availability of housing are also vulnerabilities the state may need to address. Further research and discussion of these impacts could be addressed in the budget process.

Is This a Long-Term Issue or is it More Recent?

Figure 8 compares the average employee salary to the market midpoint on a biennial basis since 2010 to determine the differences between the average salary and the market midpoint during the implementation of the pay freeze in the 2011 and 2013 biennia. Salary comparisons in past biennia were made under a different methodology and are not comparable with the salary data from the more recent biennia.

Figure 8



As shown above, the average employee salary for each pay band has been lower than the market midpoint over the last four years. The gap is the largest within pay band 8 as discussed earlier. The pay freeze implemented over the last 2 biennia appears to have widened the gap, especially in pay band 8.

Additional Areas of Examination

Following the development of the 2012 market midpoint pay tool, the Department of Administration used the tool to identify occupations within the broadband pay system that have a 40% difference between high and low pay for the position. The department identified 20 occupations with this issue. Currently, the division is determining if valid reasons for the differences exist or if it is the result of some other issue such as a classification problem. For example, within the lawyer position there is a difference of 52.28% between 29 lawyers in the Office of the Public Defender that are paid $20.86 an hour or 47.72% of the 2012 market midpoint compared to four attorneys that are paid $36.24 an hour of 82.89% of the midpoint. Differences this significant within the state pay plan are likely a part of the reason that the Office of the Public Defender has issues with retention and recruitment of staff.

Another variation is within the occupations classified as medical health services manager, ranging from $28.33 an hour for two managers within the Department of Public Health and Human Services (DPHHS) and $105.76 an hour paid for the same position within the Department of Labor and Industry (DOLI). The division has determined that the managers at DPHHS are nurses and managers working with programs that provide medical services to Montanans, while the position within the DOLI is a physician providing services related to workers' compensation. The DOA division staff believes this position should be more correctly classified as a physician.

The division is working to complete the analysis of the other occupations identified with large disparities within the broadband pay plan.

What Is Not Reflected in the Salary Survey

Certain pay plans and increases are not included in the salary survey.

Pay Plans Not Included in the Market Survey

Approximately 20.5% of the state employees working as of August 27, 2012 are not included in the broadband pay plan and thus not included in the market salary survey information.

- The Legislative and Judicial Branches have separate pay plans from the executive due to separation of powers
- The Commissioner of Higher Education and the Montana State Fund have been granted separate pay plan authority through the constitution or statute
- The legislature allows elected officials to hire a specified number of employees that are exempt from the state's pay plan requirements
- Blue collar employees have a separate plan due to the types of work and duties associated with their positions. The plan is collectively bargained plan for organized trade and craft employees

Increases since June 5, 2012

A number of state agencies provided salary increases after June 5, 2012. The data did not include increases given to:

- Five of 20 bargaining units within DPHHS
- Non-union DPHHS employees, including management
- Other increases in other agencies

Figure 9 presents the average hourly salary increases by agency granted since June 5, 2012. It should be noted that a small percentage of the increases were to correct errors in the employee's salary.

The effect of the increases would be to move the average salary of the employees closer to the percentage of the 2012 market midpoint for the occupations within each agency. The LFD discussed having the data in the pay tool updated to reflect fiscal year end information with the division. Due to other priorities the division was unable to provide the update at this time.

Figure 9

State of Montana
Average Salary Increases
Provided Since 6/5/12

Agency	Number of Employees	Average Increase
Governor's Office	1	$1.35
Secretary of State	2	4.29
State Auditor's Office	3	2.67
Office of Public Instruction	44	0.57
Department of Justice	15	0.92
School for the Deaf and Blind	4	3.91
Department of Fish, Wildlife, & Parks	9	0.30
Department of Environmental Quality	4	3.07
Department of Transportation	7	1.67
Department of Livestock	1	0.37
Department of Natural Resources	175	1.49
Department of Revenue	3	2.54
Department of Administration	17	1.55
Department of Corrections	100	0.78
Department of Labor and Industry	8	0.50
Department of Military Affairs	29	0.99
Department of Public Health and Human Services	61	2.69
Total	483	

Additional Compensation

While information contained in the 2012 market salary survey is fairly comprehensive, it does not provide a complete picture of the issues associated with having an employer as large as the State of

Montana. As discussed earlier in the report state employees receive additional compensation above base salaries. This section of the report discusses other compensation that is not considered part of state workers' base salaries but that does provide compensation to the employee for working for the state.

Longevity

Under state statute, for each five year increment of continuous employment, employees receive a longevity increase added to their base pay. Part of the reasoning behind the increases is that it supports retaining employees with program knowledge and experience. Figure 10 shows the percentage increase associated with each five years of state employment.

Figure 10

State of Montana Longevity Increases	
Yearly Longevity Increment	% of Pay Increase
5 years	1.50%
10 years	3.50%
15 years	5.50%
20 years	7.50%
25 years	9.00%
30 years	10.50%

The increases are not considered part of the employee's base pay and as such are not part of the comparison used to determine how employee base salaries compare to market salary information examined every other year. As shown above, as the employee's length of service extends the additional salary granted through longevity becomes increasingly significant. As stated earlier the average state employee has worked for the state for 12 years and would be granted an additional 3.5% in salary above their base pay as a result.

