

HJR 17 – SUMMARY OF LEGISLATIVE OPTIONS

A Report Prepared for the
Legislative Finance Committee

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INTRODUCTION

As part of its interim work the Legislative Finance Committee (LFC) is conducting a study of the state pay plans as contemplated in HJR 17. The purpose of this report is to summarize the legislative options outlined for the LFC in the six reports provided between September 2013 and March 2014. The reports included:

- o What Pay Plans Are and How They Were Established
http://leg.mt.gov/content/Publications/fiscal/interim/2013_financemty_Sept/What%20are%20pay%20plans%20-%20Final.pdf
- o Data Related to Pay Plans
http://leg.mt.gov/content/Publications/fiscal/interim/2013_financemty_Sept/Data%20report%20final2.pdf
- o Variations Between State Agencies
http://leg.mt.gov/content/Publications/fiscal/interim/2013_financemty_dec/HJ%2017-final.pdf
- o Pay Plan Options
http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_March/030614-HJR%2017%20pay%20plan%20options.pdf
- o Salary Market Survey Considerations
http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_March/030614-HJR%2017%20market%20considerations.pdf
- o Negotiated Settlement
http://leg.mt.gov/content/Publications/fiscal/interim/2014_financemty_March/030614-HJR%2017%20Negotiated%20Settlements.pdf

WHY THE LEGISLATURE CONDUCTED THE PAY PLAN STUDY

When the legislature adopted the use of the broadband pay plan for the majority of state employees in 2007, it granted state agencies a great deal of flexibility under broad guidelines and goals developed by the Department of Administration (DOA). The plan was primarily intended to provide agencies with a flexible tool that could:

- o Reward employee performance
- o Allow agencies to address market factors that contribute to recruitment and retention problems

The broad guidelines and flexibility resulted in some challenges and legislative concerns. Concerns of the 2013 Legislature resulting in the study centered on increased personal service costs that were not specifically funded through legislative appropriation, differences in the attainment of the market midpoint among state agencies, and the timing of negotiated pay plan settlements.

Issues with state employee pay and the related market salary surveys identified in the various reports conducted as part of the study include:

- o Development and administration of individual pay plans by each state agency that result in measurement dates for market salary surveys that vary by years, and undefined or varying methods for establishing pay ranges, pay placement onto pay band, entry level salaries for positions, and progression toward market
- o Development of agency position classification that may result in differences in job descriptions among agencies as well as differences in position placement on the pay bands
- o Increased personal services costs that come about due to broadband pay increases that were authorized under statute but not specifically funded through legislative appropriation by the previous legislature, resulting in higher ongoing personal services costs
- o Differences among state agencies in the attainment of the market midpoint for occupations within the agency, leaving concerns about equitable administration of the pay plan
- o Statutory requirements for a second biennial salary survey including only government employee positions within four states that may provide data that is not statistically valid for some occupations. In addition, for over half of the occupations within Montana state government the survey cannot be used

- o Differences in methodologies used in development of the salary survey that can influence the comparability of the results between agencies and branches of the state government
- o Inclusion of employee benefits as part of salary survey to ensure the complete package of employee compensation is considered as part of the comparison

Through further examination of the variations among state agencies in pay plan administration, the LFC has focused on the centralization of executive branch agency pay plans by DOA to ensure consistent components are included. Pay plan components under consideration for requiring consistency include using the most current biennial market salary survey to establish:

- o Market salary midpoints
- o Occupation wage ranges
- o Entry level for employees new to a position
- o Minimum percentage of market for state employees
- o Progression towards market within certain period

The primary reason for requiring that agencies identify procedures to implement all aspects of pay is to ensure that agencies have established a fair and equitable process for employee pay and that the state has controls over pay. Requiring the DOA to establish the pay plan components for executive branch state agencies enhances these controls and provides more assurance that the state has a fair and equitable process for implementing all aspects of pay.

Legislative Options

The following options are available for LFC consideration. The LFC should be prepared to finalize recommendations by the September LFC meeting.

Legislative options for consistent pay plan components include:

- o Request a bill to require DOA to develop executive branch pay plans and allow DOA to enforce broadband pay and classification policies to ensure that the policies and requirements are adhered to by state agencies
- o Include recommendations to the 2015 Legislature on pay plan funding that provide for:
 - o Attainment of a percentage of market for positions within state agencies. For example, the legislature may wish to provide funding to ensure that all executive branch agencies achieve a minimum of 87% of market for all occupations
 - o Minimum percentage of the newly established 2014 market midpoints for employee pay if market midpoints have changed to ensure that all state employees are paid at a minimum level of their occupational pay range

Should the legislature wish to establish a more defined process for awarding or reviewing pay adjustments it could:

- o Allow only a certain percentage of the personal services budget to be used for pay adjustments above those contemplated by the legislature
- o Require state agencies to establish reportable measurements for job performance for adjustments such as career ladders or performance pay
- o Require biennial reports to the legislature on employee performance and related pay adjustments

To address concerns with the government employee biennial survey the LFC could:

- o Request a bill changing current statute to ensure the State Human Resources Division is able to follow best practices related to the use of relevant labor markets
- o Consider broadening the requirement to include other state governments rather than the four outlined in statute or to include federal and local government positions in Montana
- o Eliminate the reference to municipal governments, as a survey of these positions in the states required does not appear to exist.

Under current statute has the Governor determines whether to include a negotiated settlement in the pay plan or to collectively bargain at the conclusion of the legislative session on economic areas of a contract. The legislature may wish to discuss with the executive and the various unions the challenges and risks of changing statute on the timing of the negotiations.

To ensure a survey of employee benefits can be conducted reliably with statistically valid results, the LFC may wish to request that the SHRD report at its September meeting on a methodology it could use to provide the legislature with comparisons not only of employee salaries but also benefits.