

APPENDIX B - EXECUTIVE PAY PLAN PROPOSAL

The Governor's budget includes a proposed pay plan that consists of two major parts:

- An across the board increase in base salary of 5% each year of the biennium, beginning on July 1 of each year
- An increase in insurance contributions of 10% or \$73 per month beginning on January 1, 2014 for state employees and July 1, 2013 for employees of the Montana University System (MUS) (\$806 per month total contribution), with a further 10% increase of \$81 per month (\$887 per month total contribution) the next year

The executive also recommends providing a contingency fund for agencies that cannot meet their vacancy savings targets or when retirement costs exceed agency resources. The proposed increase would cost a total of \$7.0 million over the biennium, of which \$4.0 million is general fund. The following figure shows the allocation by component of the proposal and funding source.

Governor's Proposed Pay Plan by Component 2015 Biennium					
Component	General Fund	State Special	Federal Special	Proprietary	Total Funds
Pay Increase	\$60,044,075	\$34,098,543	\$21,229,163	\$727,497	\$116,099,278
Benefits Contribution Increase	15,998,503	7,554,708	4,953,297	172,847	28,679,355
Contingency Funds	4,000,000	2,400,000	500,000	100,000	7,000,000
Labor Management Training	<u>\$75,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$75,000</u>
Total	<u>\$80,117,578</u>	<u>\$44,053,251</u>	<u>\$26,682,460</u>	<u>\$1,000,344</u>	<u>\$151,853,633</u>

The following shows the biennial amount, by funding source and component.

Governor's Proposed Pay Plan by Year and Entity 2015 Biennium									
Entity	FY 2014			FY 2015			2015 Biennium		
	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds	General Fund	Other Funds	Total Funds
Legislative Branch	\$531,539	\$0	\$531,539	\$1,148,138	\$0	\$1,148,138	\$1,679,677	\$0	\$1,679,677
Consumer Counsel	0	29,719	29,719	0	63,703	63,703	0	93,422	93,422
Judicial Branch	1,493,543	95,568	1,589,111	3,263,710	209,237	3,472,947	4,757,253	304,805	5,062,058
Executive Branch	14,031,586	21,128,192	35,159,778	31,125,256	46,563,487	77,688,743	45,156,842	67,691,679	112,848,521
University System	<u>7,979,703</u>	<u>200,061</u>	<u>8,179,764</u>	<u>16,469,103</u>	<u>446,088</u>	<u>16,915,191</u>	<u>24,448,806</u>	<u>646,149</u>	<u>25,094,955</u>
Subtotal	\$24,036,371	\$21,453,540	\$45,489,911	\$52,006,207	\$47,282,515	\$99,288,722	\$76,042,578	\$68,736,055	\$144,778,633
Contingency Funds*	4,000,000	3,000,000	7,000,000	0	0	0	4,000,000	3,000,000	7,000,000
Labor Management Training*	<u>\$75,000</u>	<u>0</u>	<u>\$75,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$75,000</u>	<u>0</u>	<u>\$75,000</u>
Total	<u>\$28,111,371</u>	<u>\$24,453,540</u>	<u>\$52,564,911</u>	<u>\$52,006,207</u>	<u>\$47,282,515</u>	<u>\$99,288,722</u>	<u>\$80,117,578</u>	<u>\$71,736,055</u>	<u>\$151,853,633</u>

*Biennial Appropriation

SALARY ADJUSTMENT

As per the narrative accompanying the November 2012 submission of the budget, the executive supports the increase based on two items:

- The legislative rejection of the proposed pay plan for the 2013 biennium, and
- The negotiated pay freeze for the 2011 biennium

The executive further states that the proposed pay plan equates to an average salary adjustment of 1.667% each year of the 2011, 2013 and 2015 biennia.

A report by LFD Senior Analyst Kris Wilkinson identified a number of issues with state government personal services, including:

- Specific position types furthest away from market
- Specific pay bands furthest from market and losing ground
- Some agencies further away from the market
- Not all agencies provided increases in the 2013 biennium

Therefore, the Governor’s pay proposal will be examined in the context of those issues. The first question is: does the proposed pay plan address any of the identified personal services and pay plan issues?

No. The Governor’s proposal is purely based on a 5% increase in base pay each year of the biennium. The pay plan as proposed does not take into consideration the distinction of position types that are furthest from the market, adjustment of the market for specific pay bands, or equalization among agencies for market ratio. In addition the pay plan does not attempt to answer the equity concern resulting from pay raises granted by some but not all agencies in the 2013 biennium. The following issue statements address the policy concerns.

Issue 1: Certain positions, and certain pay bands, show significantly greater variance from market than others. While variance from market can be a factor of things such as having newer employees in the position, it can also signal potential obstacles to hiring and retaining qualified applicants. If an agency cannot recruit and retain, employee turnover leads to low percentage of market as the employees do not stay long enough to advance in the market matrix. The following chart illustrates this issue.

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		

Does the proposed pay plan address the issue? No. The Governor’s proposal does not make any distinction among positions near or far from market.