Division staff does not include longevity as part of the survey due to generally accepted practices for ensuring comparable salary information in the various surveys used to determine market rates. As part of reporting information to the three survey entities, the methodology requires that no additives be used for base salaries that are not available to all employees.

Benefits

Employee benefits offer additional employee compensation and are provided by both public and private employers. Benefits include vacation and sick leave, health insurance, retirement, and salary incentives or bonuses. At one time the division included health insurance benefits and retirement as part of the salary survey completed each biennium. The division stopped gathering benefit information several years ago due to the difficulty of finding reliable comparable information on the benefits provided by private employers.

Comparison of Benefits for Public Employees to Private Industry

The U.S. Bureau of Labor Statistics produces comparative reports on a national basis for percentage of employers providing employee benefits. Figure 11 shows the percentage of full-time employees that had access to retirement and health insurance nationally, both employed by private industry and state and local governments. It also shows the percentage of employers in the mountain region, including Montana, providing both benefits. It should be noted that the regional data includes both full-time and part-time employees.

Figure 11

Retirement and Health Insurance Percentage of Employers Providing Access March 2012		
Nationally	Retirement	Medical Care
Private Employers	74%	86%
State and Local Government	99%	99%
Mountain Region	Retirement	Medical Care
Private Employers	63%	68%
State and Local Government	88%	87%

The chart shows a lower rate of access in the mountain region. This rate may change if only full-time employees were considered as was done for the national data. The information does not include the employer costs associated with providing the benefits. According to the Montana Department of Labor and Industry Research and Analysis Bureau article in June 2011 *Montana Economy at a Glance*, national data suggest that the public sector offers better benefits than the private sector, which helps equalize a portion of the wage disparity. Research suggests that total compensation is greater in the private sector for jobs requiring an advanced degree, while the public sector offers better total compensation for lower education and training levels in large part

because benefits for health insurance are a set amount and consequently represent a higher percentage of total compensation for lower paid employees.

A September 2011 article from the Center for Retirement Research at Boston College examined the differences between local private sector workers in comparing compensation. According to this report,

> *"The results suggest that state and local workers in the aggregate have a wage penalty of 9.5 percent. The third section explores the extent to which benefits for state and local workers offset the wage penalty. With appropriate modifications for pension contributions and the addition of retiree health insurance, annual public sector compensation – including both wages and benefits – is about 4 percent less than that in the private sector."*

Compensation Comparisons

The Kaiser Foundation issued a report, *2012 Employer Health Benefits Survey*, providing information on health insurance costs provided by employers nationally. The report found that in 2012 the average annual health premium was $15,745 with $4,316 or 27% paid by the employee and the remaining $11,429 or 73% paid by the employer.

Currently, the State of Montana provides $733 per month per employee or $8,796 per year as a contribution for employee benefits including medical, dental, and life insurance. According to the Health Care and Benefits Division, in FY 2012 this covers the cost of core medical, dental, and basic life insurance for state employees. Employees pay for family members, additional life insurance, and vision coverage.

In March 2011 the division issued a report on *Employer Cost and Total Compensation*. The report included the cost comparisons shown in Figure 12.

Figure 12

State of Montana Cost and Compensation Comparisons			
Employee Characteristics	Annual Base Pay	Total Compensation	Total Employer Cost
Entry-level Employee	$20,000	$33,129	$35,049
Mid-level Employee	42,425	62,367	66,476
High-level Employee	80,000	114,897	122,199
Source: State Human Resources Division, March 2011			

Included in the total compensation is the cost of providing the employee state contribution to health insurance and the cost of retirement. Longevity was included at 3.5% for the mid-level employee and at 7.5% for the high-level employee. In addition, the report included a cost for paid leave benefits of vacation, holiday, and sick leave at $2,885 for the entry-level, $6,609 for the mid-level, and $14,308 for the high-level employee.

Total employer costs include the cost of providing the employer share of social security, Medicare, unemployment insurance, and workers' compensation costs. While this provides the legislature information on the average costs of providing benefits to state employees, it does not provide comparative information on private employer provided benefits for comparative purposes.

RECRUITMENT AND RETENTION

Salary comparisons developed through market surveys are used by the state as one tool to direct resources to recruit and retain staff. According to a May 2012 report *Does Montana Have a Turnover Problem?*, issued by the Department of Labor and Industry, research has shown that only about half of newly hired workers in Montana remained with the same employer less than ½ a year after hire. Part of the reason for the low retention statewide may be the high number of low income jobs in the Montana economy.

Employee Turnover

To examine how the State of Montana is doing at retaining staff the Legislative Fiscal Division (LFD) examined employee turnover between FY 2008 and FY 2011 within the broadband pay band. For this report, turnover is

defined as the percentage of employees who left a state agency either voluntarily or involuntarily. Employees who transfer to other state agencies are included in the data. Figure 13 shows the turnover rate by agency for each year.

Figure 13

State of Montana
Broadband Pay Plan Turnover Rate
By Agency

Agency	FY 2008	FY 2009	FY 2010	FY 2011
Governor's Office	15%	6%	23%	16%
Secretary of State	10%	15%	17%	9%
Commissioner of Political Practices	0%	17%	50%	25%
State Auditor's Office	16%	6%	12%	9%
Office of Public Instruction	10%	9%	12%	17%
Department of Justice	8%	7%	10%	11%
Public Service Commission	3%	3%	12%	13%
Board of Public Education	0%	0%	0%	200%
School for the Deaf and Blind	18%	16%	19%	13%
Montana Arts Council	0%	0%	20%	22%
Montana State Library	7%	7%	19%	10%
Montana Historical Society	13%	5%	20%	22%
Department of Fish, Wildlife, & Parks	6%	5%	7%	11%
Department of Environmental Quality	9%	7%	7%	12%
Department of Transportation	7%	6%	5%	8%
Department of Livestock	12%	7%	10%	8%
Department of Natural Resources	10%	7%	6%	7%
Department of Revenue	8%	7%	11%	12%
Department of Administration	14%	9%	11%	13%
Office of the Public Defender	28%	17%	11%	15%
Department of Agriculture	14%	16%	14%	12%
Department of Corrections	15%	12%	14%	18%
Department of Commerce	13%	10%	13%	16%
Department of Labor and Industry	12%	9%	9%	13%
Department of Military Affairs	13%	8%	22%	24%
Department of Public Health and Human Services	15%	12%	15%	18%

As shown, with few exceptions, the turnover rate dropped in FY 2009, the worst year of the Great Recession, and climbed from there. It should be noted that pay is not the only factor driving decisions to leave state employment or to transfer from one agency to another. While many state agencies conduct exit interviews to determine the reasons an employee is leaving, the data is not summarized in a central location to allow review by others. The workplace environment including management, supervision, high workloads, or other employees that are difficult to work with may result in turnover. As the state does not currently have a centralized method of collecting and snythesing exit interviews, insight into the other factors impacting an employee's decision to leave state employment is not currently available for others to examine, including the division or legislators. The legislature may wish to consider requesting that Department of Administration develop a centralized method of collecting data from exit interviews.

The division did complete a survey on executive branch employee transfers that found that 35% of survey respondents cited management or supervisor problems as their primary reason for transferring. Examples cited as poor management included failure to address problems or difficult workers, pressure to take on high workloads, lack of support or trust, favoritism, and poor treatment.

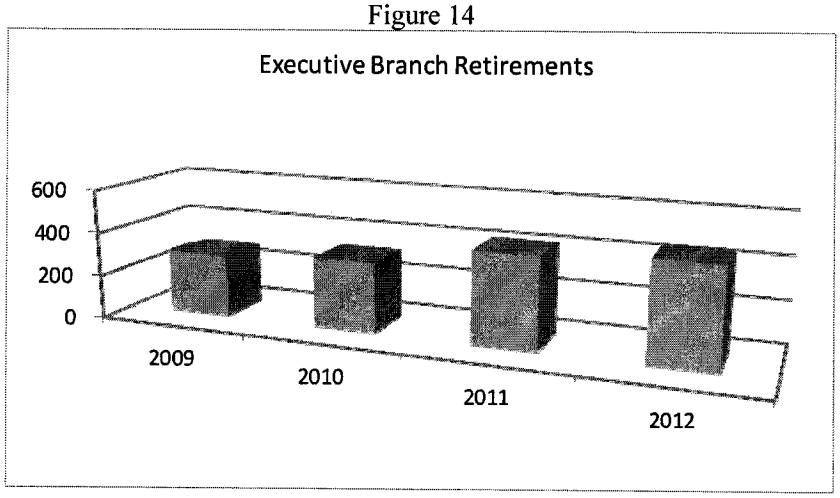
Other areas impacting employment retention are unquantifiable at this time but should be recognized as factors impacting state agencies' ability to retain employees. For example, length of service within state government does not provide insight into differences between state agencies. In certain cases one state agency may operate as the training ground for other agencies with greater resources that are able to offer a higher salary for experienced staff or a career ladder. Other state agencies act as training grounds for other employers in

Montana such as the federal government or private employers whereby after 3 or 4 years with the state agency the employee is hired by other employers with greater resources.

Retirements

Some of the employees included in the turnover data retired. Figure 14 shows a graph of the retirements since 2008 by month for the executive branch agencies.

Figure 14



Due to timing differences of pay periods, the 2011 numbers for December and the 2012 numbers for January are over and under stated respectively. While the number of employees retiring each year is growing, this number does not tell the whole story.

The Public Employee Retirement System has the state's comprehensive database on the number of employees in state government that are eligible to retire. Figure 15 shows the number of employees eligible for either early or regular retirement as of July 31, 2012.