Issue 2: There is at times great disparity among agencies on how close that agency's employees' salaries have been to market. Large differences can be attributed to a number of factors, including differences in the availability of resources among agencies, and can put some agencies at a distinct advantage when recruiting and retaining qualified employees.

Issue 2a: After no pay plan was passed during the 2013 Legislative Session, the Governor sanctioned agencies to make broad-based adjustments to employee salaries as they were able, with an emphasis on correcting the worst pay issues and provide for a modest adjustment for rank-and-file employees. Some agencies gave broadly applied increases, while most did not. The following shows the agencies that gave increases with a brief description of the methodology employed. A further discussion can be found within the individual agency narratives in the LFD budget analysis.

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	<u>61</u>	2.69
Total	483	

Does the proposed pay plan address the issue? No. The Governor's proposal does not make any distinction among agencies and where they currently are in comparison with the market for their employees. Nor does the proposal provide additional funding to move agencies closer to market or for agencies that did not provide broadly based increases in the 2013 biennium.

Issue 3: In FY 2012, the average age of a state employee was 48, with 12 years of service. About 39.7% of state employees are eligible for either full or early retirement in the 2015 biennium. Therefore, the state has a significant replacement task, both in sheer numbers as well as knowledge and skills. In order to do this, the state must address not only the loss of skills and experience, but the changing attitudes of the potential workforce the state will have to recruit into public service. In addition, agencies routinely do not receive an appropriation for payout costs when an employee retires unless they specifically request it. Instead, agencies must generate those funds from strategies such as leaving positions open to generate sufficient vacancy savings.

The following shows those eligible for full and early retirement in the 2015 biennium by agency.

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 Resources 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		<u>4,981</u>	

In addition to the average state employee's age and level of experience, in the last several years, the average age of an employee new to state government has also been in the mid to upper 40s. This raises the question of whether the state can compete for younger workers that must replace the aging workforce.

Studies continue to show that state salaries are lower than private sector salaries for similar positions, and that benefits are slightly higher. Numerous studies show that younger workers that must replace the aging state workforce are less tied to aspects of compensation (such as pensions and other types of benefits) designed to exploit loyalty and desires for job stability. Instead, younger workers favor flexibility.

Does the proposed pay plan address the issue? It is difficult to say. Studies show that, in contrast to workers within the age cohort of most state employees, who more highly value stability and loyalty, the workers who will fill state positions in the future are more concerned with skills acquisition, salary, and life balance. Therefore, increases that make salaries more competitive would theoretically assist in recruiting younger workers. At the same time, the increases are not targeted for the most vulnerable agencies or positions, and therefore do not ensure achievement of a salary that may be necessary to attract younger workers to high competition positions.

BENEFITS

There are two aspects to funding benefits: 1) the monthly benefit contribution of the state; and 2) the monthly contribution of the employee. As stated, the Governor proposes an increase in monthly benefit contributions for all employees working at least half time from \$733 to \$806 beginning January 1, 2014 for state employees and July 1, 2013 for the MUS. The amount of increase for the employee is based upon the selection of benefits made by the employee. For core benefits (medical, dental and limited life insurance) for an employee and family, monthly costs in plan year 2014 are \$7 lower than 2013 as per the chart below. What is not addressed is the cost of additional non-core benefits such as vision, additional life, long term disability, and the like. For calendar year 2014, the potential increase in out of pocket costs is controlled by the employee based on their selection of benefits.

Change in Employee Core Benefit Costs For Employee and Family		
Component	Plan Year 2013	Plan Year 2014
Traditional/Classic Medical Plan Cost	\$922	\$987
Dental	59	60
Basic Life	2	2
State Contribution	(733)	(806)
Employee Cost	<u>\$250</u>	<u>\$243</u>

The effect to the state can be measured by the impact on the plan's reserves. As per the published State of Montana Employee Group Benefits Plan Financial Report for Quarter Ending September 30, 2012, fund balance of the Group Benefits Claims fund exceeds the estimated incurred but not reported (IBNR) claim reserves, and currently falls roughly \$22.7 million above the total recommended reserves. This is illustrated in the chart below.

Projected Condition of Group Benefits Fund as of September 30, 2012 in Millions	
Component	Amount
IBNR*	\$13.10
Projected Year End General Reserves	<u>67.30</u>
Projected Year End Fund Balance	80.40
Recommended Reserve	<u>57.70</u>
Difference	<u>\$22.70</u>
*By statute (2-18-812, MCA), the plan must maintain reserves sufficient to 'liquidate the unrevealed claim liability and other liabilities' of the state employee group benefits plans. This is called the reserve for incurred but not reported claims or IBNR.	

CONTINGENCY FUNDS

The executive includes a contingency fund for agencies that cannot meet their vacancy savings targets, which could be caused by a combination of items such as high payout costs, low employee turnover, or decreased fiscal resources. The requested appropriation totals \$7.0 million over the biennium, of which \$4.0 million is general fund. The Office of Budget and Program Planning would control this appropriation and transfer authority to agencies as deemed necessary.