Figure 15

State of Montana
Employees Eligible for Early Retirement or Full Retirement

Agency	Retirement System	Eligible to Retire	% of Workforce
Legislative Branch	PERS	60	32.62%
Consumer Council	PERS	2	36.10%
Judicial Branch	PERS	160	37.84%
Governor's Office	PERS	23	38.53%
Secretary of State	PERS	27	45.26%
State Auditor's Office	PERS	31	34.50%
Office of Public Instruction	PERS	62	28.06%
Board of Crime Control	PERS	6	34.29%
Department of Justice	PERS	177	N/A
DOJ - Highway Patrol	SRS	165	N/A
DOJ - Sheriffs	SRS	24	N/A
Public Service Commission	PERS	19	N/A
Commissioner of Higher Education	PERS	23	22.62%
School for the Deaf and Blind	PERS	25	28.10%
Montana Arts Council	PERS	6	71.68%
Montana State Library	PERS	21	45.38%
Montana Historical Society	PERS	28	41.22%
Department of Fish, Wildlife and Parks	PERS	236	N/A
Department of Fish, Wildlife and Parks	GWPORS	18	N/A
Department of Environmental Quality	PERS	174	36.12%
Department of Transportation	PERS	840	N/A
Department of Transportation	GWPORS	15	N/A
Department of Livestock	PERS	49	N/A
Department of Livestock	GWPORS	7	N/A
Department of Natural Resoruces and Conservation	PERS	250	42.72%
Department of Revenue	PERS	237	35.15%
Department of Administration	PERS	199	36.22%
Montana State Fund	PERS	108	37.66%
Public Employee Retirement System	PERS	13	27.08%
Teachers' Retirement System	PERS	7	38.89%
Office of the Public Defender	PERS	48	21.27%
Department of Agriculture	PERS	37	27.67%
Department of Corrections	PERS	231	N/A
Department of Corrections	GWPORS	68	N/A
Department of Commerce	PERS	72	N/A
Department of Labor and Industry	PERS	359	39.26%
Department of Military Affairs	PERS	61	29.46%
Department of Public Health and Human Services	PERS	1,093	36.60%
Total		4,981	

As shown above, a significant portion of the workforce is eligible to retire and, based on the increasing numbers of actual retirees, will likely be retiring in the next biennium.

Vacancies and Recruitment

To examine state recruitment and related vacancies the LFD examined state job listings each month between July and September of 2012. Figure 16 shows the number of jobs listed for each agency represented in the listings.

Figure 16

State of Montana
State Job Listings

Agency	As of 7/3/2012	As of 8/13/2012	As of 9/24/2012
Administration	5	7	6
Agriculture	0	3	1
Board of Public Education	0	1	0
Commerce	3	3	3
Commissioner of Higher Education	1	3	2
Consumer Counsel	1	1	0
Corrections	14	8	9
Environmental Quality	1	2	2
Fish, Wildlife, and Parks	1	3	1
Governor's Office	0	1	0
Judicial Branch	3	2	5
Justice	6	8	4
Labor and Industry	4	4	2
Legislative Branch	0	2	3
Livestock	2	2	1
Military Affairs	1	0	2
Montana State Fund	5	3	6
Montana State Library	0	1	0
Natural Resources and Conservation	5	2	2
Office of Public Defender	4	4	2
Office of Public Instruciton	5	0	1
Public Health and Human Services	30	35	35
Revenue	4	6	5
School for the Deaf and Blind	3	5	3
State Auditor's Office	3	0	2
Secretary of State	0	1	0
Transportation	18	17	20
Total	119	124	117

The LFD further examined the vacant positions in each state agency to determine the percentage of vacant positions included in the state job listings. The number of jobs listed and the overall percentage of vacant positions included are:

- 7/3/12 — 119 jobs listed — 12.52% of vacant positions
- 8/13/12 — 124 jobs listed — 13.50% of vacant positions
- 9/24/12 — 117 jobs listed — 12.77% of vacant positions

It would appear that state agencies recruit for only a small percentage of their vacant positions at any given time. Vacancy rates for HB 2 approved positions were 6.63%, 6.42%, and 6.38% as of July 3, August 13, and September 24, 2012 respectively. One of the major reasons for this is the legislatively required vacancy savings of 4% for most agencies applied in the 2013 biennium. State agencies also indicated that they left positions open longer to fund the retirement payout of their employees.

Figure 17

Job Listings and Applicants for Positions			
	Job Listings	Job Applicants	Applicants Per Job
December 2008 - June 2009	711	16,858	23.7
FY 2010	1,433	38,403	26.8
FY 2011	1,690	39,962	23.6
FY 2012	2,053	43,204	21.0
Total	5,887	138,427	23.5

To further examine recruitment the LFD obtained statistics on the number of applications for recruited positions over the last three and a half fiscal years as shown in Figure 17. While the data provides total applications received it does not show the number of applicants that were not qualified for the positions. Further the data does not show the number of qualified applicants for each position, but it does indicate that a large number of individuals appear to be interested in state employment overall. However, a corollary question is whether the state has positions that are routinely open and have to be constantly refilled. The division maintains information on the number of jobs that are posted multiple times. Figure 18 shows the jobs over the same period that had more than 20 job postings.

Figure 18

Job Listings by Position Positions with 20 or more Listings For the Period December 2008 through June 2012	
Position Title	Job Listings Permanent
Accountant	76
Accounting Technician	87
Administrative Assistant	164
Administrative Clerk	19
Administrative Specialist	58
Administrative Support	100
Attorney/Lawyer	64
Auditor	27
Budget Analyst	26
Business Development Specialist	20
Certified Nurse Assistant	25
Child Protection Specialist	92
Civil Engineering Specialist	33
Civil Engineering Technician	25
Community Social Worker	21
Compliance Technician	23
Computer Programmer	24
Computer Systems Analyst	36
Construction Trades Worker Supervisor	48
Correctional Officer	76
Custodian	17
Drill Instructors	35
Eligibility Assistant	51
Employment Specialist	79
Environmental Science Specialist	72
Financial Specialist	30
Human Resource Assistant	13
Law Clerk	25
License Permit Technician	37
Maintenance Technician	48
Maintenance Worker	18
Mechanic Machinist	26
Network Administrator	22
Occupational and Safety Health Specialist	22
Office Assistant	79
Probation and Parole Office	60
Registered Nurse	25
Rehabilitation Counselor	24
Residential Appraiser	31
Residential Agricultural Appraiser	20
Social Service Specialist	120
Veterans' Service Officer	22
Total	1,921

Comparing the jobs listed multiple times with the positions that are below the market midpoint shows a strong correlation, such as:

- Attorney/Lawyer
- Employment Specialist
- Registered Nurse
- Social Service Specialist

Legislators may wish to discuss this type of recruitment information with agencies during budget deliberations, as well as the solutions the affected agencies will be using in the future to address recruiting and retaining staff in these positions.

Differences Among Agencies and Why They Occur

To further examine the issue of recruitment and retention and the impacts of retirements the LFD had planned to conduct interviews with a number of human resource specialists in various state agencies. Due to a change in the process on the part of the executive, the LFD was unable to conduct a comprehensive discussion with the agencies prior to issuing this report. However the LFD did speak with a small sampling of human resources specialists.

For the most part, the human resource specialists indicated that the biggest challenge they have faced over the last four years is the shrinking pool of qualified applicants applying for the positions. All indicated that targeted market adjustments for difficult to fill positions had resulted in increased qualified applicant pools. Some indicated that recruiting employees with specific technical knowledge and experience was becoming increasingly difficult resulting in re-advertising the position or hiring employees in a training position.

Some indicated that work conditions were a factor in employee turnover, with long hours or increased workloads due to open positions mentioned. Another issue raised was an inability to retain employees once they gained experience and training in their fields. Other state agencies or local or federal governments hired the experienced employees at higher salaries.

CURRENT ACTIONS AND THE BUDGET ANALYSIS

Recently, a number of state agencies approved salary increases for employees utilizing their authority granted in the broadband pay plan statutes. This section of the report discusses the legal foundation, amounts, impacts, and budgetary implications of the salary increases.

Legal Foundation

Per 2-18-301(4), MCA the Department of Administration (DOA) has the authority to manage pay for state agencies. Statute requires the DOA to implement and maintain a broadband classification plan (plan) for all state positions with some exceptions such as elected officials. The broadband pay plan policy issued by DOA provides guidelines and requirements for agencies when creating pay rules for the plan. Each agency is to design, implement, and administer written pay rules. The pay rules must:

- Be fiscally responsible, actively managed, and consistent with the agency's mission and objectives
- Identify procedures to implement all aspects of pay
- Be filed with DOA

Who Provided the Increases?

The LFD examined the salary changes made in FY 2012 by agency. Increases were included for both the broadband pay plan and all other pay plans. Figure 19 shows the increases by state agency and reflects all positions and agencies, not just those included in the broadband pay plan.

Figure 19

Salary Changes for State Agencies
FY 2012

Agency	Authorized* FTE	FY 2013 Annual Cost
Legislative Branch	183.93	$190,760
Consumer Council	5.54	$1,538
Judical Branch	422.82	$616,182
Governor's Office	59.70	$257,532
Secretary of State	59.65	$47,988
Commissioner of Political Practices	6.00	$3,490
State Auditor's Office	89.85	$119,540
Office of Public Instruction	220.99	$165,121
Board of Crime Control	17.50	$34,943
Department of Justice	822.28	$979,418
Public Service Commission	43.50	$169,474
Board of Public Education	4.00	$1,357
Commissioner of Higher Education	101.66	$120,778
School for the Deaf and Blind	88.98	$134,435
Montana Arts Council	8.37	$19,791
Montana State Library	46.28	$62,916
Montana Historical Society	67.93	$31,182
Department of Fish, Wildlife, & Parks	821.99	$100,226
Department of Environmental Quality	481.68	$422,607
Department of Transportation	2,248.01	$2,489,647
Department of Livestock	146.08	$64,535
Department of Natural Resources	585.25	$1,187,636
Department of Revenue	674.28	$1,118,458
Department of Administration	549.49	$827,706
Montana State Fund	286.75	$518,340
Public Employees' Retirement	48.00	$104,465
Teachers' Retirement	18.00	$12,535
Office of the Public Defender	225.65	$371,061
Department of Agriculture	133.70	$307,029
Department of Corrections	1,351.82	$1,260,256
Department of Commerce	221.90	$1,203,066
Department of Labor and Industry	914.48	$1,961,445
Department of Military Affairs	207.06	$476,267
Department of Public Health and Human Services	2,986.54	$8,305,625
Total Increase	14,149.66	$23,687,349

*Includes all sources of authorization (modified FTE, statutory, proprietary funding, etc)

Agencies increased salaries in FY 2012 for a number of reasons, including statutorily required longevity increases. The LFD examined the increases and developed a summary chart showing the reasons for the increases. These are detailed in Figure 20. Longevity and some increases for the Montana Highway Patrol are statutorily required. Please note that not all agencies classified like reasons for salary changes in the same way

Figure 20

Salary Changes
FY 2012
By Reason

Reason	FY 2013 Annual Cost
Blue Collar Pay Raise	$8,559
Career Ladder	994,013
Commissioner of Higher Education Pay Changes	2,877
Compentency-Based Pay	277,299
Competitive Promotion	3,246,949
Temporary Promotions	1,097,812
Correct Inaccurate Pay	(2,488,535)
Emergency Firefighters	38,901
Exempt Employee Raise	210,692
Judicial Branch Pay Changes	433,167
Longevity	1,629,971
Market Adjustment	11,242,502
Move to Entry of Pay Band	58,984
Merit Pay Changes	30,998
MHP Progression Raise	479,734
Merit - State Fund	440,700
Negogiated Pay Schedule	1,067,069
Proficiency Agreement Progression	11,642
Performance Pay End	9,581
Performance Adjustment	1,633,722
Reclassification	2,087,735
Situational Pay End	(65,407)
Situational Pay	223,385
HB 13 Statutory Pay Raise (OCHE)	78,303
Strategic Pay	461,206
Supervisory Pay End	(18,490)
Supervisory Adjustment	69,498
Training Assignment Progression	460,518
Total	$23,723,385

Agencies increased salaries in FY 2012 for a number of reasons, including statutorily required longevity increases. The LFD examined the increases and developed a summary chart showing the reasons for the increases. These are detailed in Figure 20. Longevity and some increases for the Montana Highway Patrol are statutorily required. Please note that not all agencies classified like reasons for salary changes in the same way The annualized cost of market adjustments to employee salaries given in FY 2012 was $11.2 million. Figure 21 shows the agencies that granted the increases.

Figure 21

Salary Increases for Market Adjustments FY 2012	
Agency	Increase
Legislative Branch	$21,185
Judicial Branch	0
Governor's Office	0
Secretary of State	0
Commissioner of Political Practices	0
State Auditor	0
Office of Public Instruction	52,428
Board of Crime Control	26,797
Department of Justice	11,673
Public Service Commission	40,984
Board of Public Education	0
Commissioner of Higher Education	0
Montana School for the Deaf and Blind	0
Montana Arts Council	16,040
Montana State Library	8,384
Montana Historical Society	208
Fish, Wildlife, & Parks	2,473,864
Department of Environmental Quality	0
Department of Transportation	1,158
Department of Livestock	0
Department of Natural Resources	445,235
Department of Revenue	0
Department of Administration	293,453
Montana State Fund	2,500
Public Employees' Retirement	41,052
Teachers' Retirement Program	7,930
Office of the Public Defender	64,855
Department of Agriculture	116,631
Department of Corrections	72,738
Department of Commerce	565,668
Department of Labor & Industry	0
Department of Military Affairs	302,901
Department of Public Health and Human Services	6,676,817
Total	$11,242,502

As stated earlier, please note that all agencies may not classify their salary changes in the same way. While the Departments of Fish, Wildlife, and Parks (FWP) and Public Health and Human Services (DPHHS) granted a large number of market adjustments, the LFD noted that the Department of Transportation (DOT) did not. However, DOT granted $1,033,423 in competitive promotions and $664,980 in temporary positions. Neither FWP nor DPHHS granted a significant number of these salary increases.

What is clear is that while the legislature did not approve a cost of living increase to all state employees, the state agencies used the flexibility granted through the various pay plans to provide salary increases for selected employees. The executive specified that increases were to be directed to correct the worst pay issues and

provide for modest adjustments for rank-and-file employees. As shown throughout the report, while some state agencies have average salaries below market and recruitment and retention issues on positions that could be considered rank and file such as social service specialists and psychiatric aides, other positions having significant recruitment and retention issues such as lawyers would not be considered rank and file. While in general state agencies made adjustments to all level of employees, the legislature may wish to consider directing resources to those positions that are furthest from market and not to all employees when it considers a pay plan.

Budgeted FY 2013 Compared to Proposed FY 2014

To examine the impacts of the increases on the 2015 biennium budget, the LFD compared the budgeted FY 2013 personal services to the proposed FY 2014 personal services for each agency. The LFD used all funding authority to develop the figures in the report. The comparison showed a number of agencies that had FTE increases or decreases between the two biennia. To refine the comparison the LFD remove any positions that did not appear in both fiscal years, such as session staff for the legislature. This information is provided in Figure 22.

Figure 22

All Authority
Budgeted FY 2013 Compared to
Proposed FY 2014 as of 9/3/12

Agency	FTE	Salary FY 2013	Salary FY 2014	Differences Personal Services	Percentage Change
Legislative Branch	134.97	$7,906,404	$7,852,038	($54,366)	-0.68%
Consumer Council	5.54	440,676	458,080	17,404	3.95%
Judicial Branch	407.08	21,325,812	21,333,729	7,917	0.04%
Governor's Office	58.07	3,369,059	3,549,382	180,323	5.35%
Secretary of State	52.25	2,166,067	2,189,357	23,290	1.04%
Commissioner of Political Practices	6.00	214,607	220,724	6,117	2.85%
State Auditor's Office	84.50	3,911,514	4,157,319	245,805	6.18%
Office of Public Instruction	184.94	8,744,176	8,801,330	57,154	0.65%
Board of Crime Control	18.00	775,564	812,192	36,628	4.72%
Department of Justice	747.80	33,232,323	34,437,120	1,204,797	3.50%
Public Service Commission	39.00	2,221,262	2,265,624	44,362	1.96%
Board of Public Education	4.00	206,529	199,452	(7,077)	-3.43%
Commissioner of Higher Education	97.50	4,508,751	4,853,454	344,703	7.36%
School for the Deaf and Blind	88.61	3,975,792	3,930,434	(45,358)	-1.14%
Montana Arts Council	6.50	364,859	405,835	40,976	10.68%
Montana State Library	28.74	1,274,756	1,281,936	7,180	0.55%
Montana Historical Society	60.77	2,268,925	2,291,997	23,072	0.97%
Department of Fish, Wildlife, & Parks	575.39	25,074,672	26,566,630	1,491,958	5.07%
Department of Environmental Quality	432.64	22,880,897	23,075,410	194,513	0.84%
Department of Transportation	2,036.34	96,623,705	97,822,172	1,198,467	1.14%
Department of Livestock	126.78	4,563,569	4,636,816	73,247	1.42%
Department of Natural Resources	513.91	23,500,805	24,161,533	660,728	2.61%
Department of Revenue	644.85	25,823,899	26,813,372	989,473	3.69%
Department of Administration	516.97	26,313,631	27,026,004	712,373	2.66%
Montana State Fund	283.00	16,812,573	17,705,520	892,947	5.28%
Office of the Public Defender	189.00	9,025,660	9,115,042	89,382	0.82%
Department of Agriculture	116.64	4,807,706	5,079,530	271,824	5.32%
Department of Corrections	1,321.40	49,573,972	50,092,234	518,262	1.01%
Department of Commerce	201.00	9,535,913	10,846,287	1,310,374	13.40%
Department of Labor and Industry	810.33	33,054,012	34,799,570	1,745,558	5.17%
Department of Military Affairs	186.95	7,389,518	7,789,962	400,444	5.07%
Department of Public Health and Human Services	2,832.36	106,510,805	112,121,907	5,611,102	5.16%
Total	12,811.83	$585,144,782	$614,858,923	$29,714,141	5.08%

Overall, the FY 2014 proposed personal services for employee salaries are 5.08% greater than budgeted in FY 2013, whether budgeted in HB 2 as personal services, in proprietary rates, or as part of statutory authority.

However, state agencies varied considerably. The state agencies with the largest increase are the Montana Arts Council and the Department of Commerce at 10.38% and 13.40% respectively. The Legislative Branch, Board of Public Education, and the Montana School for the Deaf and Blind had personal services costs that declined between the fiscal years.

BUDGET ISSUES FOR 2013 LEGISLATURE

Personal services cost changes implemented during the previous biennium are approved through statewide present law adjustments to develop the adjusted base. The adjustments applied to each agency are based upon:

- Factors beyond the individual agency control such as changes included in a legislatively approved pay plan (such as HB 13 from previous sessions), statutorily required longevity increases, and changes in benefits such as workers' compensation and unemployment insurance
- Factors within the agency's control such as broadband pay adjustments

The statewide present law adjustment is included as a combined adjustment to the base rather than in a discreet decision package. In addition, the statewide adjustments contain inflation, fixed costs, and any vacancy savings. This entire amount, along with the base, is then funded. Therefore, the legislature does not take discreet action on statewide personal services changes or their funding.

The LFD and the Office of Budget Program and Planning have agreed on personal service information to be provided by state agencies to be included in the 2015 Budget Analysis. The agencies are to address the following questions:

- What difficulty is the agency experiencing in following the agency rules?
- What was the agency's pay philosophy when it implemented the 2013 biennium pay adjustments?
- What will be the agency's pay philosophy for the 2015 biennium and beyond? In responding, address the following areas:
  - New hire placement into salary ranges
  - Use of pay in succession planning
  - Use of pay in career tracks
  - Use of pay adjustments for current employees
- Describe the agency's experience in effectively competing for qualified applicants to fill vacant positions? In responding, address the following areas:
  - Experience with recent hiring pool sizes with regard to minimally qualified applicants
  - Turnover trends
  - Frequency of the need to offer multiple recruitments to fill positions
  - Frequency of employment offers being rejected and reasons for rejection
- Are there any occupations with high turnover rates or high rates of vacancies because of factors other than keeping positions open to manage applied vacancy savings? If so, what occupations? Please describe the factors determined to be the cause of the high turnover rates or frequent vacancies?
- What actions have been taken to address the factors that are causing turnover or frequent vacancies?
- How did these vacancies affect agency operations?
- Discuss the agency plan to address pending retirements.
- What portion of the agency workforce is eligible for early or regular retirement in the 2015 biennium?
- Does the agency anticipate retirements between now and the end of the 2015 biennium that could impact operations? If so, what are the steps the agency is taking to minimize the impact?

While the information provides legislators with more detail about the factors affecting personal services included in the statewide present law adjustments, it will not break out the various components of the increases. For example, in the 2015 biennium the funding for personal services may include longevity increases, workers' compensation rate changes, market adjustments for employees whose base is below the salary range for their position, and agency increases of 2% for pay bands 3, 4, and 5. Under the current process used for statewide present law adjustments all of these changes are included as a single adjustment for personal services.

Among the reasons the statewide present law adjustment has included all adjustments to personal services in one budget number is due to the extremely complex interplay of factors that make up the difference between what was spent on personal services in the base year and the requested budget. Sorting out the impact of each of these factors would be an undertaking that would take considerable agency and subcommittee time with minimal benefits. However, the LFC could have LFD staff explore options for how the information currently included in the statewide present law adjustment could be made more instructive for the subcommittees and consequently allow for greater options for legislative consideration and action.

OPTIONS FOR LEGISLATIVE CONSIDERATION

This report includes five primary decision points for the LFC.

- Request that DOA ensure that the data included in the pay tool used to determine market competiveness uses the data as of the payroll snapshot rather than data of early June to ensure all adjustments that will go into the next biennium budget are captured
- Request a performance audit of the classification system to ensure the position descriptions are properly classified on the pay ranges
- Request that LFD staff to explore options that give the appropriations subcommittees better information on personal service costs for decision making purposes and present such options to the November Legislative Finance Committee meeting
- Request that Department of Administration develop rules that require agencies to be more precise on how they classify changes in salaries
- Request that the Department of Administration collect data from exit interviews on why employees are leaving state government employment

APPENDIX A

CALCULATION OF THE 2012 MARKET MIDPOINT

The process to update the market survey information began in the fall of 2011 when State Human Resources Division (division) staff reviewed the summary report generated by Occupational Employment Statistics (OES) for each occupation. The OES uses the Standard Occupational Classification (SOC) system to categorize job occupations. Occupations on the state system are categorized by the SOC to allow for comparability when examining other salary data. The division staff also reviews the descriptions of the other survey sources to ensure appropriate occupational matches.

Included in the review is examination of the tasks, duties, work environment, education, licenses, certification, qualities such a analytical or communication skills, pay, and work hours to ensure that the complexity level of the surveys' occupational descriptions correlates to the levels defined under Montana's broadband classification system. This review determines the anchor point of the job occupations. Occupations such as an accountant are often placed on more than one pay band to reflect more or less complexity within the occupation and to establish pay band progression. The division uses the anchor point as the beginning measurement for various pay bands associated with the occupation.

Once the anchor point has been determined the division staff gathers average salaries for the specific SOC from each salary source for each state. Division staff uses Montana and the surrounding states of North and South Dakota, Idaho, and Wyoming in the survey. Figure 1 shows the average salaries for the anchor points of accountants, civil engineers, lawyers, and food preparation workers from each of the salary sources.

Figure 1

Department of Administration
State Human Resources Divison
Salary Data for the 2012 Salary Survey

Data Source		Accountant	Civil Engineer	Lawyer	Food Prep Worker
Central States Compensation Association (Public - state and local government)					
	Idaho	42,643	59,984	0	0
	North Dakota	44,584	58,549	68,707	0
	South Dakota	35,980	52,664	66,516	0
	Montana	48,042	59,924	83,590	0
	Wyoming	46,289	61,404	80,350	0
Kenexa (Private and Public)					
	Idaho	50,100	63,600	106,100	21,700
	North Dakota	48,300	61,300	102,500	20,900
	South Dakota	45,000	56,800	97,400	19,300
	Montana	46,200	58,500	99,300	19,900
	Wyoming	48,400	61,400	102,500	20,900
Occupational Employment Statistics (Private and Public)					
	Idaho	61,436	77,739	98,786	19,393
	North Dakota	54,832	70,674	84,460	18,550
	South Dakota	56,317	67,355	84,366	18,051
	Montana	56,452	68,011	79,154	19,549
	Wyoming	64,505	72,214	99,462	20,184
Median		48,300	61,400	90,930	19,725

Not all sources gather average salaries for all occupations. However, most occupations have several different data points. Once the data points are gathered the median salary for the data is determined and used as the market midpoint for the occupation.

Division staff then calculates the slope for the occupations in the lower and higher bands. The slope is determined using the difference between the 25th and 50th percentile of the average salary in the OES data for the lower band and the 50th and the 75th percentile for the higher band.

Staff then establishes the competitive pay zone for each occupation within each pay band. The width of the pay zone or range spread is the distance for the lowest (minimum) to highest (maximum) salary in the pay zone. Once the market midpoints and pay zones are established for each pay band a determination is made to ensure that the minimum salary paid in the lower pay bands is at or above the minimum wage in Montana. The division staff determined that the minimum salary for a food preparation worker in the lower pay band was below the state's minimum wage. Staff then adjusted the minimum salary, the market midpoint, and the maximum salary for both bands to reflect the minimum wage for the occupation.